

PRESS ANNOUNCEMENT

GAMES WORKSHOP GROUP PLC

14 January 2020

HALF-YEARLY REPORT

Games Workshop Group PLC ('Games Workshop' or the 'Group') announces its half-yearly results for the six months to 1 December 2019.

Highlights:

	Six months to 1 December 2019	Six months to 2 December 2018
Revenue	£148.4m	£125.2m
Revenue at constant currency*	£145.6m	£125.2m
Operating profit pre-royalties receivable	£48.5m	£35.3m
Royalties receivable	£10.7m	£5.5m
Operating profit	£59.2m	£40.8m
Operating profit at constant currency*	£57.1m	£40.8m
Profit before taxation	£58.6m	£40.8m
Cash generated from operations	£60.4m	£36.0m
Basic earnings per share	145.9p	101.3p
Dividend per share declared in the period	100p	65p

Kevin Rountree, CEO of Games Workshop, said:

"Our business and the Warhammer Hobby continue to be in great shape.

We are pleased to once again report record sales and profit levels in the period. The global team have worked their socks off to deliver these great results. My thanks go out to them all.

Sales for the month of December are in line with our expectations.

We are also announcing that the Board has today declared a dividend of 45 pence per share, in line with the Company's policy of distributing truly surplus cash."

...Ends...

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Games Workshop Group PLC

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Investor relations website

General website

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*Constant currency revenue and operating profit are calculated by comparing results in the underlying currencies for 2018 and 2019, both converted at the average exchange rates for the six months ended 2 December 2018.

FIRST HALF HIGHLIGHTS

	Six months to 1 December 2019	Six months to 2 December 2018
Revenue	£148.4m	£125.2m
Revenue at constant currency*	£145.6m	£125.2m
Operating profit pre-royalties receivable	£48.5m	£35.3m
Royalties receivable	£10.7m	£5.5m
Operating profit	£59.2m	£40.8m
Operating profit at constant currency*	£57.1m	£40.8m
Profit before taxation	£58.6m	£40.8m
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Dividend per share declared in the period	100p	65p

Revenue by segment

	Six months to 1 December 2019 Constant currency	Six months to 2 December 2018 Constant currency	Six months to 1 December 2019 Actual rates	Six months to 2 December 2018 Actual rates
Trade	£76.1m	£61.4m	£78.1m	£61.4m
Retail	£45.3m	£42.6m	£45.8m	£42.6m
Online	£24.2m	£21.2m	£24.5m	£21.2m
Total revenue	£145.6m	£125.2m	£148.4m	£125.2m

INTERIM MANAGEMENT REPORT

Our business and the Warhammer Hobby continue to be in great shape.

We are pleased to once again report record sales and profit levels in the period. The global team have worked their socks off to deliver these great results. My thanks go out to them all. A special thanks goes out to our design to manufacturing team, who have once again delivered on our promise to make the best miniatures in the world. Our new Citadel Colours paint launch in the period was a step change in our paint offer. Product innovation continues to be a key area of focus.

Sales for the month of December are in line with our expectations.

We are also announcing that the Board has today declared a dividend of 45 pence per share, in line with the Company's policy of distributing surplus cash. This will be paid on 2 March 2020 for shareholders on the register at 24 January 2020, with an ex-dividend date of 23 January 2020. The last date for elections for the dividend re-investment plan is 10 February 2020.

Core business

Sales and profit growth continue across our trade, retail and our online channels. Our constant focus on managing our balance sheet has ensured our net cash generation has remained healthy allowing us to invest appropriately, to date £5.7 million in capital projects in the first half. We have also declared £32.6 million in dividends during the period.

We have made some good progress with our key priorities. Each of these is designed to ensure we deliver our exciting operational plan and continue to engage and inspire our loyal customers.

Our global team - our performance, as ever, was driven by a considerable team effort across all aspects of our global, vertically integrated business. It is paramount, then, to our ongoing success that we continue to invest in our people. To that end, we have strengthened our central 'People' team adding additional resources to recruitment, personal development, wellbeing and pay and other rewards.

Core business continued

Communities and customer engagement - we have continued to build new communities, opening 12 stores in the period and c.200 trade accounts. Our digital engagement continues to increase in reach and scope. Users accessing Warhammer-community.com over the six month period are up 48% compared to the same period last year and sessions per user have also increased, meaning our fans are visiting more often and are more engaged with the content.

IT systems - we have made some good progress on implementing our European ERP system and upgrading our warehousing capacity and systems in both Memphis and Nottingham. All projects are broadly on track and in line with spending limits.

Sustainability - it's early days for us on this important topic. We have kicked off several projects in the period to look at ways we can do what is right for our stakeholders and the broader public. This is a priority for us. We are committed to delivering better progress.

Non core business

Media and entertainment

Our development work on a TV series, based on the Eisenhorn series of novels, continues to make good progress. No production contracts have been signed yet nor have we booked any guaranteed royalties. Our small, dedicated team of experts continues to work with our external partners learning how this industry works to ensure, if it does go into production, our first TV show is not only true to our IP but is a commercial success too.

Licensing income

Royalties receivable in the period increased by £5.2 million to £10.7 million. This includes £6.2 million of guaranteed royalty income on the signing of new licence contracts (2018: £1.6 million). These headline numbers look great. As always this income continues to be uncertain and, as we recognise guaranteed royalty income in full on signing the contract, it is even harder to predict when income will be recognised. As the first half has seen more new contracts signed than prior years, we will therefore not make any promises or forecasts on the level of future income. We are always looking for long term partners that can deliver great quality products in platform, console and digital gaming markets without doing any harm to our IP or the core business.

Sales

Reported sales grew by 19% to £148.4 million for the period. On a constant currency basis, sales were up by 16% from £125.2 million to £145.6 million; split by channel this comprised: Trade £76.1 million (2018: £61.4 million), Retail £45.3 million (2018: £42.6 million) and Online £24.2 million (2018: £21.2 million).

Trade

Trade achieved growth of 27% with growth in all key countries. In the period, our net number of trade outlets increased by c.200 accounts which helped drive forward sales in this channel. It's worth noting that a large number of independent retailers now also sell our products online, meaning our customers have more choice than ever about where to buy Warhammer.

Retail

This channel showed growth in all countries. We opened, including relocations, 19 stores. After closing 7 stores, our net total number of stores at the end of the period is 529. As always it is a challenging environment. The key priority in the period reported has been to continue to offer our store managers the appropriate product and sales support to help them recruit new customers, engage our existing customers and re-engage lapsed customers. Ensuring we always recruit great store managers, and offer our customers an exceptional in-store experience, remain a priority for us.

Online

Online sales grew by 15% compared to last year. We continue to improve the online store shopping experience and functionality of the store. Personalised content and ease of navigation remain areas of focus. As noted above, our customers have a lot of options when it comes to shopping for Warhammer online, and are able to buy our products both through our own web stores, reported in Online and through those of independent retailers, reported in Trade.

Operating profit and profit before taxation

Operating profit before royalty income increased by £13.2 million to £48.5 million. On a constant currency basis, operating profit before royalty income increased by £11.6 million to £46.9 million. Following the adoption of IFRS 16 'Leases' in June 2019, a liability has been recognised in respect of future lease payments as well as a corresponding asset representing the right to use the underlying asset during the lease term. The interest expense incurred on the lease liabilities and the depreciation charged on the right-of-use asset is recognised separately in the income statement. During the period, as a result of the transition of IFRS 16, additional interest of £0.6 million and additional depreciation of £4.6 million have been recognised, partially offset by a reduction in rental payments in other operating expenses of £4.6 million.

Operating expenses increased by £6.0 million due to investment in sales facing activities relating to new retail store costs and continued investment in marketing and other central costs. As in the prior year, we have again rewarded all of our staff with a payment in December of £500 each due under the profit share scheme.

On a constant currency basis, royalty income increased by £4.7 million to £10.2 million.

Total operating profit increased by £18.4 million to £59.2 million. The net impact in the six months to 1 December 2019 of exchange rate fluctuations was a gain of £2.1 million. It is not the Group's policy to hedge against foreign exchange rate exposure.

Profit before taxation increased by £17.8 million to £58.6 million after recognising the impact of adopting IFRS 16.

Capital employed

12 month average capital employed** increased by £7.5 million to £74.7 million. The book value of tangible and intangible assets increased by £24.0 million. The impact of IFRS 16 being adopted during the period has resulted in an increase in tangible assets of £16.3 million, with the underlying increase of £7.7 million being mainly due to investments in a second production facility, warehouse expansion and the ongoing investment in the implementation of a new ERP system. Trade and other receivables increased by £1.9 million as a result of growth in trade revenue and inventory increased by £2.7 million due to the timing of product launches and to meet product demand. Liabilities increased by £21.1 million, of which £16.4 million relates to lease liabilities recognised on the adoption of IFRS 16. The net impact of the adoption of IFRS 16 was a decrease in average capital employed of £0.1 million.

Return on capital employed

We continue to deliver great returns. During the period our return on capital employed increased from 96% at November 2018 to 111% at November 2019. This was driven by the increase in operating profit before royalties receivable, offset by an increase in investment in capacity and in working capital.

Cash generation

During the period, the Group's core operating activities generated £37.7 million of cash after tax payments (2018: £23.9 million). The Group also received cash of £5.1 million in respect of royalties in the period (2018: £4.0 million). In the period, the Group had purchases of tangible and intangible assets and product development costs of £13.7 million (2018: £10.9 million), lease liability payments of £4.8 million (2018: £nil), dividends of £21.1 million (2018: £21.0 million) and net interest and foreign exchange losses of £0.4 million (2018: gains of £0.1 million). In addition UK corporation tax payments were £16.2 million (2018: £7.9 million) as HMRC changed the quarterly payment timings during the period. There were net funds at the end of the period of £33.0 million (2018: £25.3 million).

Dividends

In the period we declared and paid dividends of 30 pence per share and 35 pence per share (2018: 30 pence and 35 pence) amounting to £21.1 million (2018: £21.0 million). A dividend of 35 pence per share was declared on 19 November 2019 amounting to £11.4 million. In addition, a dividend has been declared today of 45 pence per share amounting to £14.7 million.

Risks and uncertainties

The board has overall responsibility for ensuring risk is appropriately managed across the Group. The top seven risks to the Group are reviewed at each board meeting. The risks are rated as to their business impact and their likelihood of occurring. In addition, the Group has a disaster recovery plan to ensure ongoing operations are maintained in all circumstances. The principal risks identified in 2019/20 are discussed below. These risks are not intended to be an extensive analysis of all risks that may arise but more importantly are the ones that could cause business interruption in the year ahead.

- Recruitment - to always have a world class team to support our business. The risk is that we compromise and recruit only for skills and not on the personal qualities that we need new members of our global team to demonstrate to ensure we deliver our long-term goals. The Games Workshop recruitment process aims to ensure we recruit for attitude as well as skills, to help mitigate this risk. This end to end process starts with writing a new job specification highlighting the personal qualities needed in the job as well as the skills, through to a robust induction process which will help them be successful in their job. Our new recruitment and onboarding systems also help in ensuring the recruitment process is efficient and effective for both the new recruit and the recruiting manager.
- Supply chain - to deliver a seamless supply of products to our customers. The risk is that there are unnecessary delays or expense. Constant review by the executive directors and the rest of the board of our production and warehousing capacity ensures that issues are dealt with in an appropriate timescale. This is particularly relevant given the recent growth in sales.
- Range management - we are reviewing our range to ensure that we are exploring all opportunities. The risk is that we don't fully capitalise on all the opportunities that are available to us or that we have too much stock. To ensure we have the right product in the right place at the right time, we have been investing in our merchandising and logistics team throughout the period.
- ERP change - we are changing our core ERP system in the UK which is a complicated project with the risk of widespread business disruption if it is not implemented well. It is being implemented and managed by a strong internal project team and specialist ERP software consultants.
- Innovation - to surprise and delight our customers with ever better new miniatures and related products. The risk is that we become complacent. Our design studios are responsible for creating great new miniatures, games and complementary products. The sales of new products are reviewed and assessed by the executive team and the design studios to ensure that we continue to deliver on our promise to make the best miniatures in the world.
- IP exploitation - to optimise our Warhammer brands fully, in addition to being innovative in our core business. The risks are that we do harm to the core business or that we don't take this opportunity seriously. With the appointment of our new non-executive director, Kate Marsh, the board will manage the risk going forward supporting the senior team on these new opportunities.
- Distractions - this is anything else that gets in the way of us delivering our goals.

Games Workshop relies upon the continued availability and integrity of its IT systems. Our business critical systems are monitored and disaster recovery plans are in place and reviewed to ensure they remain up to date. The security of our systems is reviewed with software updates applied and equipment updated as required.

We do not consider that we have material solvency or liquidity risks.

In our opinion the greatest risk is the same one that we repeat each year, namely, management. So long as we have the right people in the right jobs we will be fine. Problems will arise if the board allows egos and private agendas to rule. We will do our utmost to ensure that this does not happen.

Brexit impact statement

Following the UK Government invoking Article 50 of the Treaty of Lisbon, notifying the European Council of its intention to withdraw from the EU, Games Workshop has reviewed the impact that this may have on the Group. The key risks for Games Workshop relate to the movement of goods from the UK to the EU across all sales channels as well as the recruitment and retention of EU nationals working in the UK. These risks have been assessed and plans have been put in place to help mitigate the possible impact of these changes depending on the nature of the UK's withdrawal from the EU.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of approval of the condensed consolidated interim financial information. For this reason they have adopted the going concern basis in preparing this condensed consolidated interim financial information.

Statement of directors' responsibilities

The directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely: an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of (i) the principal risks and uncertainties for the remaining six months of the financial year; (ii) material related party transactions in the first six months and (iii) any material changes in the related party transactions described in the last annual report.

There have been no changes to the board since the annual report for the year to 2 June 2019. A list of all current directors is maintained on the investor relations website at investor.games-workshop.com.

By order of the board

K D Rountree

CEO

R F Tongue

Group Finance Director

14 January 2020

*Constant currency revenue and operating profit are calculated by comparing results in the underlying currencies for 2018 and 2019, both converted at the average exchange rates for the six months ended 2 December 2018.

**We use average capital employed to take account of the significant fluctuation in working capital which occurs as the business builds both inventories and trade receivables in the pre-Christmas trading period. Return is defined as operating profit before royalty income, and the average capital employed is adjusted by deducting assets and adding back liabilities in respect of cash, borrowings, taxation, royalty income and dividends.

CONSOLIDATED INCOME STATEMENT

	Notes	Six months to 1 December 2019 £000	Six months to 2 December 2018 £000	Year to 2 June 2019 £000
Revenue	3	148,350	125,225	256,574
Cost of sales		(45,316)	(41,392)	(83,306)
Gross profit		103,034	83,833	173,268
Operating expenses	3	(54,545)	(48,552)	(103,434)
Other operating income – royalties receivable		10,670	5,490	11,365
Operating profit	3	59,159	40,771	81,199
Finance income		63	38	102
Finance costs		(638)	-	(5)
Profit before taxation	5	58,584	40,809	81,296
Income tax expense	6	(11,131)	(7,999)	(15,475)
Profit attributable to owners of the parent		47,453	32,810	65,821
Basic earnings per ordinary share	7	145.9p	101.3p	202.9p
Diluted earnings per ordinary share	7	144.6p	100.7p	200.8p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

	Six months to 1 December 2019 £000	Six months to 2 December 2018 £000	Year to 2 June 2019 £000
Profit attributable to owners of the parent	47,453	32,810	65,821
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations	(1,701)	771	708
Other comprehensive (expense)/income for the period	(1,701)	771	708
Total comprehensive income attributable to owners of the parent	45,752	33,581	66,529

The following notes form an integral part of this condensed consolidated interim financial information.

CONSOLIDATED BALANCE SHEET

	Notes	1 December 2019 £000	2 December 2018 £000	2 June 2019 £000
Non-current assets				
Goodwill		1,433	1,433	1,433
Other intangible assets	9	18,052	14,850	16,004
Property, plant and equipment	10	39,066	33,029	35,303
Right-of-use assets	11	29,022	-	-
Trade and other receivables		4,516	1,866	3,085
Deferred tax assets		8,680	6,713	8,582
		100,769	57,891	64,407
Current assets				
Inventories		21,708	22,393	24,192
Trade and other receivables		28,749	21,821	18,796
Current tax assets		676	319	814
Cash and cash equivalents		32,967	25,335	29,371
		84,100	69,868	73,173
Total assets		184,869	127,759	137,580
Current liabilities				
Lease liabilities		(8,086)	-	-
Trade and other payables		(18,799)	(15,950)	(19,199)
Dividends payable	4	(11,436)	-	-
Current tax liabilities		(2,364)	(8,522)	(9,135)
Provisions for other liabilities and charges	12	(526)	(510)	(919)
		(41,211)	(24,982)	(29,253)
Net current assets		42,889	44,886	43,920
Non-current liabilities				
Lease liabilities		(20,354)	-	-
Other non-current liabilities		(943)	(682)	(1,010)
Provisions for other liabilities and charges	12	(1,454)	(519)	(844)
		(22,751)	(1,201)	(1,854)
Net assets		120,907	101,576	106,473
Capital and reserves				
Called up share capital		1,634	1,624	1,625
Share premium account		13,030	12,251	12,281
Other reserves		2,984	4,748	4,685
Retained earnings		103,259	82,953	87,882
Total equity		120,907	101,576	106,473

The following notes form an integral part of this condensed consolidated interim financial information.

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

	Called up share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
At 2 June 2019 and 3 June 2019	1,625	12,281	4,685	87,882	106,473
Profit for the six months to 1 December 2019	-	-	-	47,453	47,453
Exchange differences on translation of foreign operations	-	-	(1,701)	-	(1,701)
Total comprehensive income for the period	-	-	(1,701)	47,453	45,752
Transactions with owners:					
Share-based payments	-	-	-	197	197
Shares issued under employee sharesave scheme	9	749	-	-	758
Deferred tax charge relating to share options	-	-	-	(359)	(359)
Current tax credit relating to exercised share options	-	-	-	649	649
Dividends declared to Company shareholders	-	-	-	(32,563)	(32,563)
Total transactions with owners	9	749	-	(32,076)	(31,318)
At 1 December 2019	1,634	13,030	2,984	103,259	120,907

	Called up share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
At 3 June 2018 and 4 June 2018	1,617	11,571	3,977	70,957	88,122
Profit for the six months to 2 December 2018	-	-	-	32,810	32,810
Exchange differences on translation of foreign operations	-	-	771	-	771
Total comprehensive income for the period	-	-	771	32,810	33,581
Transactions with owners:					
Share-based payments	-	-	-	140	140
Shares issued under employee sharesave scheme	7	680	-	-	687
Deferred tax charge relating to share options	-	-	-	(281)	(281)
Current tax credit relating to exercised share options	-	-	-	355	355
Dividends declared to Company shareholders	-	-	-	(21,028)	(21,028)
Total transactions with owners	7	680	-	(20,814)	(20,127)
At 2 December 2018	1,624	12,251	4,748	82,953	101,576

	Called up share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
At 3 June 2018 and 4 June 2018	1,617	11,571	3,977	70,957	88,122
Profit for the 52 weeks to 2 June 2019	-	-	-	65,821	65,821
Exchange differences on translation of foreign operations	-	-	708	-	708
Total comprehensive income for the period	-	-	708	65,821	66,529
Transactions with owners:					
Share-based payments	-	-	-	339	339
Shares issued under employee sharesave scheme	8	710	-	-	718
Deferred tax credit relating to share options	-	-	-	224	224
Current tax credit relating to exercised share options	-	-	-	818	818
Dividends declared to Company shareholders	-	-	-	(50,277)	(50,277)
Total transactions with owners	8	710	-	(48,896)	(48,178)
At 2 June 2019	1,625	12,281	4,685	87,882	106,473

The following notes form an integral part of this condensed consolidated interim financial information.

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Six months to 1 December 2019 £000	Six months to 2 December 2018 £000	Year to 2 June 2019 £000
Cash flows from operating activities				
Cash generated from operations	8	60,428	35,968	88,776
UK corporation tax paid		(16,249)	(7,885)	(14,217)
Overseas tax paid		(1,410)	(159)	(2,079)
Net cash generated from operating activities		42,769	27,924	72,480
Cash flows from investing activities				
Purchases of property, plant and equipment		(8,494)	(6,560)	(13,651)
Proceeds on disposal of property, plant and equipment		23	-	10
Purchases of other intangible assets		(1,474)	(812)	(1,875)
Expenditure on product development		(3,726)	(3,536)	(6,962)
Interest received		63	38	102
Net cash used in investing activities		(13,608)	(10,870)	(22,376)
Cash flows from financing activities				
Proceeds from issue of ordinary share capital		758	687	718
Repayment of principal under finance leases		(4,841)	-	-
Interest paid		(10)	-	(5)
Dividends paid to Company shareholders		(21,127)	(21,028)	(50,277)
Net cash used in financing activities		(25,220)	(20,341)	(49,564)
Net increase/(decrease) in cash and cash equivalents		3,941	(3,287)	540
Opening cash and cash equivalents		29,371	28,545	28,545
Effects of foreign exchange rates on cash and cash equivalents		(345)	77	286
Closing cash and cash equivalents		32,967	25,335	29,371

The following notes form an integral part of this condensed consolidated interim financial information.

NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

The Company is a limited liability company, incorporated and domiciled in the United Kingdom. The address of its registered office is Willow Road, Lenton, Nottingham, NG7 2WS.

The Company has its listing on the London Stock Exchange.

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 2 June 2019 were approved by the board of directors on 29 July 2019 and have been delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under either section 498 (2) or section 498 (3) of the Companies Act 2006.

This condensed consolidated interim financial information has not been audited or reviewed pursuant to the Auditing Practices Board guidance on 'Review of Interim Financial Information' and does not include all of the information required for full annual financial statements.

This condensed consolidated interim financial information for the six months ended 1 December 2019 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 2 June 2019 which have been prepared in accordance with IFRSs as adopted by the European Union.

After making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they have adopted the going concern basis in preparing this condensed consolidated interim financial information.

This condensed consolidated interim financial information was approved for issue on 14 January 2020.

This condensed consolidated interim financial information is available to shareholders and members of the public on the Company's website at investor.games-workshop.com.

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenues and expenses. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 2 June 2019, with the addition of the additional judgements and estimations needed in the application of IFRS 16, including determination of the lease term, calculation of the discount rate, and the separation of lease and non-lease components.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 2 June 2019, as described in those financial statements, except for the adoption of new standards effective from 3 June 2019. The Group applies for the first time IFRS 16 'Leases', effective from 3 June 2019. The nature and the impact of the changes are disclosed in note 2.

The Group does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant effect on the financial statements.

2. Change in accounting policy

IFRS 16 'Leases' supersedes IAS 17 'Leases' and related interpretations, and applies to financial periods commencing on or after 1 January 2019. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees: leases of 'low value' assets; and short-term leases (i.e. leases with a term less than 12 months). At the lease commencement date, a liability will be recognised in respect of the future lease payments and a corresponding asset representing the right to use the underlying asset during the lease term. The interest expense incurred on the lease liability and the depreciation charged on the right to use asset will be recognised separately in the income statement. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Where a lease includes the option for the Group to extend the lease term, the Group applies judgement as to whether it is reasonably certain that the opportunity to extend will be taken. Certain events will result in the lease liability being re-measured (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The re-measurement will be first adjusted against the right-of-use asset and any excess charged to profit or loss.

2. Change in accounting policy continued

The Group has applied the modified retrospective approach for its transition to this new standard from 3 June 2019, meaning that prior reporting periods have not been restated. In adopting this approach the Group intends to use the following practical expedients as offered by the standard:

- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease;
- Exclusion of initial direct costs from the measurement of the right of use asset at the date of initial application;
- Reliance has been placed on the assessment made under IAS 37 to identify onerous leases, rather than performing an impairment test on right-of-use assets on transition; and
- No recognition of leases whose term ends within twelve months of the date of initial application.

The Group has elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will not apply the standard to contracts that were not previously identified as containing a lease. The Group has elected to apply the transition exemption for leases where the underlying asset is of low value, i.e. when the underlying asset has a value of £5,000 or less when new. We will not be separating lease components from non-lease components for any asset class other than buildings.

The Group has calculated and applied the incremental borrowing rate ('IBR') to its future cash flows to determine the lease liability. The incremental borrowing rate has been defined by the standard as 'the rate of interest that a lessee would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar environment'. The Group has no external borrowing, therefore a credit risk spread approach has been used to calculate the IBR, which combines the risk-free security rate and a corporate security rate in each economic environment in which the Group has a lease, linked to the life of the underlying lease agreement. The weighted average incremental borrowing rate applied by the Group on transition was 2.07%.

Once a right-of-use asset has been capitalised, it is subsequently depreciated over the length of the lease term, or, for the assets capitalised at transition, the remaining lease term from the date of transition. The provisions of IAS 36 concerning impairment testing also apply to capitalised right-of-use assets.

The impact of the transition to IFRS 16 on 3 June 2019 on the results on the consolidated balance sheet was as follows:

	2 June 2019	Impact of change in accounting standards	3 June 2019
	£000	£000	£000
Non-current assets	64,407	33,598	98,005
- Right-of-use assets	-	33,598	33,598
Current assets	73,173	(905)	72,268
- Trade and other receivables	18,796	(905)	17,891
Current liabilities	(29,253)	(8,705)	(37,958)
- Lease liabilities	-	(8,786)	(8,786)
- Provisions for other liabilities and charges	(919)	81	(838)
Non-current liabilities	(1,854)	(23,988)	(25,842)
- Lease liabilities	-	(24,079)	(24,079)
- Provisions for other liabilities and charges	(844)	91	(753)
Net assets	106,473	-	106,473

There were no assets previously held under finance leases prior to transition.

The introduction of IFRS 16 has had the following effects on the consolidated financial statements following transition:

- An increase in the carrying value of fixed assets and an increase in financial liabilities on the balance sheet on recognition of the new right-of-use assets and their corresponding lease liabilities. Financial obligations from operating leases were previously reported off balance sheet. Rental prepayments sitting in trade and other receivables at 2 June 2019 relating to assets now capitalised were removed as these have been built into the future cash flows used in the calculation of the asset value.
- Right-of-use assets have been depreciated since the date of transition, and these depreciation charges, along with the interest expense on the lease liability have been recognised in the income statement, in operating expenses and finance charges respectively. Rental charges, other than those related to short-term or low value leases, are no longer recognised in the income statement. In the six months to 1 December 2019, this has led to an increase in interest expenses of £0.6 million, an increase in depreciation of £4.6 million, and a decrease in other operating expenses of £4.6 million.

3. Segment information

As Games Workshop is a vertically integrated business, management assesses the performance of sales channels and manufacturing and distribution channels separately. At 1 December 2019, the Group is organised as follows:

- Sales channels. These channels sell product to external customers, through the Group's network of retail stores, independent retailers and online via the global web stores. The sales channels have been aggregated into segments where they sell products of a similar nature, have similar production processes, similar customers, similar distribution methods, and if they are affected by similar economic factors. The segments are as follows:
 - Trade. This sales channel sells globally to independent retailers, agents and distributors. It also includes the Group's magazine newsstand business and the distributor sales from the Group's publishing business (Black Library).
 - Retail. This includes sales through the Group's retail stores, the Group's visitor centre in Nottingham and global exhibitions.
 - Online. This includes sales through the Group's global web stores and digital product sales through external affiliates.
- Product and supply. This includes the design and manufacture of products and incorporates the production facility in the UK and the Group logistics and merchandising costs. This also includes adjustments for the profit in stock arising from inter-segment sales and charges for inventory provisions.
- Central costs. These include the Company overheads, head office site costs and marketing costs.
- Service centre costs. Provides support services (IT, accounting, payroll, personnel, procurement, legal, health and safety, customer services and credit control) to activities across the Group and undertakes strategic projects.
- Royalties. This is royalty income earned from third party licensees after deducting associated licensing costs.
- Media and entertainment. Costs associated with developing our IP as digital content for animation and television.

The chief operating decision-maker assesses the performance of each segment based on operating profit, excluding share option charges recognised under IFRS 2, 'Share-based payment', charges in respect of the Group's profit share scheme and the discretionary payment to employees in the year ended 2 June 2019. This has been reconciled to the Group's total profit before taxation below.

The segment information reported to the executive directors for the periods included in this financial information is as follows:

	Six months to 1 December 2019	Six months to 2 December 2018	Year ended 2 June 2019
	£000	£000	£000
Trade	78,096	61,445	121,445
Retail	45,804	42,547	87,803
Online	24,450	21,233	47,326
Total external revenue	148,350	125,225	256,574

For information, we analyse external revenue further below:

	Six months to 1 December 2019	Six months to 2 December 2018	Year ended 2 June 2019
	£000	£000	£000
Trade			
UK and Continental Europe	33,869	25,816	51,324
North America	33,921	27,171	53,509
Australia and New Zealand	3,273	2,838	5,061
Asia	3,619	2,657	5,332
Rest of world	2,283	1,761	3,796
Black Library	1,131	1,202	2,423
Total Trade	78,096	61,445	121,445
Retail			
UK	13,751	13,652	27,831
Continental Europe	10,964	10,404	21,380
North America	14,876	12,935	27,428
Australia and New Zealand	4,496	4,182	8,316
Asia	1,717	1,374	2,848
Total Retail	45,804	42,547	87,803
Online	24,450	21,233	47,326
Total external revenue	148,350	125,225	256,574

3. Segment information continued

Operating expenses by segment are regularly reviewed by the executive directors and are provided below:

	Six months to 1 December 2019	Six months to 2 December 2018	Year ended 2 June 2019
	£000	£000	£000
Trade*	5,050	6,525	13,475
Retail*	29,075	23,946	49,524
Online*	2,368	2,731	5,668
Product and supply	1,786	1,666	3,789
Central costs	6,332	5,140	9,653
Service centre costs	7,999	6,946	14,700
Royalties	519	346	775
Media and entertainment	118	-	-
Total segment operating expenses	53,247	47,300	97,584
Share-based payment charge	196	140	339
Profit share scheme charge	1,102	1,112	2,226
Discretionary payment to employees	-	-	3,285
Total group operating expenses	54,545	48,552	103,434

*Retail operating expenses in the six months to 2 December 2018 are net of inter group marketing service income of £2,671,000 (year ended 2 June 2019: £5,515,000) which was recognised within the Trade (£2,133,000) and Online (£538,000) segments (year ended 2 June 2019: Trade: £4,307,000, Online: £1,208,000). These inter group charges were effective for a five year term following the structural reorganisation in 2014 and are no longer applicable.

Total segment operating profit is as follows and is reconciled to profit before taxation below:

	Six months to 1 December 2019	Six months to 2 December 2018	Year ended 2 June 2019
	£000	£000	£000
Trade*	31,507	22,474	43,688
Retail*	1,767	4,821	10,386
Online*	15,697	13,060	29,247
Product and supply	16,487	9,594	18,517
Central costs	(7,035)	(5,946)	(10,684)
Service centre costs	(7,999)	(6,946)	(14,695)
Royalties	10,151	4,966	10,590
Media and entertainment	(118)	-	-
Total segment operating profit	60,457	42,023	87,049
Share-based payment charge	(196)	(140)	(339)
Profit share scheme charge	(1,102)	(1,112)	(2,226)
Discretionary payment to employees	-	-	(3,285)
Total group operating profit	59,159	40,771	81,199
Finance income	63	38	102
Finance costs	(638)	-	(5)
Profit before taxation	58,584	40,809	81,296

4. Dividends

Dividends of £9,751,000 (30 pence per share) and £11,376,000 (35 pence per share) were declared and paid in the six months to 1 December 2019. A further dividend of £11,436,000 (35 pence per share) was declared during the period and was paid prior to the approval of the consolidated interim financial information and a dividend of £14.7 million (45 pence per share) was declared today.

Dividends of £9,705,000 (30 pence per share) and £11,323,000 (35 pence per share) were declared and paid in the six months to 2 December 2018. Further dividends of £9,749,000 (30 pence per share), £8,124,000 (25 pence per share), and £11,376,000 (35 pence per share) were declared and paid during the second half of the year.

5. Profit before taxation

The following costs have been incurred in the reported periods in respect of ongoing redundancies, inventory provisions, impairments and loss-making retail stores:

	Six months to 1 December 2019	Six months to 2 December 2018	Year ended 2 June 2019
	£000	£000	£000
Redundancy costs and compensation for loss of office	73	264	934
Impairment/(reversal of impairment) of property, plant and equipment	119	(18)	8
Net charge/(credit) to property provisions including closed or loss-making retail stores	-	108	(150)
Net inventory provision creation	2,917	3,422	5,770

6. Tax

The taxation charge for the six months to 1 December 2019 is based on an estimate of the full year effective rate of 19.0% (2018: 19.6%). While we continue to expect a rate above that for a business with activities based solely in the UK due to higher overseas tax rates, it will be offset by increased elimination of inter group profit at those same rates.

7. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares in issue throughout the relevant period.

	Six months to 1 December 2019	Six months to 2 December 2018	Year ended 2 June 2019
	£000	£000	£000
Profit attributable to owners of the parent (£000)	47,453	32,810	65,821
Weighted average number of ordinary shares in issue (thousands)	32,530	32,376	32,438
Basic earnings per share (pence per share)	145.9	101.3	202.9

Diluted earnings per share

The calculation of diluted earnings per share has been based on the profit attributable to owners of the parent and the weighted average number of shares in issue throughout the relevant period, adjusted for the dilution effect of share options outstanding at the period end.

	Six months to 1 December 2019	Six months to 2 December 2018	Year ended 2 June 2019
	£000	£000	£000
Profit attributable to owners of the parent (£000)	47,453	32,810	65,821
Weighted average number of ordinary shares in issue (thousands)	32,530	32,376	32,438
Adjustment for share options (thousands)	280	199	347
Weighted average number of ordinary shares for diluted earnings per share (thousands)	32,810	32,575	32,785
Diluted earnings per share (pence per share)	144.6	100.7	200.8

8. Reconciliation of profit to net cash from operating activities

	Six months to 1 December 2019	Six months to 2 December 2018	Year ended 2 June 2019
	£000	£000	£000
Operating profit	59,159	40,771	81,199
Depreciation of property, plant and equipment	4,460	3,754	8,941
Impairment/(reversal of impairment) of property, plant and equipment	119	(18)	8
(Profit)/loss on disposal of property, plant and equipment	(17)	9	144
Loss on disposal of intangible assets	-	-	188
Amortisation of capitalised development costs	2,533	2,965	5,341
Amortisation of other intangibles	614	754	1,608
Depreciation of right-of-use assets	4,611	-	-
Loss on disposal of right-of-use assets	(11)	-	-
Share-based payments	197	140	339
Changes in working capital:			
-Decrease/(increase) in inventories	2,130	(2,195)	(3,357)
-Increase in trade and other receivables	(11,900)	(5,911)	(4,021)
-Decrease in trade and other payables	(1,715)	(4,085)	(2,149)
-Increase/(decrease) in provisions	248	(216)	535
Net cash from operating activities	60,428	35,968	88,776

9. Other intangible assets

	1 December 2019	2 December 2018	2 June 2019
	£000	£000	£000
Net book value at beginning of period	16,004	14,195	14,195
Additions	5,200	4,348	8,894
Exchange differences	(5)	1	3
Disposals	-	-	(188)
Amortisation charge	(3,147)	(3,719)	(6,949)
Reclassification from property, plant and equipment	-	25	49
Net book value at end of period	18,052	14,850	16,004

10. Property, plant and equipment

	1 December 2019 £000	2 December 2018 £000	2 June 2019 £000
Net book value at beginning of period	35,303	30,072	30,072
Additions	8,494	6,608	14,238
Exchange differences	(146)	119	145
Disposals	(6)	(9)	(154)
Depreciation charge	(4,460)	(3,754)	(8,941)
(Impairment)/reversal of impairment charge	(119)	18	(8)
Reclassification to other intangible assets	-	(25)	(49)
Net book value at end of period	39,066	33,029	35,303

11. Right-of-use assets

	1 December 2019 £000	2 December 2018 £000	2 June 2019 £000
Net book value at beginning of period	-	-	-
Additions	34,472	-	-
Exchange differences	(718)	-	-
Disposals	(121)	-	-
Depreciation charge	(4,611)	-	-
Net book value at end of period	29,022	-	-

Included within additions for the period is £33.6 million of right-of-use assets recognised on transition to IFRS 16 on 3 June 2019. See note 2 for further information.

12. Provisions for other liabilities and charges

Analysis of total provisions:

	1 December 2019 £000	2 December 2018 £000	2 June 2019 £000
Current	526	510	919
Non-current	1,454	519	844
Total provisions for other liabilities and charges	1,980	1,029	1,763

	Employee benefits £000	Property £000	Total £000
At 3 June 2018	768	460	1,228
Charged to the income statement	78	108	186
Exchange differences	9	8	17
Utilised	(68)	(334)	(402)
At 2 December 2018	787	242	1,029
At 3 June 2018	768	460	1,228
Charged to the income statement	727	123	850
Exchange differences	3	2	5
Utilised	(44)	(276)	(320)
At 2 June 2019	1,454	309	1,763
Charged/(credited) to the income statement	431	(118)	313
Exchange differences	(31)	(1)	(32)
Utilised	(40)	(24)	(64)
At 1 December 2019	1,814	166	1,980

13. Seasonality

The Group's monthly sales profile demonstrates an element of seasonality around the Christmas period which impacts sales in the month of December.

14. Commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is £4,592,000 (2018: £2,969,000).

15. Related party transactions

There were no material related-party transactions during the period.