PRESS ANNOUNCEMENT

GAMES WORKSHOP GROUP PLC

28 July 2020

ANNUAL REPORT

Games Workshop Group PLC ("Games Workshop" or the "Group") announces its annual report for the year to 31 May 2020.

Highlights

	Year to 31 May 2020 £m	Year to 2 June 2019 £m
Revenue	**269.7**	256.6
Revenue at constant currency*	**268.3**	256.6
Operating profit - pre-royalties receivable	**73.2**	69.9
Royalties receivable	**16.8**	11.3
Operating profit	**90.0**	81.2
Operating profit at constant currency*	**89.6**	81.2
Profit before taxation	**89.4**	81.3
Net increase in cash - pre-dividends paid	**70.5**	50.7
Earnings per share	**218.7p**	202.9p
Dividends per share declared and paid in the year	**145p**	155p

Kevin Rountree, CEO of Games Workshop said:

"An amazing set of results - the best year in Games Workshop's history, *so far*. You can once again see from these results that our business and the Warhammer hobby are in good shape. We look forward to the year ahead and will face any challenges head on and learn from our mistakes. We thank our staff and customers and other stakeholders for their continued support during these uncertain times."

For further information, please contact:

Games Workshop Group PLC investorrelations@gwplc.com
Kevin Rountree, CEO
Rachel Tongue, Group Finance Director

Investor relations website investor.games-workshop.com
General website www.games-workshop.com

The full 2020 annual report can be downloaded from the investor relations website at investor.games-workshop.com

*Constant currency revenue is calculated by comparing results in the underlying currencies for 2020 and 2019, both converted at the 2019 average exchange rates.

STRATEGIC REPORT

Strategy and objectives

Games Workshop is committed to making the Warhammer hobby and our business ever better.

Our ambitions remain clear: to make the best fantasy miniatures in the world, to engage and inspire our customers, and to sell our products globally at a profit. We intend to do this forever. Our decisions are focused on long-term success, not short-term gains.

Let me go through our strategy part by part:

The first element - we make high quality miniatures. We understand that what we make may not appeal to everyone, so to recruit and re-recruit customers we are absolutely focused on making our models the best in the world. In order to continue to do that forever and to deliver a decent return to our owners, we sell them for a price that we believe represents the investment in their quality.

The second element is that we make fantasy miniatures based in our endless, imaginary worlds. This gives us control over the imagery and styles we use and ownership of the intellectual property (IP). Aside from our core business, we are constantly looking to grow our royalty income from opportunities to use our IP in other markets.

The third element is that we are customer focused. We talk to our customers. We aim to communicate in an open, fun way. Whoever and wherever our customers are, and in whichever way they want to engage with Warhammer, we will do our utmost to support them.

The fourth element is the global nature of our business. We seek out our customers all over the world. We believe that our customers carry our Warhammer hobby gene and to help find them we have two key tools: our retail chain and our online content. In retail we continue to apply our tried and tested approach of recruiting customers - in our own stores, by showcasing the Warhammer hobby and offering a fantastic customer experience. Online our offering has never been richer. Through Warhammer-community.com and social media we reach thousands of new people every day, showing them the very best aspects of the Warhammer hobby and inviting them to join our global community of enthusiastic fans.

Our retail business is supported by our own online store (it has the full range of our products) and our independent stockist and trade accounts across the world. These independent accounts do a great job supporting our customers in parts of the world where we either have not yet opened one of our stores or where it is not commercially viable for us to have one. Our long term goal is to have all three channels (retail, trade and online) growing in harmony. We will always have more independent accounts than our own stores. Our strategy is to grow our business through geographic spread, growing all of the three complementary channels.

The fifth element is being focused on cash. By delivering a good cash return every year we can continue to innovate, surprise and delight our loyal existing customers and new customers with great product. To be around forever we also need to invest in both long-term capital and short-term maintenance projects every year, pay our staff what they have earned for the value they contribute and deliver surplus cash to our shareholders. Our dedication and focus should ensure we deliver on time and within our agreed cash limits.

We measure our long-term success by seeking a high return on investment. In the short term, we measure our success on our ability to grow sales whilst maintaining our core business operating profit margin at current levels. The way we go about implementing this strategy is to recruit the best staff we can by looking for the appropriate attitudes and behaviour each job we do requires and identifying the value that job brings. It is also important that everyone we employ has a real desire to learn the skills needed to do their job and has a great attitude to change. We offer all of our staff both personal development and skills training.

We continue to believe there are great opportunities for our business to grow, particularly in North America and Asia.

Our brands

We have originated and are in control of a number of strong, globally recognised brands with their own identities, associations and logos.

Our key consumer facing brand is 'Warhammer'.

We design, make and sell products under a number of brands and sub brands, which denote setting, tone and product type, the key ones being:

- Warhammer: Age of Sigmar - our unique fantasy setting.
- Warhammer 40,000 - our most popular and recognisable brand is a space fantasy setting.
- Horus Heresy - an offshoot of Warhammer 40,000, the Horus Heresy brand is presented as 'fictional history' of that universe.

We believe our IP to be among the best in the world.

The Warhammer settings are incredibly rich and evocative backdrops. They're populated by more than three decades of fantastical characters and comprise thousands of exciting narratives. We are committed to making it easier than ever for people to discover, engage with and immerse themselves in our IP. Aided by a small, senior team we have already begun to find new partners, and new ways to help us bring the worlds of Warhammer to life like never before. Together, we'll continue to explore animation, live action and more. We'll present the very best aspects of our rich IP, delighting audiences while always ensuring we do no harm to our core miniatures business.

Business model and structure

We design, manufacture, distribute and sell our fantasy miniatures and related products. These are fantasy miniatures from our own Warhammer 40,000 and Warhammer: Age of Sigmar universes. Our factory, main warehouse facility and back office support functions are all based in Nottingham. We are an international business centrally run from our HQ in Nottingham, with 74% of our sales coming from outside the UK.

Design
We design all of our products at our HQ in Nottingham. Employing 231 people, the design studio creates all the IP and all the associated miniatures, artwork, games and publications that we sell. Annually, these specialist staff produce hundreds of new sculpts, illustrations, rules, stories etc. enabling us to deliver new products every week and continue to keep our customers engaged and excited. In 2019/20 we invested £11.4 million in the studio (including software costs) with a further £3.7 million spent on tooling for new plastic miniatures. We are committed to investing in these areas at an appropriate level every year.

All of our plastic miniatures are branded as Citadel Miniatures, a mark with an unparalleled reputation for quality. It denotes both a style and level of detail that we apply to both our own worlds (Warhammer 40,000, Warhammer: Age of Sigmar, etc.) and those of others, e.g. Lord of the Rings.

Our resin miniatures, designed for more experienced customers, are branded as Forge World and are less widely available than their plastic counterparts.

Many customers love personalising their miniatures and our Citadel Colour paint range, brushes and accompanying painting system are designed to help everyone from the complete beginner to the most experienced painters in the world achieve great results. In the pursuit of ever better, we continually develop new types of paint and ways of using them with the result that our paints are used the world over - and for painting more than just our miniatures.

When not interacting with our miniatures, many customers enjoy reading stories set in our rich and immersive worlds. Under our Black Library imprint we publish hundreds of titles a year, from short stories and audio dramas through full length novels and audio books which we make available in physical bookstores, third party online platforms and through our own retail and other specialist stores.

Manufacture
We are proud to manufacture our product in Nottingham. It's where we started and where we intend to stay. During the year we continued work on phase 2 of increasing our production facilities in Nottingham, with the expansion of our tooling facility and further office space. This is now nearing completion.

Logistics
All of our product is initially distributed from our warehouse facility in Nottingham. This facility supplies our two hubs; one in Memphis, Tennessee and one in Sydney, Australia. Between these three facilities we are able to then directly supply our independent retailers, our own retail stores and fulfil our online orders. A project to extend and upgrade the Memphis facility was started in March 2019 and is now nearing completion alongside an additional new rented warehouse facility near Nottingham.

Sell
We sell via three channels, our own stores ‘Retail’, third party independent retailers ‘Trade’ and our online store ‘Online’. We also ‘sell’, or rather generate income, via our licensing partners. We support these channels and activities via our digital and community team.

Retail - our stores provide the focus for the Warhammer hobby in their geographical areas. Our stores only stock Games Workshop product. They are where we recruit the majority of our new customers. To do so, the stores don't offer the full range of our product, only new release product and the appropriate extended range. At the year end we had 531 of our own retail stores in 23 countries. Our stores contributed 29% of the year's sales. We have 411 one man stores: small sites, each one staffed by only one store manager. We also have 120 multi-man stores, which, like our one man stores, are constantly reviewed to ensure they remain profitable. If not, they will probably be converted to one man stores.

Trade - we sell to third party retailers under closely controlled terms and conditions. Independent retailers are an integral part of our business model helping us to sell our products around the world and importantly in areas where we don't have our own stores. Games Workshop strives to support those outlets which help to build the Warhammer hobby community in their local areas. The bulk of our sales to independent retailers are made via our telesales teams based in Memphis and Nottingham. We also have small telesales teams in Sydney, Tokyo, Shanghai, Singapore, Hong Kong and Kuala Lumpur. In 2019/20 we had 4,900 independent retailers (2019: 4,700) in 72 countries. We strive to deliver excellent service, operating in 22 languages covering all time zones. 52% of our sales came from sales to independent retailers in the year reported. These sales are from their bricks and mortar stores as well as their own online web stores.

Online - sales via our own web stores accounted for 19% of total sales in 2019/20. All of our retail stores also have a web store terminal that allows our customers to access the full range from within the store. Our web stores are run centrally from our Nottingham HQ.

Business model and structure continued

Sell continued

Licensing - we grant licences to a number of carefully chosen partners. This allows us to leverage our IP to broaden the presence and brand exposure of Warhammer around the world, often entering new markets such as board games, apparel or accessories and media and entertainment. It also allows us to generate additional income. Currently, the majority of this income is generated by computer games sales in North America, the UK and Continental Europe.

Marketing - keeps us customer focused. This team acts as the bridge between our other business areas, ensuring we have a joined up approach between product (design to manufacture) and sales. Marketing spends a lot of time listening and developing a two way dialogue with our customers to make sure we keep their needs at the forefront, championing the Warhammer hobby around the globe and injecting our content and communications with a real sense of passion and fun.

Structure

We control the business centrally from our HQ in Nottingham; it is where the majority of people with experience and knowledge of running our business work. I have put in place a flat structure: the people with senior responsibility that make all of the big decisions report directly to me. My team is split into seven parts: design to manufacture, sales, merchandising and logistics, digital and community, operations and support, systems and IP exploitation.

We have a global head of design to manufacture who is responsible for our factory and design studios (miniatures, books and box games, specialist systems, hobby product and our publishing business, Black Library).

The responsibility for our retail chain is split between two retail territory heads in North America and one for the Rest of the World. Our trade sales are the responsibility of a single head of trade sales. All of our online and digital sales are the responsibility of a global head of digital and community.

These sales channels are supported by a global head of merchandising and logistics and by the marketing team that sits under the global head of digital and community. The global head of merchandising and logistics also manages our three main warehouse facilities in Nottingham, Memphis and Sydney.

Our operations and support structure includes a finance director for Games Workshop who is responsible for accounts, compliance, licensing and legal duties. Our global people manager ensures we take our people recruitment and development seriously. Our group head of IT ensures we invest in our core systems as well as consider how we can leverage technology to help us deliver our long-term goals.

Key performance indicators

The board and management team use a number of key performance indicators to provide a consistent method of analysing performance, in addition to allowing the board to benchmark performance against our forecast. The key performance indicators utilised by the board can be split into key financial performance indicators and key non-financial performance indicators.

Our key financial performance indicators are:

Monthly and year to date sales growth by channel

This measures the sales growth achieved in each of our channels on a monthly and year to date basis.

Monthly and year to date Group gross margin

This measures the gross margin achieved on sales after taking account of the direct costs and depreciation of manufacturing equipment and shipping our product to customers/stores on a monthly and year to date basis.

Year to date core business operating profit percentage

The ratio of core business operating profit before royalty income against revenue, as a percentage.

Monthly and year to date core business profit

This measures gross profit less operating expenses on a monthly and year to date basis, before royalty income.

Number of own stores by territory

This measures the number of our own stores which is an indicator of our global reach.

Number of ordering stockist accounts by territory

This measures the number of trade outlets that have ordered from us in the last six months. It is an indicator of our global reach and the health of our trade account base.

Our key non-financial performance indicators are:

Customer engagement

We measure this through our owned content channel warhammer-community.com and reach delivered through our social platforms.

Staff engagement

We have a monthly Games Workshop Group Communications Forum which is attended by staff representatives and senior managers. This is to ensure regular staff engagement across the Group. Information on topics discussed at these meetings is circulated to all staff.

Shareholder value
We believe shareholder value is created, primarily, by not destroying it. We have no intention to acquire other companies, nor to dispose of any of those we own.

We return our surplus cash to our owners and try to do so in ever increasing amounts. Given recent events, in future, a working 'cash buffer' of three months' worth of working capital requirement will be set aside before deciding how much cash is truly surplus for the purpose of declaring dividends.

Review of the year

Core business
COVID-19
As the pandemic developed in the year reported on, we assessed the potential impact on our staff, their families and our customers and closed the business globally on 24 March 2020. We could not guarantee that we could operate by following government guidelines. Most of our business is now recovering and some staff continue to work from home. There is potential for further disruption, so we will continue to monitor the impact and do what is necessary to ensure our staff, their families and our customers are safe. This is, and will remain, at the forefront of our minds.

I am not going to go into too much detail on the impact of COVID-19 on the business. In summary, after an incredible team performance, we only lost c. six weeks of sales and profit. Our retail channel was hardest hit and has taken longer to recover; fully adhering to government guidelines regarding the opening of non-essential stores. We initially claimed furlough relief and other governmental support, which we are in the process of repaying in full, where possible. We strengthened our cash management procedures and asked our suppliers for their support. We put in place an overdraft facility with a big bank, which we have not drawn on. We had a healthy balance sheet at the end of February and we have a healthy balance sheet at the end of May. My sincere thanks to everyone who supported us through such a challenging time, your help has been invaluable in achieving the strong position we find ourselves in.

Year to May 2020
Wow, what a year! Despite the challenging backdrop, this was another record performance from the global Games Workshop team. We once again proved we could face any challenge head on. Well done to you all, thank you for your outstanding performance, commitment and resilience.

I am pleased to report a fourth year of record constant currency sales, profit and cash generation. This year proved how resilient we are and how robust the Warhammer hobby is. I thank our customers and our partners for their continued support during the year; more so in the final period, helping us deliver a record May after more than a month of global shut down.

Since November 2015, our financial performance has gone from strength to strength. This is the direct result of the operational team delivering a well thought through plan. This year more than any other, I thank the executive team at Games Workshop for their focus on managing cash which helped us enormously through the final quarter. Our net cash from operations and cash conversion rate are still healthy. (Note: the net operating cash movement this year looks better than it really is due to accounting standard changes on leases which we are obliged to change and the timing of some COVID-19 repayments and staff bonuses).

How naïve was I to say last year 'I do not see anything significant that will get in the way'? Looking forward I will ensure our operational plan is even more robust. We will continue to deliver on that plan, and at the same time invest in the potential sales growth. Our recovery plan is going well, but we are not taking anything for granted. We will not hesitate to close our operations again to protect our staff, their families and our customers.

We will remain focused on delivering our strategy, which has not changed. It is our mission to share our love for the Warhammer hobby and enable everyone that would love to take part to do so. Our retail stores remain paramount to achieving that. It is where you will find a manager who will deliver outrageous customer service and support you, in a safe, welcoming environment.

Diversity
We continue to recruit for fit: the personal qualities you need to do a particular job as well as the necessary skills. We do not select based on any other criteria. I will do my best to ensure this is the case, and that we are fair and free from any bias and/or prejudice.

Growth
We continue to focus on expanding the Warhammer hobby with a focus on North America and China. In the short term, as we recover from the events of the past few months, we have paused our store opening programme. However, we continue to look around the globe for stockists and partners that can help us share our love for miniatures and our fantastic Warhammer characters and settings. Meanwhile our online sales continue to go from strength to strength: in a changing shopping landscape we will stay on the front foot.

Core business continued

Design to manufacture

Design studios

We continued our successful strategy of broadening and deepening our offer, providing Warhammer hobbyists with more ways to collect, build and play with their models. For example, Warhammer 40,000: Apocalypse focuses on playing huge games involving hundreds of models a side, while WarCry brought detailed skirmish gaming to the Age of Sigmar universe. 2019/20 also saw the return of a much requested fan favourite, the Sisters of Battle for Warhammer 40,000. We also added another brand new gaming system in the form of Aeronautica Imperialis, which introduced aerial combat to the Warhammer 40,000 universe, and gave our customers a whole new range of dynamic models to collect.

The summer saw the next evolution in our paint offer with the introduction of Citadel Colour Contrast Paint, which has been enthusiastically embraced by our customers. We are putting additional resource into this area of our hobby so that we can continue to provide our customers with the best miniatures painting products in the world.

The responsibility to protect and develop our IP now sits with our global design to manufacture manager. He, with the support of the IP steering team and our in-house legal team, will always actively defend it against infringements. We will focus on both real and digital representations of our IP.

Studio payroll costs have increased by £0.8 million to £8.9 million; as a percentage of Group revenue they have increased by 0.2% to 3.3%.

Manufacturing

Our second factory has now been operational for a year, providing us with the space and opportunity to trial new ways of working. In the autumn we will begin a programme to modernise our original factory, optimising output and efficiency. Phase 2 of the second factory has been delayed but is scheduled to come on line at the end of summer with both an expanded tool room and dedicated R&D function. Product innovation remains a key area of focus.

We implemented a new quality management system while also applying for and receiving CCC product safety registration in China. Going forward, this will allow us to access more locations and sales channels in China.

In addition to producing goods for our core channels, our factory produced over 4 million components for the existing magazine part-works with Hachette and six additional launches in 2019/20.

Production payroll costs remain a key area of focus. During the year they remain constant at £7.5 million; as a percentage of Group revenue they have decreased by 0.1% to 2.8%. We expect this percentage to stay at similar levels in the year ahead.

Warehousing

In May 2020 we consolidated all of our sourcing and warehousing functions under our global head of merchandising and logistics. He, with the support of his team, is now implementing an operational plan to upgrade our main warehouse facilities in Memphis and Nottingham, including component warehousing. He is also reviewing our sourcing strategy and will ensure all projects linked to stock management will be delivered on time and within cash limits.

North America

We are investing c. £5 million in new warehousing fixtures and fittings and technology. This project started in May 2019 and is due for completion in 2020. The project remains on track, subject to events outside of our control. Whilst principally about increasing our capacity, we will also benefit from better range management. We will be able to hold a wider variety of range items, including more translated product and hold more stock of secondary items such as paint, specialist games and Black Library novels. These extra picking locations will also lead to a better service and product availability in North America.

UK

We are investing in a purpose built rented facility less than 11 miles from our HQ in Nottingham and will be investing c. £5 million in new warehouse fixtures and fittings and technology. This project started in the autumn of 2019 and is due to become operational across a number of phases from July 2020, with the project being completed in May 2021. The current warehouse at our HQ will become our component warehouse, saving on third party warehouse costs.

Australia

We are in a rented facility on the outskirts of Sydney. The Warhammer hobby is growing in Australia too and so we are currently reviewing our capacity limits and the need to upgrade our IT solutions.

Logistics costs continue to be an area of focus. Total warehousing costs have increased by £2.1 million to £11.6 million; as a percentage of sales they have increased from 3.7% to 4.3%. We would expect this percentage to rise to c. 5% and then remain at similar sales levels following the investments described above.

Services

It has taken us a while, however, we are finally embracing off the shelf and third party supported IT solutions. I have been concerned for years that the business has become over reliant on old technology and old nous. Our investment in our IT internal team and the tools we need to manage a global vertically integrated business is paramount; it is a significant area of risk to our growth plans. We are three years into a plan to remove old technology and we have not made enough progress. We have some catching up to do; last year saw us gather pace.

Media and entertainment
We have made some progress, as expected it is a little slower than I'd like - hey ho. We have signed the co-development agreement with Big Light Productions and are in the final stages of developing the project for the TV market: a story based on one of our most popular Black Library novel series, Eisenhorn. We are in discussions with other companies regarding other media projects, both live action and animation, all over the world. To help, we are strengthening the team by recruiting a few professionals from the media industry to assist with progress. It is truly an exciting time. I can't wait to see the outcome of this work.

Licensing
Our goal is AAA video games. We have signed multiple licences and we continue to negotiate many more, we will update you once they are announced. At the time of writing, we have 73 licences and are signing new ones every 2-3 months.

We have collaborated with some of the biggest multiplayer games in the world by putting Warhammer IP in games like Counter Strike Global Offensive (400,000 sticker packs sold in the first week) and World of Tanks/Warships.

Global reach - we now have licensing staff in China and are actively pursuing a number of projects there. In the year, we launched our first Chinese developed mobile game. We also formed a relationship with Bandai for collectibles, launching our first ever action figure that sold out in three days, and our first collectible product to be sold through gashapon machines in Japan, which also sold well.

Product reach - we diversified the use of Warhammer into many new categories and styles this year, including a deal with Marvel to publish comics across all of our IPs, the Bandai relationship for chibi style models, and our first ever Funko Pops release. We also launched our dedicated Warhammer print on demand merchandise site in the year. In general we have formed partnerships that have and will take Warhammer products into many new locations, particularly in North America and Japan.

In total we signed 18 licences and terminated 11 in the year, the latter mostly being cleaning house on things that weren't worth keeping or had run their course.

Digital content
In addition to these third party projects, our internal team (in partnership with a range of animation studios) has also finished development and begun production on three Warhammer 40,000 animated series, 'Angels of Death', 'Hammer and Bolter' and 'Interrogator'.

For all of these we're still exploring distribution options, and it might well be that they launch on warhammer-community.com. Our internal team also captained our efforts to bring about something entirely new for Games Workshop - a cinematic trailer for Warhammer 40,000. Collaborating with world-class animation talent, we have fashioned a short film showcasing the new Warhammer 40,000. The most popular video we've ever released, this effort bodes well for the release of the other shows and of course the launch of Warhammer 40,000 itself. These projects are just the beginning of what will be an exciting future for fans of Warhammer everywhere and those looking to discover our worlds for the first time.

Update on priorities for 2019/20
In the year, we focused on the following initiatives designed to help us support all of our staff and continually improve their performance:

Staff recruitment, training and development
We have great staff and our ongoing success relies on us developing the talent we have and finding more people to join our global team. To be honest, we have finished the year focusing on recovery and looking after the health and wellbeing of our staff, their families and our customers. We have paused most other initiatives.

We will soon be re-starting our monthly Games Workshop Global Communication Forum at which my senior team and I regularly update staff representatives on each area of our business. As we recover, it is more important than ever that our staff know how their hard work not only helps their teams deliver their goals but also helps me deliver Games Workshop's strategic goals. Our successes are always built on a global team effort.

In line with our expectations and cost conscious plan, our headcount has risen from 2,110 to 2,188 in the year. To ensure we always have the right people in the right jobs at the right time, the people team have been asked to deliver a step change in how we link job specifications, training, core KPIs and staff development to remuneration. All of our staff globally will be offered the tools they need to improve their performance and we will continue to support their wellbeing. I am committed to ensuring Games Workshop continues to be a place where we can improve ourselves and our performance. Our continued focus on an individual's values, behaviour and skills remain integral to these plans.

Initiatives for recruiting new customers and retaining existing customers in the Warhammer hobby
We opened 14 (net) of our own stores, mostly in North America and Continental Europe. We opened 200 more trade accounts in line with our well established terms and conditions, selling to independent retailers our best selling products and, where appropriate, the extended range. We also placed a small range of Warhammer product in over 2,000 new locations in the mass market, e.g. Target in North America.

Range
We focused on the following initiatives to deliver an improvement in our product offer, our customer service and how we promote our product range:

To ensure we have the right product at the right place at the right time, we have been investing in our merchandising and logistics team throughout the year. We have started to tailor the retail range by location. At the heart of our range is our core IP and the core product lines that support it. We are committed every year to further extending the Warhammer worlds through great products: it is what we are great at and one of the key things that drives success.

Update on priorities for 2019/20 continued
Core systems and manufacturing and warehousing capacity
We focused on the following initiatives to ensure we keep the lights on and have enough capacity to allow us to deliver our operational plan:

Core manufacturing and warehousing capacity projects
Our additional factory in Nottingham is due for completion in the summer of 2020. This will increase our tool making production as well as additional office space. As discussed above, we are nearing completion of the expansion of our US warehouse and have signed a lease for an additional new warehouse facility near Nottingham. These projects are both due to be completed in the autumn of 2020.

European ERP
We are in the process of replacing our enterprise resource planning systems (core back office systems) for the UK and European businesses. Following our move to a more agile methodology some phases of this complex project are now live with the remaining phases planned to go live in 2020/21.

Priorities for 2020/21
Core business
As part of our overall strategy, six key initiatives will be prioritised in 2020/21. These are designed to deliver further sales growth whilst maintaining our operating profit margin, and continuing to surprise and delight our customers.

Staff training and development:
We currently have a recruitment freeze in place, only recruiting essential new jobs or replacing existing ones. We are not planning to make any significant reductions anywhere in the world. We are continuing with our investment in our people and we are working on delivering a revised workforce plan to ensure we can meet our global needs today and in the near future, in both the core business and in exploiting our IP.

Business recovery:
We will seek to ensure our global business continues to recover from the shut down and weather any challenges and uncertainties that lie ahead. In the short term we have paused any significant investment in Asia to focus on our current territories. We are planning for Brexit, subject to receiving clear guidelines. We are also reviewing our global pricing and trade terms and any other stuff that this significant change has forced on us.

Customer focus:
We will continue to be customer focused, better engaging our existing ones and reaching whole new audiences with the Warhammer hobby. We have paused our store opening programme for the foreseeable future. We will be focusing our efforts on making sure our existing stores can recover.

Sales growth:
The goal is to sell all of our products where our customers want to shop. There will be more focus on leveraging our own online store. We will also continue to open more independent retailer accounts. This will be based on clearer terms and conditions, selling our best selling products to independent accounts and, where appropriate, the extended range. We will continue the project of updating our online service tools to ensure our customers and all of our third party accounts get outrageous customer service and support.

Communities:
We will continue to improve our digital marketing and customer engagement to help us expand our communities around the world.

Capital investment:
Finally, in our core business, as discussed above, we will continue our investment in core IT systems, our online sales platforms and our manufacturing and warehouse capacity projects, keeping fingers crossed that nothing significant gets in the way. We are playing catch up so our capital investment may be higher than this year.

Media and entertainment
This is still early days for this new team. They will be working with lawyers and a small group of advisers with our new media partners on scripts that will eventually bring the worlds of Warhammer to screens. A team of internal creative and trusted writers continue to write outline scripts and develop a series of internally produced animation projects. They will also continue to support our licensing team with any external media projects.

Licensing
Our licensing team will continue with the good progress they have made over the last few years. We believe our IP to be among the best in the world and we want to work with big, value-adding partners. Our licensing team will focus on signing some new AAA deals for Warhammer on digital platforms. We are open for business.

Sales
Reported sales grew by 5.1% to £269.7 million for the year. On a constant currency basis, sales were up by 4.6% from £256.6 million to £268.3 million.

Sales by segment

	Year to 31 May 2020 Constant currency	Year to 2 June 2019 Constant currency	**Year to 31 May 2020 Actual rates**	Year to 2 June 2019 Actual rates	**2020 % of total sales**	2019 % of total sales
Trade	**£139.0m**	£121.5m	**£140.0m**	£121.5m	**52%**	47%
Retail	**£77.6m**	£87.8m	**£78.0m**	£87.8m	**29%**	34%
Online	**£51.7m**	£47.3m	**£51.7m**	£47.3m	**19%**	19%
Total sales	**£268.3m**	£256.6m	**£269.7m**	£256.6m		

Sales by channel
29% (2019: 34%) of sales were made through our own stores, 52% (2019: 47%) of sales were to independent retailers and 19% (2019: 19%) were online.

Retail
Store openings and closures during the year:

	Number of stores at 2 June 2019	Opened	Closed	**Number of stores at 31 May 2020**	**Number of one man stores at 31 May 2020**	Number of one man stores at 2 June 2019
UK	140	5	5	**140**	**98**	100
North America	153	8	1	**160**	**141**	140
Continental Europe	151	8	2	**157**	**113**	108
Australia	50	-	1	**49**	**37**	41
Asia	23	2	-	**25**	**22**	21
	517	23	9	**531**	**411**	410

We opened 23 new stores in the year including 7 relocated stores (shown within both the opened and closed store numbers above). These new stores generated £1.6 million of profitable sales. We have paused our store opening plans for 2020/21. Our main focus for the year ahead will be improving our existing store performance. Recent events have made this more challenging.

Retail sales decreased by 11% in the year (12% at constant currency), including additional growth from 14 net new stores, and sales in our visitor centre fell by 17%. The decline was significantly COVID-19 related as stores were closed for a number of weeks in April and May. We continue to fine tune our skills-based training for all of our store managers at our retail workshops.

Trade
Sales increased by 15% during the year (14% at constant currency). Thanks to the hard work of our telesales teams we delivered growth in every major country in which we sell our products. Sales to trade accounts which sell primarily online continue to perform well. We will continue to offer support to all types of third party accounts. To increase our reach, we will continue to offer a small range of Warhammer entry level products in the mass market.

Online
Sales grew by 9% (9% at constant currency). We are committed to continuous investment in our online shopping experience and it is a key area of operational focus in the year ahead.

Marketing
As ever, when we say marketing at Games Workshop, we mean engaging, informing and inspiring our global community.

We continue to be customer focused, keeping them at the forefront of all we do and the decisions we make. In return, our customers have never been more engaged - reading and interacting with more Warhammer content, more often than ever before. Warhammer-community.com, the cornerstone of our online presence, had over 145 million page views in the year, more than 30% growth on the previous year. This is from over 8 million users, up almost 40% from last year. In the year, we further increased our social media presence with all of our channels growing.

We've also continued to support sales in our retail stores, with promotions, activities and seasonal themes. One of the most exciting of these last year was the Everchosen global Warhammer painting competition. Everchosen was the first of its kind and saw tens of thousands of Warhammer fans enter their lovingly painted miniatures at thousands of venues around the world, including at over 500 of our official Warhammer stores.

Despite the challenges and restrictions of COVID-19, the team managed to unite people around the world through the enjoyment and escapism that Warhammer brings. With physical spaces closed and events cancelled, they streamed content live to thousands of viewers every day. This culminated in the announcement of the new edition of Warhammer 40,000. The online event achieved 4 million reach in less than 24 hours, and saw Warhammer trend on social media and video platforms. At the time of writing, the Warhammer 40,000 trailer has been watched more than 2 million times. This was, by orders of magnitude, the most successful announcement in Games Workshop's history.

Gross margin
Gross margin declined in the year (2020: 67.0%; 2019: 67.5%). This was a combination of the disruption of production in April 2020 due to COVID-19, as well as the impact of sales mix of new and existing product (38% of sales from new releases and 62% of sales from existing product), and channel mix changes.

Costs
Costs have increased by £4.0 million in the year (2020: 39.8% of sales; 2019: 40.3% of sales) as a result of investments for the long term: £3.0 million in our store opening programme, which has partially helped us to deliver organic sales growth by expanding into new geographic locations, £2.3 million additional spend on our operations, support and marketing teams and £0.6 million on our merchandising and logistics teams. As a direct result of our performance we rewarded all our staff with a £1,000 profit share payment each (total cost £2.4 million; 2019: £5.5 million including discretionary payment). We also honoured our commitment to pay 20% of any sales increase to our retail store managers (total cost £0.7 million; 2019: £1.0 million) who achieved sales growth whilst maintaining costs broadly in line with last year. Variable costs directly attributable to sales volume growth increased by £1.7 million in the year.

Operating profit
Operating profit by segment

	Year to 31 May 2020 Constant currency	Restated Year to 2 June 2019 Constant currency	**Year to 31 May 2020 Actual rates**	Restated Year to 2 June 2019 Actual rates
Trade	**£4.6m**	£4.0m	**£4.6m**	£4.0m
Retail	**£2.9m**	£3.2m	**£2.9m**	£3.2m
Online	**£1.7m**	£1.5m	**£1.7m**	£1.5m
Design to manufacture	**£133.7m**	£125.9m	**£134.3m**	£125.9m
Merchandising and logistics	**£(35.5)m**	£(33.2)m	**£(36.2)m**	£(33.2)m
Other costs	**£(33.0)m**	£(30.8)m	**£(33.1)m**	£(30.8)m
Royalties (net of costs)	**£15.2m**	£10.6m	**£15.8m**	£10.6m
Total operating profit	**£89.6m**	£81.2m	**£90.0m**	£81.2m

During the year the Group reassessed the operating profit margins of the sales segments. Operating profit margins have been set at benchmark levels comparable with third party businesses performing similar functions. Prior year amounts have been restated to reflect this change.

Core business operating profit (operating profit before royalty income)
Core business operating profit grew by £3.3 million to £73.2 million (2019: £69.9 million). On a constant currency basis, core business operating profit increased by £3.4 million to £73.3 million. As a percentage of sales core business operating profit was 27.1% (2019: 27.2%).

Royalty income
Royalty income increased in the year by £5.5 million to £16.8 million. This was largely due to an increase in guarantee income on new contracts signed in the year; this income is recognised in full at the inception of the contract in line with IFRS 15. Reported income is split as follows: 72% PC and console games, 13% mobile and 15% other.

Cash generation
During the year, the Group's core operating activities generated £94.4 million of cash after tax payments (2019: £69.0 million). This figure excludes lease payments of £10.3m which replace rental payments, following transition to IFRS 16 (note 3). The Group also received cash of £12.5 million in respect of royalties in the year (2019: £9.1 million). After purchases of tangible and intangible assets and product development costs of £24.6 million (2019: £22.5 million), dividends of £47.3 million (2019: £50.2 million), group profit share to employees of £2.4 million (2019: £5.5 million including discretionary payment), proceeds from the issue of ordinary share capital relating to the sharesave scheme of £0.8 million (2019: £0.7 million) and net interest and foreign exchange and gains of £0.4 million (2019: gains of £0.4 million), there were net funds at the year end of £52.9 million (2019: £29.4 million).

Dividends
We followed our principle of returning truly surplus cash to shareholders. Dividends of £47.3 million (2019: £50.2 million) were declared during the year. Given recent events, in future, a working 'cash buffer' of three months' worth of working capital requirement will be set aside before deciding how much cash is truly surplus for the purpose of declaring dividends.

Return on capital
A long-term measure of our performance has been return on capital. During the year our return on capital declined from 100% to 94%. This was driven by an increase in average capital employed, offset by an increase in operating profit before royalty income.

For this calculation, we use average capital employed averaged over a 12 month period 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, exceptional provisions, taxation, royalties receivable and dividends. If return on capital was calculated using the year end values, it would be 114% (2019: 98%).

Capital employed
Average capital employed increased by £8.2 million to £78.2 million. The average book value of tangible and intangible assets increased by £39.2 million, of which £30.8 million arose following the adoption of IFRS 16. Average inventories increased by £2.7 million and trade and other receivables increased by £1.9 million. Average liabilities increased by £35.7 million, of which £30.7 million is due to the impact of IFRS 16. Average balances are calculated over the 12 month period.

Investments in assets
This is what we have been spending your money on:

	2020	2019
	£m	£m
Shop fits for new and existing stores	**1.1**	1.7
Production equipment and tooling	**6.7**	7.2
Computer equipment and software	**3.4**	3.7
Site	**6.8**	3.6
Total capital additions	**18.0**	16.2

In 2019/20 we invested £1.1 million in shop fits: 23 new stores and 9 refurbishments and in addition we have rebranded 211 stores to Warhammer. We also invested £2.4 million in tooling, milling and injection moulding and paint machines and a further £3.9 million on moulding tools. The investment in computer software includes work on the new ERP system of £1.8m. The investment in site includes £3.6 million building costs to expand our production capacity in Nottingham and £2.0 million on the North America warehouse upgrade. Capital investment is expected to be higher than depreciation and amortisation over the next few years as we increase our logistics capacity and upgrade our core back office systems in Nottingham.

Inventories
Inventories have decreased by £3.5 million, mainly due to our factory being closed for a period and strong sell through of new releases during the year. Stock provision increased by 0.5% to 2.4% of sales. We continue to offer a broad range of price points. The annual impact of price increases based on the average price of product sales is 4%.

Trade and other receivables
Trade and other receivables increased by £5.2 million, which includes a £1.0 million increase in trade debt and £4.3 million in respect of royalty income receivable offset by a reduction in rents and rates prepayments.

Trade and other payables
Trade and other payables increased by £11.1 million, this includes COVID-19 support and deferrals repaid in June 2020, additional holiday pay accruals and bonus payments as well as a £2.0 million increase in deferred income and a £1.0 million increase in rent and rates accruals, partially offset by a £1.0m decrease in trade payables.

Taxation
The effective tax rate for the year was 20.2% (2019: 19.0%). We expect a rate above that for a business with activities solely in the UK due to higher overseas rates, in the prior year this was offset by increased profit in stock provisions at those same rates.

Treasury
The objective of our treasury operation is the cost effective management of financial risk. The relationship with the Group's bank is managed centrally. It operates within a range of board approved policies. No transactions of a speculative nature are permitted. A six month overdraft facility of £25 million was agreed in May 2020 with Santander to cover cash flow during the COVID-19 pandemic. It has not been utilised.

Funding and liquidity risk
The Group pays for its operations entirely from our cash flow.

Interest rate risk
Net interest receivable for the year was £0.1 million.

Foreign exchange
Our big currency exposures are the euro and US dollar:

	euro		US dollar	
	2020	2019	**2020**	2019
Year end rate used for the balance sheet	**1.11**	1.13	**1.23**	1.26
Average rate used for earnings	**1.14**	1.14	**1.26**	1.30

The net impact in the year of these exchange rate fluctuations on our operating profit was an increase of £0.4 million (2019: decrease of £0.8 million).

Risks and uncertainties

The board has overall responsibility for ensuring risk is appropriately managed across the Group and has carried out a robust assessment of the principal risks to the business. The top five strategic risks to the Group are regularly reviewed by the Board. The principal strategic 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 which we believe could cause business interruption in the year ahead.

- Online selling strategy – as revenue through our online sales channel continues to grow, it is now more important than ever that we have a robust plan in place which ensures we are making product available to our customers in a manner consistent with modern consumer expectations/behaviour. We are reviewing our online selling strategy and the people and technology required to deliver it.
- Management – as stated in prior years, it is imperative that we have the right people in the right jobs, both now and in the future. Our senior managers must anticipate needs, prepare solutions, respond to change and never get caught out by events. This year we focused more on a group wide people plan, to ensure that we have identified the jobs which are critical to the ongoing success of Games Workshop and to ensure that we are proactively planning for the future resource needs of the business. We continue to work on these plans.
- Manufacturing capacity and processes – it is essential that we are able to manufacture product in the right volumes which guarantees stock availability in the right places around the world, and that we continue to innovate in respect of our production methods and processes. We are currently conducting feasibility studies in respect of new production methods and processes for use within our manufacturing operations.
- IT strategy and delivery – with a number of significant business projects in play, each of which are dependent on IT support, there is a requirement for a robust IT strategy which enables us to deliver key strategic projects as well as supporting day to day activities. We are currently reviewing the structure of our global IT team to ensure the IT support needs of the business can be delivered. This review will be completed and implemented in 2020/21.
- Media – whilst this remains a major opportunity for future growth, it is imperative that exploitation of our IP through media channels does no harm to our core business. Our IP steering team meet every month to discuss ongoing and future exploitation, to ensure that all use of our IP, through all channels, is approved, correct and consistent.

We consider that COVID-19 is not a specific risk that we can mitigate against but we are managing our response to it alongside our operational risks.

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.

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

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.

Summary

An amazing set of results - the best year in Games Workshop's history, *so far*. You can once again see from these results that our business and the Warhammer hobby are in good shape. We look forward to the year ahead and will face any challenges head on and learn from our mistakes. We thank our staff and customers and other stakeholders for their continued support during these uncertain times.

The board and I continue to believe that the prospects for the business are good.

Kevin Rountree
CEO
27 July 2020

Statement of directors' responsibilities

The directors confirm that this condensed consolidated financial information has been prepared in accordance with IFRSs and that the 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 year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties; and
- material related-party transactions in the year and any material changes in the related-party transactions described in the last annual report.

A list of all current directors is maintained on the investor relations website at investor.games-workshop.com.

By order of the board

Kevin Rountree
CEO
27 July 2020

Rachel Tongue
Group Finance Director

CONSOLIDATED INCOME STATEMENT

	Notes	**Year ended 31 May 2020 £m**	Year ended 2 June 2019 £m
Revenue	3	**269.7**	256.6
Cost of sales		**(89.1)**	(83.3)
Gross profit		**180.6**	173.3
Operating expenses	3	**(107.4)**	(103.4)
Other operating income – royalties receivable		**16.8**	11.3
Operating profit		**90.0**	81.2
Finance income		**0.1**	0.1
Finance costs		**(0.7)**	-
Profit before taxation		**89.4**	81.3
Income tax expense	5	**(18.1)**	(15.5)
Profit attributable to owners of the parent		**71.3**	65.8

Earnings per share for profit attributable to the owners of the parent during the year (expressed in pence per share):

	Notes	**Year ended 31 May 2020**	Year ended 2 June 2019
Basic earnings per ordinary share	6	**218.7p**	202.9p
Diluted earnings per ordinary share	6	**217.8p**	200.8p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 May 2020 £m	Year ended 2 June 2019 £m
Profit attributable to owners of the parent	**71.3**	65.8
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	**0.5**	0.7
Other comprehensive income for the year	**0.5**	0.7
Total comprehensive income attributable to owners of the parent	**71.8**	66.5

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

CONSOLIDATED BALANCE SHEET

	Notes	31 May 2020 £m	2 June 2019 £m
Non-current assets			
Goodwill		**1.4**	1.4
Other intangible assets	9	**17.6**	16.0
Property, plant and equipment	10	**42.0**	35.3
Right-of-use assets	11	**31.9**	-
Deferred tax assets		**8.9**	8.6
Trade and other receivables		**7.5**	3.1
		109.3	64.4
Current assets			
Inventories		**20.7**	24.2
Trade and other receivables		**19.6**	18.8
Current tax assets		**0.2**	0.8
Cash and cash equivalents	8	**52.9**	29.4
		93.4	73.2
Total assets		**202.7**	137.6
Current liabilities			
Lease liabilities		**(8.3)**	-
Trade and other payables		**(30.3)**	(19.2)
Current tax liabilities		**(2.8)**	(9.1)
Provisions for other liabilities and charges	12	**(1.7)**	(0.9)
		(43.1)	(29.2)
Net current assets		**50.3**	44.0
Non-current liabilities			
Lease liabilities		**(23.8)**	-
Other non-current liabilities		**(0.5)**	(1.0)
Provisions for other liabilities and charges	12	**(1.6)**	(0.9)
		(25.9)	(1.9)
Net assets		**133.7**	106.5
Capital and reserves			
Called up share capital		**1.6**	1.6
Share premium account		**13.1**	12.3
Other reserves		**5.2**	4.7
Retained earnings		**113.8**	87.9
Total equity		**133.7**	106.5

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

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

	Called up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
At 3 June 2018 and 4 June 2018	1.6	11.6	4.0	71.0	88.2
Profit for the year to 2 June 2019	-	-	-	65.8	65.8
Exchange differences on translation of foreign operations	-	-	0.7	-	0.7
Total comprehensive income for the year	-	-	0.7	65.8	66.5
Transactions with owners:					
Share-based payments	-	-	-	0.3	0.3
Shares issued under employee sharesave scheme	-	0.7	-	-	0.7
Deferred tax credit relating to share options	-	-	-	0.2	0.2
Current tax credit relating to exercised share options	-	-	-	0.8	0.8
Dividends declared to Company shareholders	-	-	-	(50.2)	(50.2)
Total transactions with owners	-	0.7	-	(48.9)	(48.2)
At 2 June 2019 and 3 June 2019	1.6	12.3	4.7	87.9	106.5
Profit for the year to 31 May 2020	-	-	-	71.3	71.3
Exchange differences on translation of foreign operations	-	-	0.5	-	0.5
Total comprehensive income for the year	**-**	**-**	**0.5**	**71.3**	**71.8**
Transactions with owners:					
Share-based payments	-	-	-	0.5	0.5
Shares issued under employee sharesave scheme	-	0.8	-	-	0.8
Deferred tax credit relating to share options	-	-	-	0.1	0.1
Current tax credit relating to exercised share options	-	-	-	1.3	1.3
Dividends declared to Company shareholders	-	-	-	(47.3)	(47.3)
Total transactions with owners	**-**	**0.8**	**-**	**(45.4)**	**(44.6)**
At 31 May 2020	**1.6**	**13.1**	**5.2**	**113.8**	**133.7**

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

CONSOLIDATED CASH FLOW STATEMENT

	Notes	**Year ended 31 May 2020 £m**	Year ended 2 June 2019 £m
Cash flows from operating activities			
Cash generated from operations	7	**127.2**	88.7
UK corporation tax paid		**(20.8)**	(14.2)
Overseas tax paid		**(1.9)**	(2.1)
Net cash generated from operating activities		**104.5**	**72.4**
Cash flows from investing activities			
Purchases of property, plant and equipment		**(16.3)**	(13.6)
Purchases of other intangible assets		**(2.3)**	(1.9)
Expenditure on product development		**(6.0)**	(7.0)
Interest received		**0.1**	0.1
Net cash used in from investing activities		**(24.5)**	(22.4)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**0.8**	0.7
Repayment of principal under leases		**(10.3)**	-
Dividends paid to Company shareholders		**(47.3)**	(50.2)
Net cash used in financing activities		**(56.8)**	(49.5)
Net increase in cash and cash equivalents		**23.2**	0.5
Opening cash and cash equivalents		**29.4**	28.5
Effects of foreign exchange rates on cash and cash equivalents		**0.3**	0.4
Closing cash and cash equivalents		**52.9**	29.4

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

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The consolidated financial statements of Games Workshop Group PLC are prepared under the going concern basis and in accordance with International Financial Reporting Standards (IFRSs), IFRS Interpretations Committee (IC) interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to those companies reporting under IFRSs. The Group applied for the first time IFRIC 23 and IFRS 16 'Leases'. See note 2 for details of the impact on transition to these standards.

These results for the year ended 31 May 2020 together with the corresponding amounts for the year ended 2 June 2019 are extracts from the 2020 annual report and do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

The annual report for the year ended 31 May 2020, on which the auditors have issued a report that does not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006, will be posted to shareholders on 28 July 2020 and will be delivered to the Registrar of Companies in due course. Copies will also be available from Rachel Tongue, Games Workshop Group PLC, Willow Road, Lenton, Nottingham, NG7 2WS. This information is also available on the Company's website at http://investor.games-workshop.com.

The annual general meeting will be held at Willow Road, Lenton, Nottingham, NG7 2WS at 10am on 16 September 2020.

The annual financial report is prepared in accordance with the Listing Rules and Disclosure and Transparency Rules of the Financial Conduct Authority and accounting policies consistent with those used in the 2019 annual report.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and disclosure of contingencies at the balance sheet date. If in future such estimates and assumptions, which are based on management's best judgement at the date of the consolidated financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified, as appropriate, in the year in which the circumstances change.

Management do not consider there to be any critical accounting estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Management consider the capitalisation of development costs and internally developed software costs to be a critical accounting judgement. Costs directly associated with the asset creation are capitalised. Judgement is required in determining which costs are directly linked with asset creation and should be capitalised.

2. Change in accounting policy

The Group applied IFRIC 23 and IFRS 16 'Leases' for the first time. The nature and effect of the changes as a result of adoption of these new standards are described below.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over the tax position. The Group considered how to appropriately measure each uncertainty using judgements based upon up to date circumstances, the likely approach of tax authorities, and the probabilities of it occurring and how it might be resolved. The adoption of this interpretation did not have a material impact on the Group's financial statements.

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-of-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 or 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.

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 uses 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.

2. Change of accounting policy continued

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. The Group will not separate 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 As reported £m	Impact of change in accounting standard £m	3 June 2019 Restated £m
Non-current assets	**64.4**	**33.6**	**98.0**
- Right-of-use assets	-	33.6	33.6
Current assets	**73.2**	**(0.9)**	**72.3**
- Trade and other receivables	18.8	(0.9)	17.9
Current liabilities	**(29.2)**	**(8.7)**	**(37.9)**
- Lease liabilities	-	(8.8)	(8.8)
- Provisions for other liabilities and charges	(0.9)	0.1	(0.8)
Non-current liabilities	**(1.9)**	**(24.0)**	**(25.9)**
- Lease liabilities	-	(24.1)	(24.1)
- Provisions for other liabilities and charges	(0.8)	0.1	(0.7)
Net assets	**106.5**	**-**	**106.5**

All leases held on the balance sheet have arisen as a result of the transition to the new standard. There were no assets held under finance leases under IAS 17 in either year.

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 classified as 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. Previously recognised property provisions, in respect of rent obligations on onerous leases, of £0.2m have been released as they are now included in the calculation of the lease liability under IFRS 16.
- 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 financial year to 31 May 2020, this has led to an increase in interest expenses of £0.7m, an increase in depreciation of £10.1m, and a decrease in other operating expenses of £10.3m. The net impact to profit before tax is a decrease of £0.5m.
- Total cash flows are unaffected; however there has been an effect on the presentation of cash flows in the cash flow statement. Operating cash outflows have reduced, with a corresponding increase in financing cash outflows relating to the repayment of the principal on lease liabilities.

The lease liabilities recognised on the balance sheet at the date of transition can be reconciled to the total operating lease commitments disclosed under IAS 17 at 2 June 2019 as follows:

	£m
Operating lease commitments disclosed as at 2 June 2019	24.7
Effect of discounting using the lessee's incremental borrowing rate	(0.9)
Adjustments as a result of a different treatment of extension and termination options	9.4
Leases with remaining lease term of less than 12 months not included in liability	(0.3)
Lease liability recognised as at 3 June 2019	**32.9**

Of which are:

- Current lease liabilities	**8.8**
- Non-current lease liabilities	**24.1**
	32.9

3. Segment information

The chief operating decision-maker has been identified as the executive directors. They review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the segments based on these reports.

As Games Workshop is a vertically integrated business, management assesses the performance of sales channels and manufacturing and distribution channels separately. Segment information reported for the year to 2 June 2019 has been restated to better reflect the structure of the Group; the product and supply segment is replaced by design to manufacture and merchandising and logistics segments. Central and service centre segments have been combined into operations as support. At 31 May 2020, 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 sales through external affiliates.
- Design to manufacture: this includes manufacture of the products and incorporates the production facility and the design studios. This includes adjustments for the profit in stock arising from inter-segment sales.
- Merchandising and logistics: this includes the warehouses, logistics costs and charges for inventory provisions.
- Group: this includes the Company overheads.
- Operations and support: this provides support services (marketing, IT, accounting, payroll, personnel, procurement, legal, health and safety, customer services and credit control) to activities across the Group and undertakes strategic projects.
- Media and entertainment: the development of digital content for animation and TV.
- Royalties: this is royalty income earned from third party licensees after deducting associated licensing costs.

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' and charges in respect of the Group's profit share scheme and the discretionary payment to employees for the prior year. This has been reconciled to the Group's total profit before taxation below.

The segment information reported to the executive directors for the year ended 31 May 2020 is as follows:

	Year ended 31 May 2020 £m	Year ended 2 June 2019 £m
Trade	**140.0**	121.5
Retail	**78.0**	87.8
Online	**51.7**	47.3
Total external revenue	**269.7**	256.6

3. Segment information continued

Segment revenue and segment profit include transactions between business segments; these transactions are eliminated on consolidation. Sales between segments are carried out at arm's length. The revenue from external parties reported to the executive directors is measured in a manner consistent with that in the income statement. For information, external revenue is analysed further below:

	Year ended 31 May 2020 £m	Year ended 2 June 2019 £m
Trade		
UK and Continental Europe	**61.9**	51.4
North America	**59.4**	53.5
Australia and New Zealand	**5.7**	5.1
Asia	**6.5**	5.3
Rest of world	**4.1**	3.8
Black Library	**2.4**	2.4
Total Trade	**140.0**	121.5
Retail		
UK	**23.0**	27.8
Continental Europe	**19.5**	21.4
North America	**25.2**	27.4
Australia and New Zealand	**7.6**	8.3
Asia	**2.7**	2.9
Total Retail	**78.0**	87.8
Online	**51.7**	47.3
Total external revenue	**269.7**	256.6

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

	Year ended 31 May 2020 £m	Restated Year ended 2 June 2019 £m
Trade	**9.3**	9.2
Retail	**55.6**	55.0
Online	**5.5**	4.8
Design to manufacture	**1.7**	2.4
Merchandising and logistics	**2.1**	1.4
Operations and support	**26.5**	21.1
Group	**2.7**	2.9
Media and entertainment	**0.1**	-
Royalties	**1.0**	0.8
Total segment operating expenses	**104.5**	97.6
Share-based payment charge	**0.5**	0.3
Profit share scheme charge	**2.4**	2.2
Discretionary payment to employees	**-**	3.3
Total group operating expenses	**107.4**	103.4

During the year the Group reassessed the operating profit margins of the sales segments. Operating profit margins have been set at benchmark levels comparable with third party businesses performing similar functions. Prior year amounts have been restated to reflect this change.

3. Segment information continued

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

	Year ended 31 May 2020 £m	Restated Year ended 2 June 2019 £m
Trade	**4.6**	4.0
Retail	**2.9**	3.2
Online	**1.7**	1.5
Design to manufacture	**134.3**	125.9
Merchandising and logistics	**(36.2)**	(33.2)
Operations and support	**(27.4)**	(22.1)
Group	**(2.7)**	(2.9)
Media and entertainment	**(0.1)**	-
Royalties	**15.8**	10.6
Total segment operating profit	**92.9**	87.0
Share-based payment charge	**(0.5)**	(0.3)
Profit share scheme charge	**(2.4)**	(2.2)
Discretionary payment to employees	**-**	(3.3)
Total group operating profit	**90.0**	81.2
Finance income	**0.1**	0.1
Finance costs	**(0.7)**	-
Profit before taxation	**89.4**	81.3

4. Dividends per share

Dividends of £9.8m (30 pence per share), £11.4m (35 pence per share), £11.4m (35 pence per share) and £14.7m (45 pence per share) were declared and paid during the current year.

Dividends of £9.7m (30 pence per share), £11.3m (35 pence per share), £9.7m (30 pence per share), £8.1m (25 pence per share) and £11.4m (35 pence per share) were declared and paid during the prior year.

5. Taxation

	Year ended 31 May 2020 £m	Year ended 2 June 2019 £m
Current UK taxation:		
UK corporation tax on profits for the year	**15.3**	16.6
Under/(over) provision in respect of prior years	**0.3**	(0.2)
	15.6	16.4
Current overseas taxation:		
Overseas corporation tax on profits for the year	**2.5**	1.6
Under provision in respect of prior years	**0.2**	0.1
Total current taxation	**18.3**	18.1
Deferred taxation:		
Origination and reversal of timing differences	**0.1**	(2.7)
(Over)/under provision in respect of prior years	**(0.3)**	0.1
Tax expense recognised in the income statement	**18.1**	15.5
Current tax credit relating to sharesave scheme	**(1.3)**	(0.8)
Deferred tax credit relating to sharesave scheme	**(0.1)**	(0.2)
Credit taken directly to equity	**(1.4)**	(1.0)

5. Taxation continued

The tax on the Group's profit before taxation differs in both years presented from the standard rate of corporation tax in the UK as follows:

	Year ended 31 May 2020 £m	Year ended 2 June 2019 £m
Profit before taxation	**89.4**	81.3
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	**17.0**	15.4
Effects of:		
Items not assessable for tax purposes	**(0.1)**	(0.1)
Higher tax rates on overseas earnings	**0.9**	-
Tax rate changes	**0.1**	0.1
Adjustments to tax charge in respect of prior years	**0.2**	0.1
Total tax charge for the year	**18.1**	15.5

The UK corporation tax rate is to remain at 19% under the Finance Act 2020, this Act having reversed the planned 1 April 2020 reduction in the UK corporation tax rate to 17%. This change had been substantively enacted at the balance sheet date and its impact has therefore been included in this condensed consolidated financial information.

Items not assessable for tax purposes include the release of provisions no longer considered a risk to the Group as well as tax relief for other taxes paid.

At the time of writing, the terms of the UK's departure from the EU (Brexit) remains uncertain. There is significant uncertainty about the withdrawal process, its timeframe and the outcome of the negotiations. As a result, there is significant uncertainty as to the period for which the existing EU laws for member states will continue to apply to the UK and which laws will apply to the UK after an exit. At this stage the level of uncertainty is such that it is impossible to determine if, how and when the UK's tax status will change. Our preparations for varying outcomes of the Brexit negotiations, including 'no deal', are well advanced due to the potential departure dates earlier in 2019 and 2020. Particular consideration has been given to the customs declarations and VAT incurred at the border to ensure these are resolved by Games Workshop and are not a concern for customers. The VAT is to become a recoverable flow through UK and European VAT returns. One of the biggest risks is the customs handling of the volume of goods at the ports which would impact the speed of fulfilment of sales orders. The business will closely monitor this. Overall the directors have assessed the impact and have not identified any significant matters impacting this condensed consolidated financial information

6. 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 during the year. The result of the prior year calculation varies from the amount presented in this note due to the effects of rounding only.

	Year ended 31 May 2020	Year ended 2 June 2019
Profit attributable to owners of the parent (£m)	**71.3**	65.8
Weighted average number of ordinary shares in issue (thousands)	**32,602**	32,438
Basic earnings per share (pence per share)	**218.7**	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 year, adjusted for the dilutive effect of share options outstanding at the year end. The result of the prior year calculation varies from the amount presented in this note due to the effects of rounding only.

	Year ended 31 May 2020	Year ended 2 June 2019
Profit attributable to owners of the parent (£m)	**71.3**	65.8
Weighted average number of ordinary shares in issue (thousands)	**32,602**	32,438
Adjustment for share options (thousands)	**134**	347
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**32,736**	32,785
Diluted earnings per share (pence per share)	**217.8**	**200.8**

7. Reconciliation of profit to net cash from operating activities

	2020	2019
	£m	£m
Operating profit	**90.0**	81.2
Depreciation of property, plant and equipment	**8.8**	9.0
Depreciation of right-of-use assets	**10.1**	-
Net impairment charge of property, plant and equipment	**0.1**	-
Net impairment charge of right-of-use assets	**0.2**	-
Net impairment charge of intangible assets	**0.3**	-
Loss on disposal of property, plant and equipment	**-**	0.1
Loss on disposal of intangible assets	**0.3**	0.2
Amortisation of capitalised development costs	**4.9**	5.3
Amortisation of other intangibles	**1.2**	1.6
Share-based payments	**0.5**	0.3
Changes in working capital:		
- Decrease/(increase) in inventories	**3.7**	(3.4)
- Increase in trade and other receivables	**(5.1)**	(4.0)
- Increase/(decrease) in trade and other payables	**10.7**	(2.1)
- Increase in provisions	**1.5**	0.5
Net cash from operating activities	**127.2**	88.7

8. Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the cash flow statement:

	2020	2019
	£m	£m
Cash at bank and in hand	**52.9**	29.4
Cash and cash equivalents	**52.9**	29.4

9. Other intangible assets

	2020	2019
	£m	£m
Net book value at the beginning of the year	**16.0**	14.1
Exchange differences	**-**	0.1
Additions	**8.3**	8.9
Disposals	**(0.3)**	(0.2)
Amortisation charge	**(6.1)**	(6.9)
Impairment	**(0.3)**	-
Net book value at the end of the year	**17.6**	16.0

10. Property, plant and equipment

	2020	2019
	£m	£m
Net book value at the beginning of the year	**35.3**	30.1
Exchange differences	**0.1**	0.1
Additions	**15.5**	14.2
Disposals	**-**	(0.1)
Depreciation charge	**(8.8)**	(9.0)
Impairment	**(0.1)**	-
Net book value at the end of the year	**42.0**	35.3

11. Right-of-use assets

	2020	2019
	£m	£m
Net book value at the beginning of the year	**-**	-
Exchange differences	**0.3**	-
Additions	**41.9**	-
Depreciation charge	**(10.1)**	-
Impairment	**(0.2)**	-
Net book value at the end of the year	**31.9**	-

Additions to the right-of-use assets during the financial year include £33.6m of assets recognised on transition to IFRS 16.

12. Provisions for other liabilities and charges

Analysis of total provisions:

	2020	2019
	£m	£m
Current	**1.7**	0.9
Non-current	**1.6**	0.9
Total provisions for other liabilities and charges	**3.3**	1.8

	Employee benefits	Property	Other	Total
	£m	£m	£m	£m
At 3 June 2019	1.5	0.3	-	1.8
Effect of transition to IFRS 16	-	(0.2)	-	(0.2)
Charged/(credited) to the income statement:				
- Additional provisions	0.8	-	1.2	2.0
- Unused amounts reversed	-	(0.1)	-	(0.1)
Utilised	(0.2)	-	-	(0.2)
At 31 May 2020	**2.1**	**-**	**1.2**	**3.3**

13. Commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is £2.8m (2019: £2.9m). Inventory purchase commitments contracted for at the balance sheet date are £3.9m (2019: £4.4m). Following adoption of IFRS 16, lease commitments at the balance sheet date were £11.0m (2019: £nil).