At the Heart of Your Home

PORTMEIRION GROUP PLC

Report and Accounts for the
year ended 31 December 2018

Stock code: PMP

Portmeirion Group PLC is a British company with its headquarters in Stoke-on-Trent. Our shares are traded on the Alternative Investment Market (AIM) of the London Stock Exchange. We sell ceramic tableware, cookware, giftware, glassware, home fragrance products and associated housewares worldwide. Our main markets are detailed on page 3.

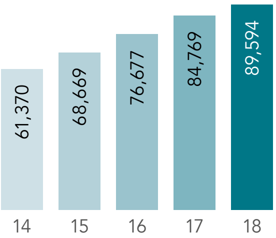
Visit our website at **portmeiriongroup.com**

Pictured on front cover (clockwise from top left): Sara Miller London Portmeirion, Spode Kingsley, Wax Lyrical HomeScenter®, Royal Worcester Serendipity Gold, Portmeirion Botanic Garden, Royal Worcester Wrendale Designs, Spode Christmas Tree and Portmeirion Auris glassware.

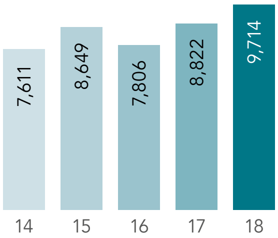
Pictured above (from top): Portmeirion Botanic Garden and Sophie Conran for Portmeirion.

Highlights

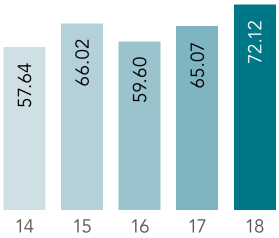
Revenue (£'000)
£89,594
+5.7%



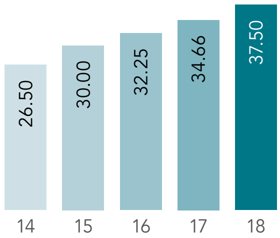
Pre-tax profit (£'000)
£9,714
+10.1%



Basic EPS (p)
72.12p
+10.8%



Dividends paid and proposed per share (p)
37.50p
+8.2%



Operational Highlights

- Strong growth across key markets of UK, US and South Korea.
- Home fragrance division (acquired in 2016) delivers sales growth of 11.1%.
- Online sales growth of 24.4% over the prior year.
- Successful new product launches including Sara Miller London Portmeirion and line extensions in Portmeirion Botanic Garden and Royal Worcester Wrendale Designs.
- For 2019, three exciting new UK manufactured ranges launched – Portmeirion Botanic Garden Harmony, Portmeirion Atrium and Spode Kingsley.
- Appointed Angela Luger as a Non-executive Director on 1 March 2019.

Financial Highlights

- Tenth consecutive year of record Group revenue which increased by 5.7% to £89.6 million (2017: £84.8 million).
- Profit before tax increased by 10.1% to £9.7 million (2017: £8.8 million).
- EBITDA increased by 7.5% to £11.8 million (2017: £11.0 million).
- Earnings per share increased by 10.8% to 72.12p (2017: 65.07p).
- Total dividends paid and proposed for 2018 increased by 8.2% to 37.50p per share (2017: 34.66p).
- Net cash improved to £2.3 million (2017: £1.6 million).
- Operating margin increased to 11.1% (2017: 10.7%).

Our Brands

Portmeirion®

Fashionable yet timeless collections of tableware and gifts.

Established in 1960

Spode.

Tableware and cookware rich in history and heritage.

Established in 1770

Wax Lyrical England

The UK's largest manufacturer of home fragrance.

Established in 1980

Royal Worcester® Established 1751

Celebrated for prestigious tableware and cookware.

Established in 1751

pimpernel.

The premier brand for placemats and coasters.

Established in 1945

At a Glance

Established brands and markets

Pictured: Portmeirion Botanic Garden.

Who we are

Portmeirion Group encompasses five high quality brands:

- Portmeirion;
- Spode;
- Wax Lyrical;
- Royal Worcester; and
- Pimpernel.

Our vision is to be a leading force in the global homeware sector focused on growing our great British brands. To achieve this, we need to grow profitable sales within a diversified product portfolio, strive for operational excellence, create high quality products, engage our people and possess a strong sense of community.

We have 785 valued employees and sell into over 70 countries around the world where our brands and products are enjoyed by millions of consumers.

→ Business Model page 8
→ Our Strategy page 10

Investment case

Brands

Five global brands with combined history of nearly 700 years.

Established sales channels

The Group sells into over 70 countries worldwide and has sales offices established in the UK, USA, Canada, Europe and China.

Strong operational capabilities

UK manufacturing capabilities with capacity for growth in output and strong distribution network.

Strong balance sheet

Net cash positive and strong funding position with £12 million of available facilities.

Product design and development

Our value lies with our strong brands and the patterns which underpin them. Some of our major tableware patterns are also brand names in their own right such as the classic Portmeirion Botanic Garden range, which has a worldwide following.

Design is key to our business. We continue to develop, extend, refresh and refine our existing patterns, and to launch new patterns and products, so as to retain and improve customer appeal. Working closely with our major customers, our design studios in Stoke-on-Trent and the Lake District are the creative hubs for new designs and extensions to existing ranges. Design talent comes from strong in-house teams working together with freelance artists and designers to deliver a broad portfolio. Our product offering is complemented by licensed designs such as the new Sara Miller London Portmeirion collection and popular Royal Worcester Wrendale Designs range.

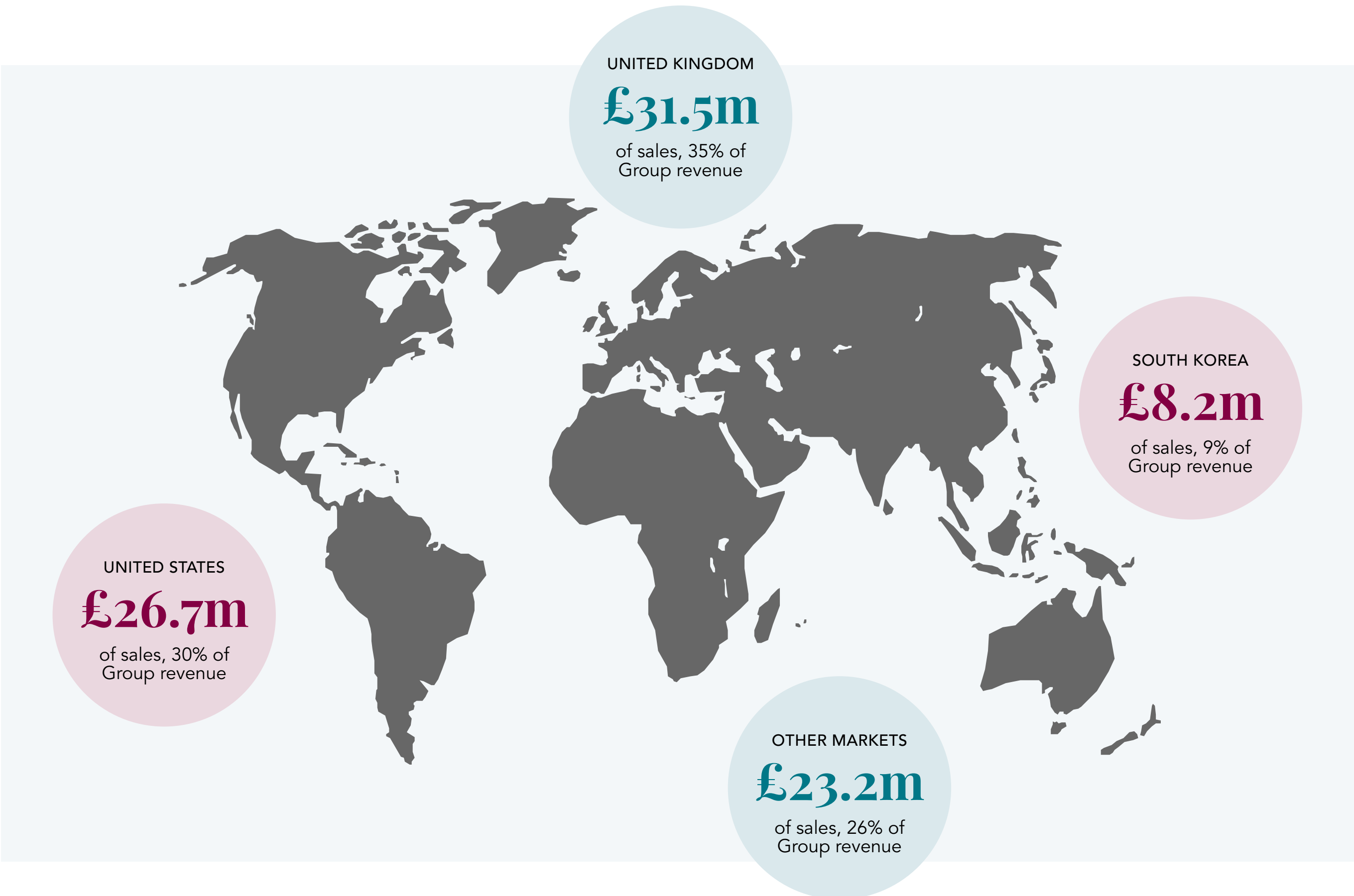
Production and sourcing

We manufacture English earthenware from our factory in Stoke-on-Trent and home fragrances at our factory in the Lake District, as well as sourcing bone china, porcelain products and other associated homeware. All are produced to the same exacting quality standards. The mix between own manufactured and sourced product was 49:51 for 2018. Our manufacturing plant in Stoke-on-Trent is well placed to produce in line with anticipated demand and our facility in Lake District has sufficient capacity to grow as more home fragrance collections are launched through Portmeirion Group's existing distribution channels.

Routes to market

Portmeirion Group sells its products to a worldwide marketplace through a variety of channels including to trade customers such as large high street retailers and independent stores, via a network of agents and distributors as well as from our own retail shops and websites. We serve our customers from our warehouses in the UK, the US, Canada and China.

Where we operate



Chairman's Statement

Exceptional performance

Another record year for Portmeirion Group.

Summary

- Tenth consecutive year of record revenue and earnings driven to their highest ever levels.
- Dividends paid and proposed increased by 8.2% to 37.50p.
- Appointed Angela Luger as a Non-executive Director.

Introduction

The Group is pleased to report another strong trading performance in the year under review, which culminated in a tenth consecutive year of record revenue and our highest ever reported profit before taxation. I am delighted to be able to report to you once again that shareholders are benefiting from this success.

Our business and strategy

The Group's value is held within our five global tableware and home fragrance brands in Portmeirion, Spode, Wax Lyrical, Royal Worcester and Pimpernel. These brands have a combined history of nearly 700 years. We sell into over 70 countries around the world and have an efficient UK manufacturing base for both ceramic and home fragrance product. This is supported by our strong balance sheet and available funding.

When I visited different parts of the Group during the year, it was evident that our team is committed to delivering business goals and embedding the Group's vision and values throughout the workforce. The Board has worked closely with Lawrence Bryan, Chief Executive, and the Executive Directors in our strategic development, building continued growth for our business, its shareholders, customers and employees. The Group's strategy is laid out in more detail on pages 10 and 11. We achieved pleasing sales growth across all of our core markets and are well positioned for future growth.

As referred to in our Principal Risks and Uncertainties section on page 19, we are aware of the current uncertainties that surround the Brexit leave date of 29 March. The Group relies on the importation of some raw materials and finished product and exports to over 70 countries. Significant disruption to the flow of goods across the UK border and changes in tariff rates will impact our business in the short term. Our contingency planning includes increasing stock of critical raw materials and product lines and currency hedging where necessary.

Governance

The Directors recognise and welcome the importance and benefits of good corporate governance and have chosen to apply the Quoted Companies Alliance Corporate Governance Code (the "QCA Code").

Further details on how the Company complies with the principles of the QCA Code can be found on our website and on pages 28 to 33 of this report.

Our people

The Board keeps the composition and performance of the Directors and most senior management of the Group under review to ensure we have the appropriate skills and experience in place to deliver our strategic aims.

At the beginning of March 2019, we were pleased to welcome Angela Luger to the Board as a Non-executive Director. Angela's background brings a mix of retail, digital and customer-focused experience to the Board.

Dividend

The Board is committed to a progressive dividend policy and aims to maintain a sustainable and appropriate level of dividend cover. We have increased our dividend for 10 consecutive years. The Group will look to increase our dividend whenever appropriate driven by our results, cash balances, future prospects and key performance indicators.

The Board is recommending a final dividend of 29.50p (2017: 27.26p) per share bringing the total paid and proposed for the year to 37.50p (2017: 34.66p) per share, an increase of 8.2% over the total amounts paid in respect of 2017.

The dividends paid and proposed for 2018 are projected to be covered 1.93 times by earnings (2017: 1.85 times). The Board continues to consider that a level of dividend cover at or close to two times is an appropriate and sustainable level for the business.

Dick Steele
Non-executive Chairman
20 March 2019

Strengthened revenue

Strategic focus has delivered outstanding results.

Summary

- Strong growth across key markets of UK, US and South Korea.
- Home fragrance division delivers sales growth of 11.1%.
- Online sales growth of 24.4% over the prior year.
- Earnings per share increased by 10.8% to 72.12p.

Introduction

We are very pleased to be able to report another record-breaking year for the Group. Sales within our key markets of the UK, USA and South Korea have all increased. We have made significant progress towards our strategic targets, particularly in growing our e-commerce and home fragrance sales. The Board is recommending an increased dividend to shareholders.

The Group continues to invest in our major brands which are the key drivers of value for the business.

Financial Highlights

Revenue was £89.6 million for the year, an increase of 5.7% over the previous year (2017: £84.8 million). At a constant US dollar exchange rate our revenue increased by 7.2%. At our home fragrance division, acquired in 2016, sales increased by 11.1% to £15.5 million (2017: £13.9 million). Sales from our e-commerce sites increased by 24.4%.

Since 2013, the Group has increased revenue by 54% from £58.3 million to £89.6 million.

Profit before taxation was £9.7 million, an increase of £0.9 million or 10.1% on the previous year. Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 7.5% to £11.8 million in the year (2017: £11.0 million). Both of these figures represent all-time records for Portmeirion.

Basic earnings per share increased by 10.8% to 72.12p per share (2017: 65.07p), while dividends have increased by 8.2% to 37.50p (2017: 34.66p), with dividend cover of 1.93 times (2017: 1.85 times) maintained in line with our long-term target of approximately two times.

Our performance during the year

Revenue for the Group increased by 5.7% to £89.6 million (2017: £84.8 million). This represents strong progress across all areas of the business, with improved performance within our core markets of the UK, USA and South Korea, as well as market segment growth in UK and USA ceramic and home fragrance divisions.

Geographical performance

The UK became our largest geographical market following the Wax Lyrical acquisition in 2016 and now accounts, in total, for 35% of Group sales at £31.5 million, an increase of 9.2% on the prior year (2017: £28.8 million). This growth was driven by increased online and home fragrance sales. The UK market continues to remain robust despite the continuing uncertainty of the Brexit outcome. We remain cautiously optimistic in the UK given our diversified distribution routes in the marketplace via major retailers, independent stores, our own retail shops and our growing e-commerce sites.

The United States is our second largest market at 30% of Group sales. In translated figures, sales in the USA grew by 6.0% to £26.7 million (2017: £25.2 million), which was an increase of 9.9% in local currency due to the stronger pound in 2018 over the prior year.

Sales into South Korea increased by 24.6% to £8.2 million in the year (2017: £6.6 million) and accounted for 9% of Group sales. As a result of ongoing new product development work we were able to reverse the recent trend of declining sales. We monitor this market closely and work with our distributor to diversify our product portfolio and target new customers. We remain confident for the future in this key market.

Sales to the rest of the world decreased by 4.0% to £23.2 million in the year (2017: £24.2 million), largely driven by a planned reduction in sales to India. Performance in Europe and Asian markets is still encouraging. The Group has continued with its plan of reducing our reliance on sales in our three major markets as we continue to diversify and sell into over 70 countries around the world.

Our strategy of growing our own online sales continues to bear fruit, with sales growth of 24.4% to £4.3 million (2017: £3.4 million). We continue to invest in our online fulfilment capabilities so we are able to cope with the dramatic growth of our own e-commerce sites and retailer demand.

→ continued overleaf

Chief Executive's Statement continued

"The Group continues with its strategy of diversifying products, customers, geographical markets and routes to market within those countries. This strategy has enabled us to realise opportunities as they have arisen and reduce our reliance on any one market, customer or distribution channel."

Our performance during the year continued

Segmental performance

The Group continues to operate under our three key segments: Portmeirion UK ceramic, Portmeirion USA ceramic and home fragrance.

Portmeirion UK ceramic

Portmeirion UK, the main trading entity of the Group, had a strong performance during the year with external sales of £48.1 million, an increase of 4.3% over the prior year (2017: £46.1 million). This growth was driven by the success of new product launches, aided by our increase in e-commerce sales, particularly Sara Miller London Portmeirion and Royal Worcester Wrendale Designs.

Our UK factory expanded production during 2018, and we are capable of further growth in 2019 to support key product launches being manufactured in Stoke-on-Trent. We continue to experience inflationary production cost pressures in labour and energy, but have been able to mitigate these with efficiency savings and technological innovations.

Portmeirion USA ceramic

The USA remains our largest export market and is serviced by our trading subsidiary Portmeirion USA. The company has an office in New Jersey, showrooms in New York and a national warehousing and logistics centre in Connecticut.

Sales at Portmeirion USA have grown by 5.2% in the year to £26.0 million (2017: £24.7 million). This growth has been driven by both new product development and increased sales of heritage patterns including Portmeirion Botanic Garden and Spode Christmas Tree.

The growth in the USA is satisfying and we anticipate further growth in 2019.

Home fragrance

The Group acquired the Wax Lyrical business in May 2016. This business continues to make good progress with total home fragrance sales increasing by 11.1% over prior year to £15.5 million (2017: £13.9 million). Over £2 million of the 2018 sales were made via Portmeirion UK and Portmeirion USA distribution channels, which is encouraging.

We manufacture home fragrance products in our factory in the Lake District. Our plan is to increase capacity and output in 2019 to grow the business in line with the Group's targets.

We continue to believe the home fragrance division has strong potential for growth in the UK and export markets.

Products and brands

Our products and brands are the key wealth creators for the Group. We have five major brands – Portmeirion, Spode, Wax Lyrical, Royal Worcester and Pimpernel. Supporting our brands is central to our business strategy and we continue to invest in both our heritage patterns and new ranges.

Portmeirion Botanic Garden, first launched in 1972, continues to be our largest selling pattern with ongoing sales of over £30 million annually. We estimate there are over 50 million pieces of Botanic Garden in use worldwide today. We continue to be vigilant of imitators to Botanic Garden and indeed our other patterns, and we are diligent in our legal protection of them.

New product development is a vital component of our brand value and includes both new ranges and line extensions within our existing patterns. Each year we continue to develop, extend and refine our product offering to retain and build customer appeal. In 2018, we continued to refresh our heritage patterns such as Portmeirion Botanic Garden and Spode Christmas Tree in order to expand their appeal, as well as launching exciting new collections such as Sara Miller London Portmeirion.

A list of our current patterns can be found at www.portmeirion.co.uk, www.spode.co.uk, www.wax-lyrical.com, www.royalworcester.co.uk and www.pimpernelinternational.co.uk. Customers in the United States should go to www.portmeirion.com.

People and culture

We are committed to the continuing promotion of our established and unique vision and values which support the Group's culture of openness and integrity. We encourage attitudes and behaviours that will positively impact on our long-term success and sustainability through the achievement of our objectives and business strategy.

The Group recruits people who share our values, and this continues to be a key part of our recruitment strategy as it enables new and existing employees to work seamlessly towards realising our vision. Further details on our corporate culture and its integration within the Group can be found in the Corporate Responsibility section on pages 23 to 25 and the Corporate Governance Statement on pages 28 to 33.

Strategic priorities

The Group continues with its strategy of diversifying products, customers, geographical markets and routes to market within those countries. This strategy has enabled us to realise opportunities as they have arisen and reduce our reliance on any one market, customer or distribution channel.

Our long-term strategy is focused on five key areas: profitable sales growth, new product introduction, developing our brands, enhancing our operational efficiency and capability and supporting this with complementary strategic acquisitions.

Profitable sales growth underpins all of the Group's strategic objectives, and we aim to achieve this by diversifying our markets and completing targeted product development within those markets. In 2018, we achieved our tenth consecutive year of record sales with 5.7% growth to £89.6 million (2017: £84.8 million). We also improved our operating profit margin to 11.1% (2017: 10.7%). Our focus going forward will be to expand our export market breadth and penetration and to promote organic growth within our home fragrance division.

We continue to invest and enhance our five global brands, which collectively have been in existence for nearly 700 years.

Our operational capabilities are constantly reviewed in order to position the Group to meet the requirements of our customers. The continued trend of retail moving to online and drop-ship fulfilment has required operational investment and will continue to do so. We continue to drive efficiencies through our manufacturing and distribution sites to combat inflationary cost pressures and remain competitive.

The Group remains committed to acquiring businesses where there is a strategic fit and the combination would be earnings enhancing. We have now successfully integrated the Wax Lyrical business and continue to drive towards our goal of strong growth for this segment of the Group's sales.

Lawrence Bryan

Lawrence Bryan
Chief Executive
20 March 2019

Pictured: Portmeirion Atrium.

Business Model

Diversified routes to market

Our vision is to be a leading force in the global homeware sector focused on growing our great British brands.

Our brands

A diverse portfolio of brands

Much of the value of the Group lies within our five brands and the patterns which underpin these brands; our brands are described in detail on pages 13 to 17.

PORTMEIRION®

www.portmeirion.co.uk

Spode®

www.spode.co.uk

WAX LYRICAL ENGLAND

www.wax-lyrical.com

ROYAL WORCESTER® ESTABLISHED 1751

www.royalworcester.co.uk

pimpernel.

www.pimpernelinternational.co.uk

Routes to market

Established global sales channels

The Group's revenue is generated from a variety of different channels, markets, currencies and product categories.

The Group sells into over 70 countries around the world and continues to aim for diversification in product, market and customer.

In the UK, we have an established trading network where products are sold via retail trade and independent stores. This is supplemented by sales direct to consumers via our own retail stores and our rapidly growing e-commerce sites.

In the USA, sales are made through major retailers, independent stores, via a network of third party agents and our US e-commerce sites.

Internationally, our key export markets are serviced by our main operating sites in the UK and USA, with localised sales performed through our Canada and China warehouses. Our route to market is determined by local requirements, including long-established distribution relationships in major markets.

Diversified product offering

The Group's sales are well diversified and come under four main categories; manufactured ceramics, sourced ceramics, manufactured home fragrance and sourced non-ceramics. This spread reduces the reliance of the business on any one source of supply or customer group. Our range of products includes tableware, giftware, home fragrance, cookware and tabletop accessories.

In addition to this, the Group also receives some royalty income from the valuable intellectual property embedded in our brands, patterns and designs.

Our strengths

Brands

Our British brands are known across the world and have nearly 700 years of collective life.

Strong operational capabilities

The Group has two UK manufacturing sites and a strong distribution network in its key markets. These operations have sufficient capacity to support anticipated business growth in the medium term.

Strong balance sheet and access to funding

The Group ended the year cash positive and with access to a further £12 million of unused banking facilities. The parent company is listed on the AIM, which gives us access to equity capital should we require it.

Strong track record

The Group has reported revenue growth for ten consecutive years, which has allowed the Group to increase dividends during that period by an average of 9.8% per annum.

Continued product development

The Group launched 1,017 new products during the year; these were largely customer driven product development to ensure the maximum success opportunity.

→

How we create value for our stakeholders

For shareholders

Value is delivered by a progressive dividend policy and capital appreciation. Portmeirion Group has a strong track record of increasing dividends and enhancing shareholder returns.

For the year ended 31 December 2018:

37.50p +8.2%

Dividends paid and proposed per share

72.12p +10.8%

Earnings per share

For customers

Working closely with customers and targeted product development ensures that we launch innovative products that reflect current consumer requirements, are priced competitively to appeal across multiple sales channels, are delivered within the required lead times and adhere to our exacting quality standards.

1,017

New products developed

For employees and local communities

The Group has nearly 800 employees across the world. We provide employment in our local communities and opportunities for long-term career development. The Group also aims to raise money for local causes and is participating in volunteer schemes to benefit local charities.

Our Strategy

Driving consistent growth

Our strategy is focused around five key areas: profitable sales growth, new product introduction, developing our brands, enhancing our operational efficiency and capability and supporting this with complementary strategic acquisitions.

	Achievements	Future outlook
Profitable sales growth	• Tenth consecutive year of record sales. • Strong revenue growth in key markets of UK, US and South Korea. • Successful new product launches. • Home fragrance and online sales growth.	• Focus on establishing growth in new export markets. • Continued growth in home fragrance division. • Further investment in online sales including launch of new websites and enhanced operational fulfilment capability for our direct customers. • Continue to grow core UK and US markets through targeted product development.
New product introduction	• Success of new Sara Miller London Portmeirion range. • Further growth of Royal Worcester Wrendale Designs and Portmeirion Botanic Garden ranges. • Development of 1,017 new products across our five brands.	• 2019 launch of three new exciting UK-manufactured ranges Portmeirion Botanic Garden Harmony, Portmeirion Atrium and Spode Kingsley. • Continually advance and refresh key heritage patterns including Portmeirion Botanic Garden and Spode Blue Italian. • Further development of home fragrance ranges for UK, US and export markets.
Developing our brands	• Increased investment behind historical patterns both in core and export markets, including international trade shows. • Brand investment to ensure longevity of our ranges.	• Further use of websites and social media to drive brand awareness. • Targeted investment behind key new product launches.
Enhancing our operational efficiency and capability	• Supported continued revenue growth in 2018 across key markets of UK, US and South Korea. • Significant growth in online sales in 2018 including key seasonal period. • UK-manufactured sites achieved increased capacity output in 2018.	• Build warehousing capabilities to cope with future growth in online single parcel fulfilment. • Invest behind our key factories to ensure future cost competitiveness. • Ensure we maximise operational efficiency and working capital performance.
Strategic acquisitions	• Further integration and growth of home fragrance division. • Further investment in acquired brands.	• Look to identify value adding acquisitions in global homewares market that complement our strategy for profitable sales growth.

Link to KPIs	Link to risks	The Board's governance role
• Revenue • Operating profit margin • New products launched • Basic EPS • Dividends paid and proposed • Dividend cover	• Economic environment • Competitors • People • Suppliers • Financial risk	The Board approves the Group's long-term objectives and strategy and monitors performance against these objectives. Where applicable, the Board ensures any necessary corrective action is taken.
• Revenue • Operating profit margin • New products launched • Basic EPS	• Competitors • People	The Board oversees the Group's operations to ensure competent and prudent management by the Executive Directors and the senior management team.
• Revenue • Operating profit margin • New products launched • Basic EPS	• Competitors • People	Any extension of the Group's activities into new business areas would be subject to approval by the Board.
• Revenue • Operating profit margin • Basic EPS	• Economic environment • People	The Board approves the annual operating and capital expenditure budgets and any material changes to them. Capital and operational expenditure over £250,000 must also be approved by the Board.
• Revenue • Operating profit margin • Basic EPS	• Competitors • People • Financial risk	The Board approves all changes to the Group's corporate structure.

→ Read more on KPIs on page 12

→ Read more on risks on page 19

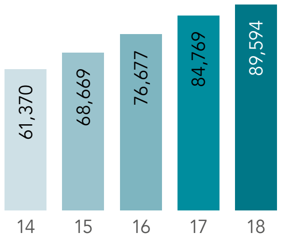
Key Performance Indicators

The following charts illustrate a number of key performance indicators that the Group reviews on a regular basis and by which overall business performance is measured.

Revenue (£'000)

£89,594

+5.7%



Definition

Revenue growth is the key driver of profit growth.

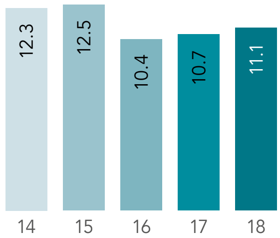
Progress

2018 was our tenth year of successive revenue growth, with strong growth in our key markets of UK, US and South Korea.

Operating profit margin (%)

11.1%

+3.7%



Definition

Operating profit margin expresses operating profit as a percentage of revenue. Due to the Group's manufacturing fixed cost base, increases in revenue growth can have a significant impact on this margin.

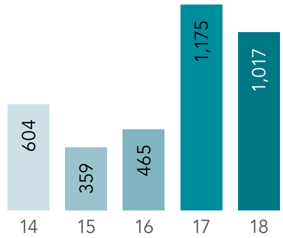
Progress

Operating margin grew from 10.7% to 11.1% and the Group aims to continue this growth in 2019.

New products launched

1,017

-13.4%



Definition

New product launches include new ranges and extensions to existing ranges; these are essential to help drive revenue growth in future years and so in many ways represent expenditure today for benefit tomorrow.

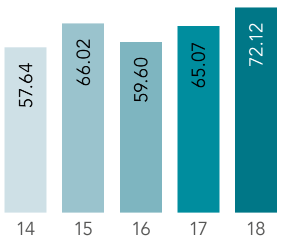
Progress

There was further success in 2018 launches with Sara Miller London Portmeirion and Royal Worcester Wrendale Designs.

Basic EPS (p)

72.12p

+10.8%



Definition

Earnings per share is a shorthand measure of profitability; it divides the post-tax profit arising by the number of active shares in issue.

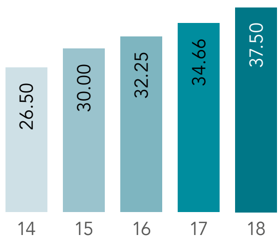
Progress

Earnings per share growth in 2018 was driven by the increase in revenue and operating profit margin which led to a growth in profit before taxation.

Dividends paid and proposed per share (p)

37.50p

+8.2%



Definition

Dividends paid and proposed per share are a direct measure of the return per share received by a shareholder. The Group will maximise returns to shareholders where our expectations for the future permit an appropriate distribution.

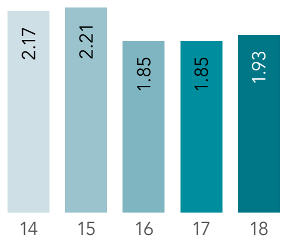
Progress

In 2018, the growth in profitability allowed the Group to increase its dividends paid and proposed for the tenth straight year.

Dividend cover (x)

1.93x

+4.3%



Definition

Dividend cover shows the extent to which profits exceed dividends paid. The Board continues to consider dividend cover of around two times to be an appropriate and sustainable level.

Progress

In 2018, the Group was able to increase dividends paid and proposed whilst also increasing dividend cover closer to the medium-term target of two times.

Our Brands

PORTMEIRION®

Established in 1960

Portmeirion is recognised worldwide for producing unique designs as epitomised by its best-selling Botanic Garden range. The award-winning Sophie Conran for Portmeirion collection together with the new Atrium and Sara Miller London Portmeirion ranges showcase the diverse, high quality products within the brand which deliver both beautiful designs and practicality for modern-day living.

www.portmeirion.co.uk

Pictured: Portmeirion Botanic Garden (left) and Sara Miller London Portmeirion (below).

Our Brands continued

Spode®

Established in 1770

Renowned for its rich heritage and innovative designs, Spode's product portfolio appeals across the generations and includes celebrated patterns such as Blue Italian and Christmas Tree. Celebrating its 250th anniversary in 2020, Spode is widely regarded as one of the UK's great ceramic brands. New designs such as Kingsley keep Spode at the forefront of contemporary yet timeless Great British design.

www.spode.co.uk

Pictured: Spode Kingsley (above) and Spode Blue Italian (right).

WAX LYRICAL

ENGLAND

Established in 1980

Wax Lyrical is the UK's largest home fragrance company, manufacturing and distributing an extensive range of fragranced candles and diffusers from its base in the British Lake District. Wax Lyrical's products are sold to retailers, wholesalers and distributors around the world under the Wax Lyrical and Colony brands. Wax Lyrical is proud of its British manufacturing capability and produces own label products for many famous retailers, brands and supermarkets. Licensed ranges include Collier Campbell, Fired Earth, RHS and Yvonne Ellen.

www.wax-lyrical.com

Pictured: Wax Lyrical Lakes Collection (right) and Wax Lyrical HomeScenter® (below).

Our Brands continued

ROYAL WORCESTER®

Established in 1751

Royal Worcester has a rich and diverse design heritage. The brand offers a wide spectrum of quality products including fashionable fine bone china mugs and sophisticated, competitively priced tableware sets. New characters and line extensions have enhanced the popularity of the Royal Worcester Wrendale Designs collection of mugs and giftware.

www.royalworcester.co.uk

Pictured: Royal Worcester Serendipity Gold (above) and Royal Worcester Wrendale Designs (left).

pimpernel.

Established in 1945

With its unrivalled reputation for quality products, Pimpernel is the premier brand for placemats, coasters, trays, accessories and gifts. With the introduction of new and exclusive designs, Pimpernel continues to build on its holistic solution for the tabletop.

www.pimpernelinternational.co.uk

Pictured: Pimpernel Atrium (right) and Pimpernel Wooden White Christmas (below).

Managing risk in order to deliver our strategy

The Group is exposed to a number of risks in the markets it operates across. The Group Board considers the risks to the business and the adequacy of internal controls with regard to the risks identified at every Board meeting. It formally reviews and documents the principal risks to the business at least annually.

Risk management structure

1. Identify risk

The Board has overall responsibility for monitoring the Group's systems of internal control, for identification of risks and for taking appropriate action to prevent, mitigate or manage those risks. The Board will continually assess and review the business and operating environment to identify any new risks for consideration.

2. Assess risk

A detailed schedule of risks is considered at each Board meeting under the following categories: macro-economic and political, continuity and disruption, trading and product, operational and supplier, accounting and internal controls, legal and regulatory and external investment and performance. These risks are graded against a criteria of likelihood and potential impact in order to identify the key risks impacting the Group (see heat map below).

3. Mitigate risk

The Board seeks to ensure that the Group's activities do not expose it to significant risk. The Group's aim is to diversify sufficiently to ensure it is not exposed to risk of concentration in product, market or channel.

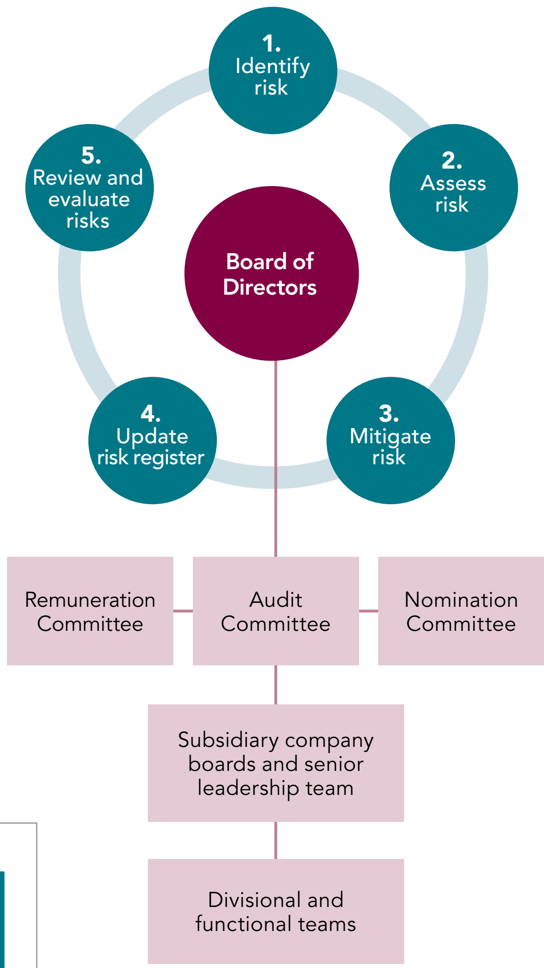
4. Update risk register

The risk register is updated at each Board meeting. The Board meets formally at least five times each year.

5. Review and evaluate risks

The Board and senior managers are all responsible for reviewing and evaluating risk. The Executive Directors meet at least monthly to review ongoing trading performance, discuss budgets and forecasts and consider new risks associated with ongoing trading.

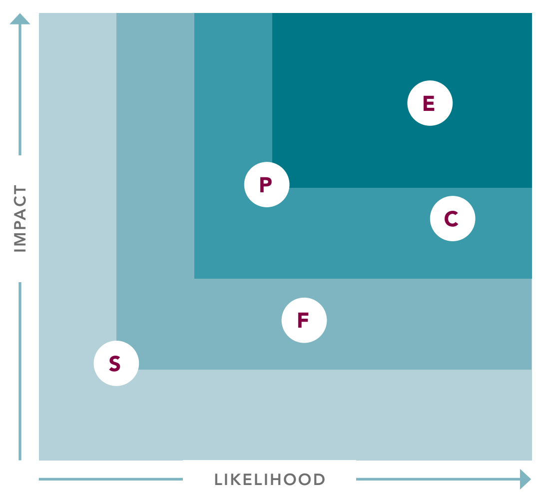
Feedback from these meetings regarding changes to existing risks or the emergence of new risks is then provided to the Board.



Risk heat map

A graphical representation of the principal risks and uncertainties of the Group.

E: Economic environment
C: Competitors
P: People
S: Suppliers
F: Financial risk



Principal Risks and Uncertainties

Risk	Mitigation	Change
Economic environment Whilst there is general optimism regarding the world economy, retail conditions remain challenging with uncertainty around Brexit. Any adverse conditions in the retail sector would have a detrimental impact on trading.	The Group monitors and maintains close relationships with its key customers and suppliers to be able to identify signs of financial difficulties early in order to prevent or limit any potential losses. Customer orders and sales trends in major markets are constantly reviewed to enable early action to be taken in the event of sales declining. The general economic factors affecting the Group during the period are discussed further in the Chief Executive's Statement on pages 5 to 7 and the Financial Review on pages 20 to 21.	**Increase** Economic risk has increased during the year, with retail conditions remaining difficult, particularly in the UK due to Brexit.
Competitors The Group faces strong competition in most of the major markets in which it operates. This presents a risk of losing market share, revenue and profit.	The risk is managed by ensuring that high quality and innovative products are brought to market, maintaining strong relationships with key customers and ensuring the Group is aware of local market conditions, trends and industry-specific issues and initiatives. This enables the Group to identify and address any specific matters within the overall business strategy.	**No change** Portmeirion continues to invest in our strong brands and introduce new products.
People Skilled senior managers and personnel are essential in order to achieve the strategic objectives of the Group. Failure to recruit and retain key staff would present significant operational difficulties for the Group.	Existing staff are provided with relevant training and career progression to improve motivation. The Group has a clearly defined recruitment policy which ensures that new employees meet the required standard and experience for each position. Management also seeks to ensure that personnel are appropriately remunerated and that good performance is recognised.	**No change** The Group remains committed to retaining its key personnel.
Suppliers The Group's purchasing activities could expose it to overreliance on certain key suppliers or markets and, as a result, inflationary pricing pressure. Production is split between UK factories and outsourced supply, which allows the Group to mitigate some of the risk presented by suppliers.	For the manufacturing process conducted in the UK, the Group ensures that key raw materials are available from more than one source to ensure continuity and competitive pricing of supplies. For the sourcing process, suppliers are carefully selected and the Group seeks to maintain a sufficient breadth in its supplier base such that the risk remains manageable. The Group also ensures that all intellectual property rights are retained and easily transferable should an alternative supplier be required.	**No change** We continue to ensure dual-supply where practical and maintain strong supplier relationships.
Financial risk Financial risk is wide-ranging and covers capital management, credit risk, currency risk and liquidity risk. The risks presented in these areas include the failure to achieve business goals, potential financial losses caused by default, reduction in profitability due to currency fluctuations, insufficient funds to complete daily business functions and consequent threat to the going concern basis of the organisation.	Details of the Group's approach to management of these risks and the systems in place to mitigate them are covered in the financial risk management objectives in note 32 on pages 86 to 89.	**No change** The Group has a strong natural currency hedge, manages cash prudently and monitors trading relationships closely.

Financial Review

Maximising value

Improved margins and top-line growth have led to further progress across the Group.

Summary

- Revenue growth of 5.7% to £89.6 million, with like-for-like growth of 7.2%.
- Profit before tax of £9.7 million, an increase of £0.9 million (10.1%) over 2017.
- Operating profit margins increased to 11.1% (2017: 10.7%) representing strong operating cost control.

2018 was a strong year, demonstrating our robust growth and profit generation. Overall business performance is shown in our key performance indicators on page 12.

Revenue

Revenue totalled £89.6 million for the year ended 31 December 2018. This represented an increase of 5.7% over the previous year (2017: £84.8 million).

Sales in our US market were translated on consolidation at a lower exchange rate than in 2017. At constant currency the Group's sales were up 7.2% on the previous year.

Our revenue grew in all of our three biggest geographical markets. The UK market benefited from growth in both our ceramic business and also in Wax Lyrical, our home fragrance business. Our US market continued to expand with an ongoing shift to online business from traditional department stores. Sales in South Korea improved, reversing the trend of the last few years, aided by new product development. New product launches continued to be a key driver of sales growth. This included product extensions to licensed ranges, such as Royal Worcester Wrendale Designs and Sara Miller London Portmeirion, delivering sales expansion on prior year. Heritage ceramic patterns under the Spode brand performed well – Spode Blue Italian was up 18% and Spode Christmas Tree was up 5%. Portmeirion Botanic Garden continued to sell well around the world.

Our home fragrance division was up 11.1% with sales growth from Made in England and seasonal ranges.

Profit

Profit before taxation was £9.7 million, an increase of £0.9 million on 2017.

Operating profit margins improved for the second consecutive year to 11.1% (2017: 10.7%). This was enabled by good control over our cost base and improved customer and product mix.

Earnings per share increased from 65.07p to 72.12p per share.

Interest and financing costs

Finance costs reduced by £0.2 million over the prior year due to lower interest expense on the defined benefit pension scheme deficit and reduced borrowing costs.

Taxation

The charge for taxation was £2.0 million (2017: £1.9 million), an effective rate of taxation of 20.8% (2017: 22.0%). The decrease in the effective tax rate relates to the one-time adjustment in deferred tax on our US business in 2017 that does not repeat in 2018.

Dividends

The Board proposes a final dividend of 29.50p per share (2017: 27.26p) giving a total dividend for the year of 37.50p, an increase of 8.2% (2017: 34.66p). This final dividend is expected to be paid on 30 May 2019 to shareholders on the register on 26 April 2019 with an ex-dividend date of 25 April 2019. Our dividend cover increased from 1.85 to 1.93 times and the Board considers this to be a prudent level of cover with a long term target of approximately two times.

The Group remains committed to a progressive dividend policy.

Cash generation and net debt

At 31 December 2018, net cash was £2.3 million representing a £0.7 million improvement on December 2017 (net cash £1.6 million).

This was after new capital investment of £1.1 million, pension deficit contributions of £1.2 million, dividend payments of £3.8 million and tax of £1.6 million. We continue to expect that Portmeirion Group will remain a business that is cash generative.

Bank facilities

The Group has agreed debt facilities with Lloyds Bank, totalling £17 million at the balance sheet date. This consists of a £10 million revolving credit facility repayable in full in May 2022, a £2 million overdraft facility on an annual renewal cycle and a £10 million loan repayable equally over five years from May 2016, of which £5 million was outstanding at the year end.

Our business remains seasonal due to the timing of our sales. We therefore experience a large working capital swing during the year. Our committed funding addresses this and we believe is prudent.

Assets and liabilities

Controlling our working capital remains an area of focus for us. Inventory increased in the year from £18.1 million to £19.2 million. This increase was due to the impact of exchange rates on consolidation of our US business as well as increased stock build of key UK manufactured lines in preparation for 2019 orders.

During 2018, we paid £1.2 million into our defined benefit pension scheme, which was closed in 1999. Many companies carry defined benefit pension scheme deficits and our deficit is relatively modest. The accounting deficit reduced from £1.7 million at the end of 2017 to £nil in 2018. This improvement was due to our ongoing cash injection and changes to market forward assumptions. We continue to keep this under review.

At the end of the year, we held treasury shares with a book value of £0.4 million, in order to satisfy employee share schemes. These shares were originally bought at an average price of £1.87 each equating to 234,607 shares, having used 3,136 during the year. In addition, we also hold 245,523 shares in The Portmeirion Employees' Share Trust ("ESOP shares") to satisfy employees' share options. These ESOP shares have a book value of £2.8 million, having been bought at an average cost of £11.48 each. We increased our ESOP shares by 92,606 during the year.

2018 sales by product category

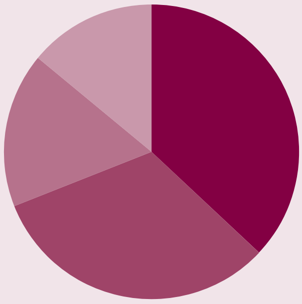
Total sales: **£89.6m**

Sourced ceramic: **£33.4m (37%)**

Manufactured ceramic: **£28.3m (32%)**

Manufactured home fragrance: **£15.5m (17%)**

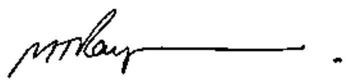
Sourced non-ceramic: **£12.4m (14%)**



Goodwill and intangibles on our balance sheet represent the value of acquired brands, including Spode, Royal Worcester and Wax Lyrical. The net book value of intangibles reduced in the year by £0.4 million, being the net of the £0.6 million amortisation in the year offset by £0.2 million of computer software additions.

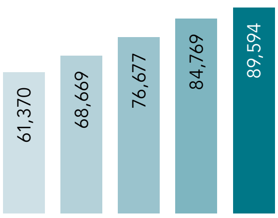
Treasury and risk management

The impact of transactional currency flows on the Group's profit is limited due to natural matching across different regions. Where there is an anticipated material exposure to the Group, then our policy is to use appropriate hedging instruments to mitigate that risk. We have a robust approach to managing risk to deliver our strategy, as is explained on page 18.

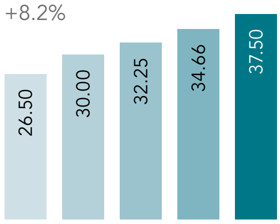


Mike Raybould
Group Finance Director
20 March 2019

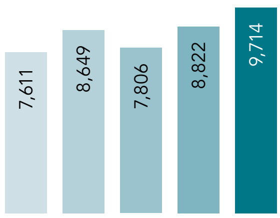
Revenue (£'000)
£89,594
+5.7%



Dividends paid and proposed per share (p)
37.50p
+8.2%



Pre-tax profit (£'000)
£9,714
+10.1%



Going Concern and Outlook

Going concern

The business activities of the Group, its current operations and factors likely to affect its future development, performance and position are set out in the Chief Executive's Statement on pages 5 to 7 and in the Financial Review on pages 20 and 21. In addition, note 32 on pages 86 to 89 includes an analysis of the Group's financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit and liquidity risk.

The Group has a formalised process of monthly budgeting, reporting and review, and information is provided to the Board of Directors in order to allow sufficient review to be performed to enable the Board to ensure the adequacy of resources available for the Group to achieve its business objectives.

At the year end the Group had net cash of £2.3 million and, as disclosed in note 23 on page 79, had unutilised bank facilities with available funding of £12 million. Operating cash generation was strong during the year at £6.6 million (2017: £6.7 million).

The Group sells into over 70 countries worldwide and has a spread of customers within its major UK and US markets, with adequate credit insurance cover in export markets where required. The Group manufactures approximately 49% of its products and sources the remainder from a range of third-party suppliers.

After making enquiries and reviewing budgets and forecasts for the Group, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Outlook

Although we face political and economic uncertainties around the world, including Brexit, we look forward into 2019 with confidence and at this very early stage of the year expect trading to be in line with expectations for the full year.

Our strategy and core values remain unchanged. We are focused on driving profitable sales growth through new product introduction, developing our markets, investing behind our brands and enhancing our operational capabilities and efficiency supported with complementary strategic acquisitions. In particular we will invest behind further growth in our online sales and fulfilment capabilities around the world. We will continue to leverage the potential of our home fragrance business and develop sales markets not only in the UK but also around the world. Our tableware brand, Spode, will be 250 years old next year and we will be developing marketing and product plans to celebrate the heritage and the future of this iconic British brand.

As such, we remain confident in our ability to create shareholder value in the short, medium and long term.

Approved by the Board of Directors and signed on behalf of the Board.

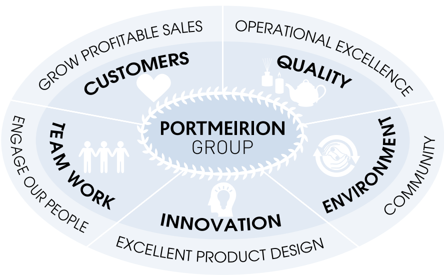
Dick Steele
Non-executive Chairman

Lawrence Bryan.

Lawrence Bryan
Chief Executive
20 March 2019

Corporate Responsibility

We are committed to ethical and sustainable business – for the environment, our people, our customers, our suppliers and the communities we operate in. This is evidenced and underpinned by our vision and values.



Pictured: Our Vision and Values.

The environment

The Group is dedicated to being environmentally responsible through our commitment to eliminate waste and wasteful practices. We strive for operational excellence whilst reducing environmental impact.

Policies are designed and implemented to reduce damage that might be caused by the Group's activities. Initiatives to reduce the Group's impact on the environment include the recycling of manufacturing waste, reducing carbon emissions and utilisation of recyclable packaging materials.

Efficient use of resources is important to the Group. Products are designed and production processes formulated to target high manufacturing yields, which in turn optimises the utilisation of resources. Portmeirion UK's products in particular are designed to achieve a long "product life cycle" so that they need only be replaced after a lengthy period of time. Other measures include the safe disposal of manufactured waste, energy recycling and reduction of energy consumption.

Waste management

The Group will continue to recycle its main waste streams: off specification product, plaster of Paris moulds and cardboard, as appropriate. We are fully aware of our quality and safety responsibilities to our customers and to consumers who use our products. We also take environmental responsibilities seriously and, where possible, work with customers and accredited ecological bodies to reduce potential environmental impact.

Greenhouse gas (GHG) emissions

Over half of the energy used at Wax Lyrical's production site in Cumbria during 2018 was provided by wind turbine, supplying 572,130 kWh of "green" electricity and preventing generation of 249 tonnes of carbon dioxide emissions. Wax Lyrical continues to be an active member of the Furness Waste Consortium. The Consortium members represent a wide range of industries within the Furness and South Cumbria area committed to sustainable waste management.

Portmeirion UK's commitment to reducing its carbon emissions is evidenced by having been subject to a Climate Change Agreement since 2000. During 2018, it continued to meet the challenging targets on energy efficiency set as part of its ongoing membership of this agreement. Portmeirion UK has reduced the specific energy consumption (SEC) in each of the previous reporting periods and is committed to reducing this again in the period 2019 to 2020.

Our people

Growing our business generates opportunities for our employees and creates value for our shareholders. Our focus is to create a high performance culture through effective employee engagement, excellence in people development and diligent resource management.

Our people are our greatest asset. The Group's performance and its success within our marketplace are directly related to the effectiveness of our people, who deliver the high quality products and provide the exceptional service that we are renowned for. The Group aims to attract, retain and motivate the highest calibre of employees.

Diversity

Building a diverse workforce and maintaining an inclusive workplace is vitally important to the Group in achieving our strategic vision and is an integral element of our values. We recognise and value all forms of diversity in our employees and endeavour to promote diversity in our workplace to enhance the success of our business. To demonstrate our commitment to this, we have adopted a formal Diversity Policy complementing our Equal Opportunities Policy.

Gender split

As a Group we strive to eliminate any gender bias in our pay and employment policies and practices and understand that equal pay and treatment of males and females is both a moral and a legal obligation.

We have a robust recruitment policy which stipulates that the Group will recruit, train and reward based on merit and provide opportunities for our employees to fulfil their ambitions regardless of gender or any other protected characteristic.

Portmeirion UK published its gender pay statistics in April 2018 which noted a mean pay gap of 6.8% which was much less than the mean gender pay gap of 18.1% cited by the Office of National Statistics. The report also noted that females represented 51% of our workforce at that time.

Training, development and wellbeing

We are delighted to report that in June 2018, Portmeirion UK and Wax Lyrical achieved the Investors in People gold accreditation which demonstrates our progression in leading, supporting and improving our teams. Although we have held various levels of accreditation since 1997, this is the highest status that we have achieved and is a significant accomplishment for the Group.

Developing talent and supporting diversity across our business helps to ensure that we have the best teams motivated to deliver our goals. The Group provides a number of learning and development opportunities across all areas of the business to ensure that our employees have all of the necessary skills to competently perform their roles. We have completed our first e-learning modules for General Data Protection Regulation and anti-bribery and corruption to provide training in a more interactive and time convenient manner.

Corporate Responsibility continued

Portmeirion UK's Achievement Awards

Our people continued

Training, development and wellbeing continued

Further development opportunities include National Vocational Qualifications, professional development, first aid training and other specific job related training courses. Management development is offered through accredited qualifications in leadership and management. 31 employees who passed a qualification during the year attended Portmeirion UK's annual Achievement Awards ceremony which took place in November 2018.

During 2018, Portmeirion UK had five apprentices complete their programme and move on to develop their on-the-job skills further under the Trainee Scheme. Within its manufacturing and distribution centres Portmeirion UK aims to multi-skill all of its employees so they can perform in a variety of roles to aid operational flexibility. Portmeirion UK uses training needs analysis to highlight any skills gaps within our processes and to drive succession planning.

Succession planning in Portmeirion UK received particular focus in 2018 by identification of key positions below Board level at risk due to either age or skill gaps. Structure changes and potential new roles needed to achieve our strategic growth plans were also identified together with development programmes for high performing individuals already in our teams that had role enhancement capabilities.

Investment in our people stretches beyond their careers to their wellbeing generally. Portmeirion UK is accredited for the Workplace Wellbeing Charter. As part of our commitment to wellbeing, Portmeirion UK held several support days which included advice on smoking cessation, pension clinics and caring responsibilities. It also provided 164 employees with free flu vaccinations.

Recognition

Key to the retention of our employees is recognising and rewarding their hard work. Our reward strategy aims to provide a package that offers competitive pay and distinctive benefits. We are committed to paying in excess of the National Living Wage. All employees are offered membership of our Group personal pension plans which provide employer contributions for all members. Within the UK, we operate employee recognition schemes including discretionary incentive schemes, length of service and 100% attendance awards, Christmas gifts, VIP "family and friends" Christmas shopping evenings and retirement afternoon teas.

During 2018, Portmeirion UK and Wax Lyrical celebrated the long service of 12 employees and 100% attendance over the last three years by 64 employees. Portmeirion UK also hosted 7 retirement afternoon teas, shared with valued colleagues in its beautiful showroom in Stoke-on-Trent.

Our employee appraisal process involves performance measurement against a series of core objectives which are aligned to each operating unit's strategic aims. All employees in the UK have the opportunity to generate incentive payments additional to base salary linked to stretching targets.

Having been Employee of the Month, Wayne Kearton won Portmeirion UK's Employee of the Year award for his dedication and commitment to helping us to achieve our vision. Employee of the Month and Team of the Quarter awards were also implemented at Wax Lyrical in 2018. These have been well received by employees and enhance our teamwork ethos.

Health and safety

The Group promotes a positive health and safety culture throughout the business to ensure that all of our people consider health, safety and welfare issues while at work and make an effective contribution towards maintaining and improving health and safety standards. By focusing on this approach the Group aims to reduce accidents and provide a healthy workplace and working environment.

All new employees receive in-house health and safety training with further training undertaken as the employee role or need requires.

Portmeirion UK and Wax Lyrical hold regular health and safety committee meetings which are attended by representatives from across the business. Minutes of these meetings are displayed on employee noticeboards.

The Group uses incident, hazard and near miss reporting to identify opportunities for improvement to drive a culture of positive behavioural safety across the business. Health and safety reporting at Board level is comprehensive and includes information on accident/incident statistics, results of audiometry testing, improvement plans, the outcome of health and safety audits as well as near miss reports so that focused priority is given to safety at the highest level. Actions taken to address potential incidents are fed back to employees through a "you said – we did" report displayed on noticeboards.

In October 2018, Portmeirion UK's efforts were recognised at the British Ceramics Confederation Health and Safety Pledge Awards for achievements in "implementation of a Comprehensive Management System".

Long service award presentation at Wax Lyrical

Some of the 100% attendance recipients with their vouchers

Portmeirion UK's
Employee of the Year

Portmeirion UK receiving their
Health and Safety Pledge Award

Engagement

One of the ways we measure employee engagement is by opinion surveys. In the 2018 surveys, 93% of Portmeirion UK's employees said that they were happy to be working for the Group and 93% of Wax Lyrical's employees said that they were proud to be part of the Group. 96% of Portmeirion UK's employees said they are committed to the Company. Further information on how we engage with our employees can be found within the Corporate Governance Statement on pages 28 to 33.

Community and social

The communities where our sites are based are important to us and every employee has the opportunity to make a difference within our local communities through our charitable programmes.

We are proud to play an active part in our local communities. Most of our financial contributions to charities come from the efforts and personal involvement of our employees, with support from the Board.

Portmeirion UK for the third year supported the Douglas Macmillan Hospice as its employee-chosen Charity of the Year for 2018. Fundraising included an Easter fundraiser, several raffles and a Spooktacular Halloween night of dinner, dancing and entertainment organised by our talented staff. Just over £18,000 was raised for the Hospice during 2018. In addition, 268 volunteering hours were delivered by Portmeirion UK, which authorised at least two employees per month to have a paid day off to volunteer for the Hospice. Volunteers helped with activities such as gardening, coin counting, retail support and the very popular mobile lithography workshop for inpatients at the day therapy unit.

In 2018, St Mary's Hospice, North West Air Ambulance and Ostley House Dementia Unit were Wax Lyrical's chosen charities. A total of over £6,000 was raised through the dedicated support of Wax Lyrical's employees.

Portmeirion UK and Wax Lyrical have also supported other fundraising initiatives throughout 2018, delivering well received support to other charities and fostering employee team work and community spirit including joyful Christmas jumper days and bake sales. Both Portmeirion UK and Wax Lyrical provide support to their local schools through staff presentations supporting science curriculums, careers advice, CV writing and interview techniques.

Ethics and relationships

The Group's established values underpin everything we do. Our vision to be a leading force in the global homeware sector will only be achieved through a culture of honesty, integrity and openness and by respecting human rights and the interests of our employees, customers and third parties.

Our strategy and business model, as well as mitigation of our principal risks and uncertainties, relies on positive relationships with our stakeholders. To ensure the maintenance of these relationships in line with our corporate culture, the Group has a suite of measures in place.

Relations with employees

The Group has a formal recruitment policy and comprehensive employee handbook which contains information on issues such as working hours and grievances. The Group also has policies for dealing with gifts, hospitality, bribery, corruption, modern slavery, whistle-blowing, conflicts of interest and inside information.

Relations with customers

The Group is committed to putting its customers at the heart of everything it does by providing safe, value for money, high quality products and developing and maintaining positive relationships. All employees are expected to behave respectfully and honestly in all their dealings with customers and the general public.

Relations with suppliers

The Group expects its suppliers to adhere to business principles consistent with the Group's own. Suppliers are expected to adopt and implement acceptable health and safety, environmental, product quality, labour, human rights, social and legal standards in line with the Group's product supplier Code of Conduct. The selection of new suppliers will continue to be subject to them meeting high international standards of compliance. Conformance to these standards is assessed by on-site audits at the supplier's premises. All suppliers are requested to complete pre-prepared compliance declarations.

The Group will either agree terms of payment with suppliers at the start of business or ensure that the supplier or contractor is aware of the Group's payment terms. Payment will be made in accordance with contractual or other legal obligations.

Relations with third parties

The Group does not make political donations and charitable donations are made only where legal and ethical according to local law and practices.

Portmeirion UK's Charity Committee

Members of the Wax Lyrical team taking
part in a 40 mile sponsored walk

Board of Directors

Dick Steele
R A N

Non-executive Chairman

Responsible for leading the Board and promoting communication with shareholders. He is a Fellow of the Institute of Chartered Accountants in England and Wales and also a member of the Institute of Taxation.

Other appointments
Non-executive Director of the Quoted Companies Alliance and Non-executive Chairman of Country Baskets.

Key skills

Andrew Andrea
R A N

Non-executive Director

A qualified Chartered Accountant. He has a wealth of experience gained in financial and commercial roles across diverse businesses including brewing, hospitality and retailing.

Other appointments
Andrew is currently the Chief Financial and Corporate Development Officer for Marston's PLC, a leading independent brewing and pub retailing business. Prior to joining Marston's he worked in various roles with Guinness Brewing Worldwide, Bass Brewers Limited and Dollond & Aitchison.

Key skills

Janis Kong OBE
R A N

Non-executive Director

Has extensive experience in retail and consumer products and services.

Other appointments
Janis is Chairman of Bristol Airport Limited, Non-executive Director of Copenhagen Airports A/S, Tui AG and Roadis (PSP). Formerly, she held positions as Non-executive Director of the Royal Bank of Scotland Group PLC, Network Rail Limited and Visit Britain, Executive Chairman of Heathrow Airport Limited, Chairman of Heathrow Express Limited and a member of the BAA plc Board.

Key skills

Lawrence Bryan
N

Chief Executive

Oversees the Group's business and is responsible for formulating the Group's objectives and strategy. In addition, the Group's design function reports into him as well as all operations in the United States, where he is President of Portmeirion Group USA, Inc. Lawrence was previously the Vice President, Sales of Waterford Wedgwood USA, President of Waterford Wedgwood USA Retail and President of International China Company. He is a Fellow of the Royal Society of Arts.

Other appointments
Non-executive Director of the Group's associated undertaking, Portmeirion Canada Inc.

Key skills

Phil Atherton

Group Sales and Marketing Director

Responsible for global sales and marketing excluding the US. Before joining the Group, Phil was the Sales and Marketing Director of the Home Textiles division of the John Cotton Group Limited. He also spent twelve years in the drinks industry working in a number of commercial roles with Remy & Associates (UK) Limited, The Gaymer Group Limited and Allied Domecq PLC where he gained extensive experience of working with premium brands.

Other appointments
None.

Key skills

Mick Knapper

Operations Director

Responsible for Portmeirion UK's sourcing, production, information systems, human resources and logistics functions. Mick joined Portmeirion in 1998 and has been a member of the board of the Company's main operating subsidiary, Portmeirion Group UK Limited, since 2011.

Other appointments
None.

Key skills

Angela Luger

R A N

Non-executive Director – appointed 1 March 2019

Contributes general management experience with retail, digital and customer focus.

Other appointments

Angela was most recently Chief Executive of N Brown plc, prior to which she was CEO of The Original Factory Shop Limited. She has held senior executive positions at Debenhams PLC, ASDA Group Limited and Mars Corporation. She is currently a Non-executive Director at Distribuidora Internacional de Alimentacion, S.A. (DIA Group).

Key skills

Mike Raybould

Group Finance Director

Responsible for all aspects of financial control and legal matters. He sits on all subsidiary boards. The Wax Lyrical home fragrance business reports into him. Mike is a qualified Chartered Accountant. He was previously the Chief Financial Officer of the Europe, Middle East and Africa (EMEA) Floorcare Division of Techtronic Industries Company Limited, a public company listed on The Stock Exchange of Hong Kong Limited.

Other appointments

Non-executive Director of the Group's associated undertaking, Furlong Mills Limited.

Key skills

Moira MacDonald

Company Secretary

A Fellow of The Governance Institute (ICSA). Prior to joining the Group as Deputy Group Secretary in 2007, Moira was Assistant Company Secretary at Legal & General Group plc and at BPB plc.

Other appointments

None.

Key skills

Essential skills and experience our Board delivers:

- Strategy and leadership
- Risk management
- Sales and marketing
- Operational expertise
- Financial
- Governance and legal
- Mergers and acquisitions

Committee key

- R Remuneration Committee
- A Audit Committee
- N Nomination Committee
- Denotes Committee Chairman

Corporate Governance Statement

Dick Steele
Non-executive Chairman

Chairman's introduction
Dear shareholder,

The Board as a whole recognises the importance of good corporate governance to promote the long-term success and sustainability of the business for the benefit of our shareholders and wider stakeholders. As Chairman of the Board, I am responsible for ensuring that the Company has corporate governance arrangements in place which are appropriate for the size and complexity of the Company. Following the changes to the Alternative Investment Market (AIM) rules which now require AIM-listed businesses to adopt a recognised corporate governance code, we have chosen to apply the Quoted Companies Alliance Corporate Governance Code (the "QCA Code") and have complied with all principles of the QCA Code throughout the year. We are committed to delivering growth in the long term, building trust through open dialogue and maintaining a dynamic management framework.

In applying the QCA Code, we have sought to ensure that we have a dynamic governance environment which allows the business the opportunity to thrive in the long term, where the Group works towards its agreed strategy mindful of its impact on others and the threats and opportunities faced but is confident in its robust system of risk management and internal control. An environment where open dialogue is encouraged to ensure the legitimate motivations and expectations of both shareholders and stakeholders are recognised and met and where a diverse, skilled Board sets the culture of the Company by supporting the Group's vision and values.

The approach to our corporate governance arrangements is forward looking. Whilst we have chosen to apply the QCA Code, we also continue to have regard to the UK Corporate Governance Code 2016 (the "UK Corporate Governance Code") as best practice guidance and seek to comply with the UK Corporate Governance Code wherever this is appropriate for the Company. We also note the emphasis being placed on the Board's role in setting and monitoring the Company's culture to ensure that behaviours align with our purpose, values and strategy. We believe that an appropriate culture is vital for continuing success and so have a number of policies and procedures in place to ensure the culture the Board wants to foster is embedded throughout the business. Further information can be found within the Corporate Responsibility section on pages 23 to 25. A healthy corporate culture is promoted within the business in various ways including by linking employees' appraisal objectives and reward and recognition schemes to our vision and values. The Board assesses the culture of the Company through engagement with employees and other stakeholders (further details can be found in the stakeholder engagement section on pages 29 and 30), the monitoring of the development of risks to the business and the external awards and accreditations we receive from organisations such as Investors in People. The Board is satisfied that a culture of openness, honesty and integrity exists within the business. Furthermore, we are confident that our culture is consistent with our vision to be a leading force in the global homeware sector because achieving our strategy through the implementation of our business model and mitigation of our principal risks relies on positive relationships with key stakeholders which can only occur if a culture of openness and integrity exists.

There have been no significant corporate governance challenges in 2018. We do, however, keep our governance arrangements under constant review and as a result we are pleased to welcome Angela Luger to the Board. Angela's appointment will strengthen our expertise in marketing and digital online retailing in line with our plans for growth.

Dick Steele
Non-executive Chairman
20 March 2019

> "We have chosen to apply the Quoted Companies Alliance Corporate Governance Code (the "QCA Code") and have complied with all principles of the QCA Code throughout the year. We are committed to delivering growth in the long term, building trust through open dialogue and maintaining a dynamic management framework."

Corporate Governance Statement

This statement describes our corporate governance structures and procedures, the work of the Board, its Committees and management, and how we have applied our chosen corporate governance code, the QCA Code.

Delivering growth in the long term

As explained fully within our Strategic Report on pages 1 to 25, our strategy is focused around five key areas: profitable sales growth, new product introduction, developing our brands, enhancing our operational efficiency and capability and supporting this with complementary strategic acquisitions. How the Company's corporate governance arrangements support our strategy is detailed within the Our Strategy section on pages 10 and 11. Information on our Business Model can be found on pages 8 and 9.

Risk management and internal controls

As with all companies, the Group faces challenges in the execution and delivery of its strategy and business model. The environment in which the Company operates is continually changing and evolving which presents both opportunities and risks. To ensure the Company can capitalise on these developments whilst protecting the Group from significant risk, the Company has a comprehensive risk management and internal control system in place. Details of the Group's principal risks and how these are addressed can be found on pages 18 and 19 of the Strategic Report.

The process by which the Board identifies, assesses and mitigates external business risks and principal internal control risks and how the Board gains assurance that the risk management system is effective is detailed in the Risk Management section on page 18.

The Board has an established internal control system for identifying internal control risks. As might be expected in a group of this size, a key control procedure is the day to day supervision of the business by the Executive Directors, supported by the senior managers with responsibility for key operations. The Executive Directors are involved in the budget setting process, constantly monitor key performance indicators and review management accounts on a monthly basis, noting and investigating major variances. Where a new risk is identified, it will be assessed and then mitigated through the implementation of an appropriate control. The adequacy of the systems for internal control is reviewed at every Board meeting. Furthermore, the Audit Committee reviews the adequacy and effectiveness of the Group's internal controls and reports its findings to the Board on an annual basis. During the course of these reviews in 2018, no failings or weaknesses were identified nor have any been advised to the Board which the Board has determined to be significant.

The Group's system of internal control is designed to identify fraud or material error and manage, rather than eliminate, the risk of failure to achieve business objectives, and so can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has considered the impact of the values and culture of the Group and ensures that, through staff communication and training, the Board's expectations and attitude to risk and internal control are embedded in the business.

Building trust through open dialogue

Understanding the motivations and expectations of our shareholders and stakeholders is imperative. The Board acknowledges that effective engagement can only be realised through:

- the presentation of a fair, balanced and understandable assessment of the Group's position and prospects; and
- the opportunity for all shareholders and stakeholders to feed back their views to the Company based upon their understanding of the Group's strategy and objectives.

Shareholder engagement

A programme of two-way communication with both institutional and private investors takes place each year.

The Group provides information about its progress and strategy through its Annual and Interim Reports and Accounts, trading updates, results presentations and investor roadshows. Investor site visits allow shareholders to learn more about the operation of the business. Key announcements are made through the London Stock Exchange Regulatory News Service and on the Announcements section of our Investor Relations website.

The Chairman, with the support of the Group Finance Director, is responsible for shareholder liaison. The Chairman talks regularly with the Group's major shareholders and ensures that their views are communicated fully to the Board. The Chairman writes annually to significant institutional shareholders offering a meeting to discuss corporate governance matters. No concerns were raised following this communication in 2018. The Non-executive Directors are also offered the opportunity to attend meetings with major shareholders.

The Board recognises the Annual General Meeting (AGM) as an important opportunity to meet private shareholders and, as such, all Directors are and will be in attendance. The Directors are available to listen to the views of shareholders informally immediately following the AGM. If voting decisions at the AGM are not in line with the Company's expectations the Board will engage with those shareholders to understand and address any issues. The Chairman and the Company Secretary are the main points of contact for such matters. At the AGM held on 17 May 2018, all resolutions were passed with a significant majority.

The Board understands that a key expectation of our shareholders is a progressive dividend policy. The Board is committed to providing this and aims to maintain a sustainable and appropriate level of dividend cover.

Stakeholder engagement

Our programme of stakeholder engagement is designed around our assessment of the materiality and impact of our stakeholders on the achievement of the Company's strategy. Our key stakeholders have been identified via an assessment of the Group's Business Model (further details can be found on pages 8 and 9) and Principal Risks and Uncertainties (page 19).

Corporate Governance Statement continued

Building trust through open dialogue continued

Stakeholder engagement continued

Stakeholder	Why they are important	Stakeholder expectations	How we have engaged	Engagement outcomes
Employees	Our people deliver the high quality products and exceptional service that we are renowned for.	• A safe place to work; • security of employment; • fair treatment (including pay); and • access to training.	• Briefings and newsletters; • opinion surveys; and • employee representatives from across the business are involved in regular health and safety committee meetings and in forums to discuss business related issues.	As a direct result of feedback from employees, the Board has approved a project to overclad the majority of the roof of our factory and offices in Stoke-on-Trent during 2019. Improvements in health and safety through addressing near miss reporting.
Sourced product suppliers	In 2018, 51% of our products were sourced from third parties. We need to ensure security of supply and that all products are manufactured to our exacting quality standards.	• To do business with the Group and receive payment in accordance with agreed terms.	• Regular contact and visits to our sourced product suppliers' premises; and • open door policy.	The Group worked collaboratively with suppliers to plan future orders to assist with capacity planning.
Customers	Our customers are at the heart of our operations. The longevity of the business can only be secured through maintaining and expanding our customer base.	• Excellent quality, innovative products that meet customer requirements; • exceptional service; and • a competitive price.	• Trade customers are encouraged to provide feedback through Group trade account managers; • key customers' accounts are overseen by the Group Sales and Marketing Director for Portmeirion UK, President for Portmeirion USA and Managing Director for Wax Lyrical; and • via customer services and social media such as Facebook and Twitter.	Feedback from customers has led to the creation of customised product offerings.
Finance provider	Cash flow and opportunities for investment.	• Repayment to agreed terms; • security of loan and overdraft facilities; and • compliance with covenants.	• Regular contact and meetings.	Provision of tailored management information.

Maintaining a dynamic management framework

The Board is responsible for the overall leadership and management of the Group. The Board determines the Group's strategy, approves major capital expenditure projects, the annual and interim results, annual budgets, dividend policy and Board structure. It monitors the Company's exposure to risk and reviews the strategic direction of all trading subsidiaries, their annual budgets, their performance and their capital expenditure.

Maintaining a dynamic management framework continued

Board composition and roles

The Board comprises four Executive Directors and four Non-executive Directors. Biographies of all the Directors appear on pages 26 and 27.

Dick Steele, the Non-executive Chairman, is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. The Board has not appointed a Senior Non-executive Director. The Board believes that, given its size, there is sufficient opportunity for shareholders to raise any concerns they may have with the Non-executive Chairman, the Chief Executive, the Group Finance Director, the other three Non-executive Directors or the Company Secretary.

The Board delegates day to day responsibility for managing the business to the Executive Directors and the senior management team. Lawrence Bryan, the Chief Executive, has executive responsibility for running the Group's business and implementing Group strategy. To ensure suitably defined separation of the responsibilities of the Board and the running of the Group's business, the Board has a formal schedule of matters reserved to it (available on the Company's website at www.portmeiriongroup.com). The schedule is reviewed annually and updated when necessary to ensure its appropriateness.

Board Committees

The Board has three Committees which assist in the discharge of its responsibilities – the Audit, Remuneration and Nomination Committees. The terms of reference for each Committee are reviewed annually and are available on the Company's website at www.portmeiriongroup.com.

Board of Directors

Audit Committee

The Audit Committee considers any matter relating to the financial affairs of the Group and those relating to the Group's external audit that it determines to be significant.

Further details on page 34.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board in relation to all aspects of remuneration for Executive Directors.

Further details on pages 35 to 42.

Nomination Committee

The Nomination Committee oversees the process and makes recommendations to the Board on all new Board appointments. The Committee also considers succession planning.

Further details below.

Nomination Committee

During the year, the Nomination Committee considered the time required from the Non-executive Directors to perform their duties, the results of the Board performance evaluation process that related to the composition of the Board, the need for a Senior Non-executive Director, the election and re-election of Directors and reviewed the succession planning arrangements for the Directors and other senior managers.

The Nomination Committee regularly reviews the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and makes recommendations to the Board with regard to changes. As part of the Committee's approach to succession planning for Directors and other senior managers, it takes into account the challenges and opportunities facing the Group, and what skills and expertise are therefore needed on the Board in the future. Prior to any appointment being made by the Board, the Committee evaluates the composition of the Board and, in light of this evaluation, prepares a description of the role and capabilities required for the appointment. In identifying suitable candidates, the Committee uses open advertising or the services of external advisers to facilitate the search and considers candidates on merit and against objective criteria. The Committee recognises the value of a diverse Board and will consider all candidates with the necessary capabilities in accordance with the Company's policies on equal opportunities, diversity and inclusion.

Independence

The expertise and wealth of experience from across different industries which is brought by our longer serving Non-executive Directors is considered invaluable to the Company. The Board, after careful review, considers that each Non-executive Director brings an unbiased critical insight, gained from their experience in high performing companies completely distinct to our own, to bear notwithstanding their length of service. The Board has considered the need for progressive refreshing of the Board in formulating this view. All Non-executive Directors have contracts which expire on the completion of one year's notice. These are available for inspection at the Company's registered office and at the AGM. The Company's Articles of Association require that all Directors retire no later than at the third Annual General Meeting of the Company after the general meeting at which he/she was appointed or last reappointed.

Corporate Governance Statement continued

Maintaining a dynamic management framework continued

Independence continued

The Board has decided to adopt voluntarily the practice that all continuing Directors stand for re-election on an annual basis in line with recommendations of the UK Corporate Governance Code. All Directors undergo a performance evaluation before being proposed for election/re-election to ensure that their performance is and continues to be effective, that where appropriate they maintain their independence and that they are demonstrating continued commitment to the role. Further details of the Board evaluation process can be found on page 33.

For a Board to be successful, it must make decisions which are in the best interests of the Company without reference to the interests of the Directors. In line with the requirements of the Companies Act 2006, the Directors have put in place a policy and process for notifying and recording the nature and extent of their interests, together with those of connected persons, in organisations and companies outside the Group. Each Director must formally notify the Company if there is potential for these interests to conflict with their duties as a Director of the Company. All such notifications are regularly reviewed by the Board.

Time commitments and meetings

All Non-executive Directors are expected to devote such time as is necessary for the proper performance of their duties. This includes considering all relevant papers before each meeting and attendance at a minimum of five Board meetings per year, the AGM and such other meetings which are necessary. The Nomination Committee annually reviews the time required from Non-executive Directors which includes assessing whether sufficient time is being spent by the Non-executive Directors to fulfil their duties.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. In addition, minutes of the meetings of the Directors of the main operating UK subsidiary, Portmeirion UK, are circulated to the Board.

The following table shows the attendance of the Directors at meetings of the Board and its principal Committees during 2018:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Total meetings held(1)	●●●●●	●●●	●●	●
Meetings attended				
R.J. Steele (Non-executive Chairman)	●●●●●	●●●	●●	●
L. Bryan (Chief Executive)	●●●●●	●●● (2)	●● (2)	●
A.A. Andrea (Non-executive)	●●●●●	●●●	●●	●
P.E. Atherton (Group Sales and Marketing Director)	●●●●●	●●● (2)	n/a	n/a
Lady Judge (Non-executive) (resigned 17 May 2018)	●●	●	●●	○
M.J. Knapper (Operations Director)	●●●●●	●●● (2)	n/a	n/a
J. Kong (Non-executive)	●●●●●	●●●	●●	●
M.T. Raybould (Group Finance Director)	●●●●●	●●● (2)	n/a	n/a

Notes:

(1) During the year additional Board and Remuneration Committee meetings were held principally to discuss share option matters.

(2) Meetings which the Director attended, in whole or in part, by invitation.

● Attended ○ Did not attend

Skills and experience

Details of each Director's skills and experience can be found in the biographies of the Directors on pages 26 and 27. The requirement for the Board to have an appropriate mix of personal qualities (including gender balance) and capabilities is considered in respect of new Board appointments (further details can be found in the Nomination Committee section on page 31), as part of the Board evaluation process and when addressing training and development needs of Directors.

All Directors have direct access to the advice and services of the Company Secretary and are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. The Company Secretary's role includes providing guidance to the Board on its duties and ensuring that the Board complies with relevant legislation and the Articles of Association of the Company.

External advice was not sought in relation to any significant issue of strategic importance during 2018. The Board did, however, seek external advice in relation to operational matters.

Maintaining a dynamic management framework continued

Board effectiveness

Each year the Board carries out an evaluation of its own performance in the first quarter looking at performance in the prior year. Any recommendations arising from previous Board evaluations have been addressed.

As part of the evaluation of 2018 performance, each Director reviewed Board performance against set criteria covering areas such as the Board's approach to risk, the effectiveness of each Director, Board communication and the adequacy of information provided to the Board. Combined feedback was discussed by the Board and actions were agreed.

Specific actions arising from the evaluation were:

(i) the production of a succession planning matrix to support existing succession planning and enhanced management development;

(ii) review of future Board pack content; and

(iii) a Board meeting to be held at Wax Lyrical premises during 2019 to enhance Non-executive Director understanding of the home fragrance business.

As part of the evaluation it was identified that although the Board had performed effectively it could further benefit from the appointment of a new Non-executive Director with marketing and digital online retailing experience. Following a comprehensive recruitment process, Angela Luger was appointed to the Board on 1 March 2019.

Each year, the Board also considers the need for an external evaluation of its performance. No external evaluation was conducted in 2018.

The Audit Committee, Remuneration Committee and Nomination Committee's performance is considered annually as part of the Board evaluation process outlined above. Furthermore, the terms of reference for each Committee are reviewed on an annual basis against good practice and appropriate guidelines. As part of this review, the Committees assess their performance to ensure they have fulfilled the responsibilities outlined in the terms of reference. Each Committee concluded that it had performed effectively during the year and there were no specific actions arising from the evaluations.

Induction, training and development

Key to the effectiveness of Board decision making is a detailed understanding of the homeware market, our history and products, the operating environment, relevant legislation and regulation to which the Group is subject and the challenges the Company faces.

All new Directors undertake a comprehensive induction process following their appointment to the Board. The induction would usually consist of main factory and distribution centre tours, full briefings on the operation and history of the business, the role of the Director and the operation of the Board together with meetings with the senior management team and Executive Directors.

Existing Directors are provided with ongoing training, as necessary, by the Company to ensure they have the requisite skills to discharge their duties. During 2018, the Board received updated anti-corruption and bribery training and training on the implementation of the General Data Protection Regulation. Tailored Director briefing notes are provided throughout the year. All Directors are encouraged to attend relevant external training, seminars and conferences to facilitate their continuing professional development. Where specific training needs are identified including as a result of the Board evaluation process and individual Director appraisals, the Company will organise the relevant training. The Company Secretary supports the Chairman in addressing the training and development needs of Directors.

Approval

This report was approved by the Board and signed on its behalf by:

Dick Steele

Non-executive Chairman

20 March 2019

Audit Committee Report

Dear shareholder,

On behalf of the Board, I am pleased to present the Audit Committee Report for the year ended 31 December 2018.

Composition

The Audit Committee consists of all Non-executive Directors. The Board considers it appropriate that, given my experience and expertise in financial control and risk management, I continue to chair the Committee. This decision is reviewed annually as part of the Board evaluation process.

Lady Judge ceased to be a member of the Committee on 17 May 2018, following her retirement from the Board. There were no other changes in the composition of the Audit Committee during the year; however, as of 19 March 2019, Angela Luger was appointed to the Committee.

The Committee held three meetings during 2018 and all members attended.

Experience of the Audit Committee

Biographies of each member of the Committee, including their skills and experience, can be found on pages 26 and 27.

Role and responsibilities

The Audit Committee has terms of reference in place which have been approved by the Board and are available at www.portmeiriongroup.com. The Committee's main responsibilities include monitoring of the adequacy of the Group's internal controls, accounting policies and financial reporting, overseeing the relationship with the external auditors and reviewing the adequacy of the Group's whistle-blowing arrangements.

Accounting policies and financial reporting

The Audit Committee monitors the integrity of the financial statements of the Company, including the annual and half-yearly reports, interim management statements and any other formal announcements relating to the Company's financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain. Reports provided by the external auditors on the annual and half-yearly results, which identify any concerns arising from the auditors' work undertaken in respect of the half-year review and year end audit, are also reviewed by the Committee.

Auditors

Annually, the Audit Committee reviews the relationship the Company has with the external auditors including the scope of the audit work, the audit process, fees and audit independence. The last review, in November 2018, concluded that the Committee was satisfied with the effectiveness of the external audit. Mazars LLP have acted as the Company's auditors since 2009. The external auditors are required to rotate the audit partner responsible for the Company and subsidiary audits every five years and a new lead audit partner has been identified and will be appointed in 2019. Mazars LLP are recommended for reappointment as auditors at the Annual General Meeting on 16 May 2019. Whilst the UK Corporate Governance Code 2016 recommends that FTSE 350 companies should tender their external audit contract at least every ten years, this does not apply to the Company, which is listed on the Alternative Investment Market of the London Stock Exchange.

Non-audit services

The Audit Committee is responsible for keeping under review the nature and extent of non-audit services provided by the external auditors in order to ensure that objectivity and independence are maintained. For non-audit work, the policy is that the Group does not use the external auditors unless they have the necessary skills and experience to make them the most suitable supplier. There are appropriate safeguards in place to eliminate or reduce to an acceptable level any threat to the objectivity and independence of the external auditors in the provision of non-audit services. Fees paid to the auditors for non-audit services are disclosed in note 8 on page 70.

The external auditors have in place processes to ensure their independence is maintained including safeguards to ensure that where they do provide non-audit services their independence is not threatened. They have written to the Committee confirming that, in their opinion, they are independent.

Internal audit

The Audit Committee has considered the need for an internal audit function, but has decided that, because of the size of the Group and the systems and controls in place, it is not appropriate at present. The Committee will review this on a regular basis.

Internal control

The Audit Committee's role in respect of reviewing the adequacy and effectiveness of the Group's internal controls is detailed in the Corporate Governance Statement on page 29.

Whistle-blowing

The Audit Committee reviews arrangements by which employees of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, so seeking to ensure that appropriate arrangements are in place for the proportionate and independent investigation of such concerns and for appropriate follow-up action.

Significant issues considered in 2018

During 2018, the Audit Committee considered the following significant issues, with management and the external auditors, in relation to the financial statements: internal controls, defined benefit pension scheme, goodwill and intangible assets, revenue and income recognition, stock valuation and inventory provisions.

The Financial Reporting Council's Corporate Reporting Review team conducted a thematic review of the Report and Accounts for the year ended 31 December 2017 which concentrated on cash flow and pension disclosures. No significant matters were raised as a result of this review.

Dick Steele

Chairman of the Audit Committee

20 March 2019

Directors' Remuneration Report

This report is on the activities of the Remuneration Committee for the year ended 31 December 2018 and sets out the Remuneration Policy and remuneration details for the Executive and Non-executive Directors of the Company. As a company listed on the Alternative Investment Market (AIM), the Company is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the "Regulations"), nor is it required to comply with the principles relating to directors' remuneration in the UK Corporate Governance Code 2016. This report has not been audited. This report, excluding the Remuneration Policy section, will be subject to an advisory shareholder vote at the Annual General Meeting (AGM) on 16 May 2019 at which approval of the financial statements will be sought.

Dear shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018.

The aim of our report is to provide shareholders with the information to understand our Remuneration Policy and its linkage to the Group's financial performance. The Remuneration Committee seeks to achieve a fair outcome in reward that is linked to the Group's immediate and long-term results and strategy delivery. Through the commitment and determination of our employees and senior management team, the Group continues to deliver sustainable returns and growth for our shareholders as shown by our results on page 1.

At the Annual General Meeting in 2018, shareholders approved changes to The Portmeirion Group 2018 Deferred Incentive Share Option Plan; further details can be found on page 39 under the long-term incentive plan section. There have been no other structural changes to the Remuneration Policy during 2018.

Performance of our Executive Directors is assessed against a range of financial and operational measures ensuring value is delivered to shareholders. Annual incentive payments are based on a demanding profit before tax and exceptional items target. The annual incentive paid to Executive Directors for the year ended 31 December 2018 is 45% of basic annual salary. Details of the Directors' shareholdings are given on page 44.

We are committed to maintaining an open and transparent dialogue with shareholders. The objective of this report is to communicate clearly how much our Executive Directors are earning and how this is strongly linked to performance. Each year, we review how shareholders voted on the Directors' Remuneration Report, together with any feedback received.

I welcome any comments from shareholders regarding Directors' remuneration.

Dick Steele
Chairman of the Remuneration Committee
20 March 2019

Directors' Remuneration Report continued

Remuneration Committee

The members of the Remuneration Committee are set out on pages 26 and 27. The terms of reference of the Remuneration Committee are available at www.portmeiriongroup.com.

Dick Steele is Chairman of the Remuneration Committee and has been throughout 2018. The Board considers it appropriate that Dick Steele, with his experience in this area, chairs this Committee. Lady Judge ceased to be a member of the Committee on 17 May 2018 following her retirement from the Board. There have been no other changes in the composition of the Remuneration Committee during 2018. Angela Luger joined the Committee on 19 March 2019. None of the Committee have any personal financial interest (other than as shareholders), conflicts of interest arising from cross-directorships or day to day involvement in running the business. No Director plays a part in any discussion about his or her own remuneration.

The Committee meets at least twice a year to undertake the following actions:

- review the market competitiveness of the Remuneration Policy and the remuneration of the Executive Directors;
- agree the incentive policy and payments for the Executive Directors;
- agree the individual share option and long-term share awards for the forthcoming financial period;
- review the performance measures, targets and achievement thereof in relation to share scheme awards;
- approve the Directors' Remuneration Report; and
- administer the Group's share schemes.

During 2018, the Committee held two scheduled meetings. In addition, the Committee held meetings at other times throughout the year to deal with share option awards, exercises and other related matters.

Pinsent Masons LLP provided advice on the administration of the Company's share schemes in 2018. In determining the Directors' remuneration for the year, the Committee consulted Lawrence Bryan, Chief Executive, about its proposals. The Remuneration Committee believes that the presence of the Chief Executive is important when determining the remuneration of the other Executive Directors. The Chief Executive does not participate in discussions relating to his personal remuneration.

Remuneration Policy

Executive remuneration packages are prudently designed to attract, motivate and retain Directors of high calibre and to reward them for enhancing value to shareholders. The performance measurement of the Executive Directors and the determination of their annual remuneration package is undertaken by the Remuneration Committee. The remuneration of the Non-executive Directors is determined by the Executive Directors. There are five main elements of the remuneration package for Executive Directors and senior management:

- basic salary and benefits;
- annual incentive payments;
- share option incentives;
- long-term incentives; and
- pension arrangements.

The Company's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance related in order to encourage and reward improving business performance and shareholder returns. In determining the remuneration arrangements for Executive Directors the Committee is sensitive to pay and employment conditions elsewhere in the Group, especially when determining base salary increases.

The Committee operates the various incentive plans according to their respective rules and in accordance with HMRC rules where relevant. To ensure the efficient administration of the plans the Committee has certain operational powers. These include the determination of the participants in the plans on an annual basis; the timing of grants of awards and/or payments; the quantum of an award and/or payment; the extent of vesting based on the assessment of performance; determination of leaver status and appropriate treatment under the plans; and annual performance measures and targets.

The Company recognises that Executive Directors may be invited to become non-executive directors of other companies and that this can help broaden the skills and experience of a Director. Executive Directors are entitled to accept appointments outside the Group providing that the Chairman grants his permission.

The Committee has reviewed the policy for the year ahead and has concluded that the key features of the Remuneration Policy remain appropriate.

Remuneration Policy continued

Key aspects of the Remuneration Policy for Executive Directors

The following table provides a summary of the key elements of the remuneration package for Executive Directors:

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Base salary			
To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group.	Reviewed annually taking into account industry-standard executive remuneration and pay levels elsewhere within the Group.	Salaries for the year ended 31 December 2018 are set out on page 40. Changes in the scope or responsibilities of a Director's role may require an adjustment to salary levels above the normal level of increase.	None.
Benefits			
To provide market levels of benefits on a cost-effective basis.	Private health cover for the executive and their family, life insurance cover of four times salary, critical illness cover and a company car. Other benefits may be offered from time to time broadly in line with market practice.	Private healthcare benefits are provided through third-party providers and therefore the cost to the Company and the value to the Director may vary from year to year. It is intended the maximum value of benefits offered will remain broadly in line with market practice.	None.
Pension			
Providing post-retirement benefits.	The Group operates defined contribution pension schemes.	Dependent on the value of the fund at retirement.	None.
Annual incentive			
Recognises achievement of annual objectives which support the short to medium-term strategy of the Group.	The performance targets are set by the Remuneration Committee at the start of the year with input, as appropriate, from the Chief Executive.	Maximum incentive potential is 100% of salary.	Based on achievement of a demanding profit before tax and exceptional items target.
Deferred Incentive Plan			
Incentivising and retaining Executive Directors whilst aligning their interests with those of shareholders through delivery and retention of shares.	Discretionary award over shares with a market value corresponding to a percentage of the gross annual incentive payment earned by the Executive Director in respect of the previous financial year.	Maximum award is 50% of the prior year's gross annual incentive payment.	Options under the plan can only be granted to the extent performance targets relating to the annual incentive arrangements are met.
Executive Share Option Plans			
Setting value creation through share price growth as a major objective for Executive Directors and senior managers. Alignment of option holder interests with those of shareholders through delivery of shares.	Subject to earnings per share (EPS) performance measurement to reflect operational performance as EPS is a significant factor in determining the market's view of the Group's value.	The Portmeirion 2012 Approved Share Option Plan has a limit of £30,000 for any "approved" options in accordance with HMRC limits. Options granted above the £30,000 limit are granted under The Portmeirion 2012 Unapproved Share Option Plan.	Growth in earnings per share targets as detailed on page 39.

Directors' Remuneration Report continued

Remuneration Policy continued

Key aspects of the Remuneration Policy for Non-executive Directors (including the Chairman)

The following table provides a summary of the key elements of the remuneration package for Non-executive Directors:

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Base fee			
To provide competitive fixed fees in order to procure and retain the appropriate skills required and expected time commitment.	Non-executive Director fees are reviewed on a periodic basis and are subject to the Articles of Association. The Board will exercise judgement in determining the extent to which Non-executive Director fees are altered in line with market practice and rates.	Fees for the year ended 31 December 2018 are set out on page 40. Increases above those awarded for the rest of the Group may be made to reflect the periodic nature of any review. Changes in the scope and responsibilities of a Director's role, or the time commitment required, may require an adjustment to the level of fees.	None.
Pension			
Providing post-retirement benefits if the Non-executive Director does not opt out of the auto-enrolment process.	The Group operates defined contribution schemes.	Dependent on the value of the fund at retirement.	None.

Current service contracts and terms of engagement

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice.

The details of the Executive Directors' contracts are summarised in the table below:

	Date of contract	Notice period
P.E. Atherton	22.11.2012	12 months
L. Bryan	08.11.2002	12 months
M.J. Knapper	01.03.2017	12 months
M.T. Raybould	19.04.2017	12 months

In the event of early termination, the Executive Directors' contracts provide for compensation of an amount equal to the gross salary and benefits that the Executive would have received during the balance of the notice period, plus any incentive once declared, to which he would have become entitled had contractual notice been given.

All Non-executive Directors have service contracts with an indefinite term providing for a maximum of one year's notice, without liability for compensation. Their remuneration is determined by the Board taking into account their duties and the level of fees paid to Non-executive Directors of similar companies.

The Directors proposed for election and re-election at the next AGM on 16 May 2019 are set out in the Directors and their interests section of the Report of the Directors on pages 43 and 44.

Consideration of shareholders' views

The Committee considers shareholder feedback following the AGM and any other meetings with shareholders as part of the Company's annual review of Remuneration Policy.

Application of Remuneration Policy for the year ended 31 December 2018

Basic salary and benefits

Executive Directors' base salaries are determined by the Committee at the beginning of each year or when responsibilities change. In deciding the appropriate levels, the Committee takes into account factors which it considers necessary including industry-standard executive remuneration and comparable pay levels within the Group.

Each Executive Director is provided with healthcare and pension benefits, critical illness cover, life insurance and a car.

Annual incentive payments

Each Executive Director's remuneration package includes an annual incentive payment. If the profit before tax and exceptional items exceeds an annual target, then an incentive will be paid. The incentive is a percentage of the Executive Director's basic annual salary which is linked to the amount by which profit before tax and exceptional items exceeds the target. The maximum incentive payable is 100% of basic annual salary. Demanding budgets and targets are established by the Board and reviewed at the end of each year to determine the degree of successful achievement.

For the year ended 31 December 2018, the profit target was met and the Executive Directors achieved an incentive payment of 45% of basic annual salary.

Share options

The Company's policy is to grant options to Executive Directors at the discretion of the Remuneration Committee taking into account individual performance. It is the Company's policy to phase the granting of share options rather than to award them in a single large block to any individual.

The Company has two Executive Share Option Plans: The Portmeirion 2012 Approved Share Option Plan (the "2012 Approved Plan") and The Portmeirion 2012 Unapproved Share Option Plan (the "2012 Unapproved Plan"). These are discretionary schemes, enabling the grant of options over ordinary shares in the Company to selected employees of the Group, with flexibility for the grant of tax-favoured options. For both schemes, earnings per share has been selected as a measure of performance.

Options granted in 2015 can normally only be exercised if the increase in the average of the Group's basic adjusted (for changes in accounting standards and exceptional items) earnings per share for each of the three years beginning with the financial year in which the option was granted is at least 10% higher than that for the year before the option was granted. This performance criterion has now been met.

There were no options granted during 2016.

Options granted in 2017 and 2018 can normally only be exercised if the increase in the average of the Group's basic adjusted (for changes in accounting standards and exceptional items) earnings per share for each of the three years beginning with the financial year in which the option was granted is at least 13% higher than that for the year before the option was granted.

Basic earnings per share is considered to be an appropriate figure because it is a significant factor used by the market in determining the value of the Company and by the Company in determining the level of dividend to be paid. These targets align management interests closely with those of shareholders.

Long-term incentive plan

At the AGM on 17 May 2018, shareholders approved amendments to The Portmeirion Group 2010 Deferred Incentive Plan which included best practice provisions of malus and clawback, an increase in the award limit and a change of name of the plan to The Portmeirion Group 2018 Deferred Incentive Plan (the "2018 Deferred Incentive Plan"). The 2018 Deferred Incentive Plan was established to incentivise and retain Executive Directors and encourage them to acquire and retain shares in the Company. The 2018 Deferred Incentive Plan operates in conjunction with the Group's existing annual incentive arrangements.

The 2018 Deferred Incentive Plan permits the grant of an option to a participant in any year over shares with a market value not exceeding 50% of the gross incentive earned by the relevant employee in respect of the previous financial year. Options are exercisable normally only after the third anniversary of the date of grant. On exercise, provided that the participant is still employed by the Group (or has left due to limited good leaver provisions as specified in the rules of the 2018 Deferred Incentive Plan) the participant will be entitled to receive a "grossed-up" payment (i.e. a payment which after discharge of necessary taxes (including National Insurance contributions) leaves a net amount) sufficient to pay the taxes (including National Insurance contributions) due in respect of the exercise of the option (subject to a cap on the maximum tax and National Insurance rates covered). The Remuneration Committee believes this payment is appropriate so as to ensure that the shares are acquired without any need to sell the shares to generate cash to cover tax liabilities. Options may be satisfied by an issue of shares (including out of treasury). As options under the 2018 Deferred Incentive Plan can only be granted to the extent performance targets relating to the annual incentive payment arrangements are met, the exercise of options granted under the Plan are not subject to the satisfaction of performance targets.

Following shareholder approval of certain amendments proposed in respect of the 2018 Deferred Incentive Plan at the AGM on 17 May 2018, the Remuneration Committee has the ability to reduce the value of an option granted to an employee (malus), or to require an employee to make a repayment in respect of an option that he/she has already exercised (clawback), where certain events have occurred in relation to the business or to the conduct of the particular employee. The time limit for the application of this provision will generally be five years from the date that the option was granted (which is a further two years after an option becomes exercisable).

Pensions

Phil Atherton, Mick Knapper, Mike Raybould and Dick Steele are members of the Portmeirion Group UK Limited Group Personal Pension Plan, a money purchase pension scheme. Lawrence Bryan receives pension contributions for a money purchase pension operated by the Group in the United States. Annual performance related incentives are not subject to contributions by the Group to the money purchase pension arrangements maintained for the Directors. Details of contributions paid by the Group for the benefit of the Directors are shown in the Directors' emoluments table on page 40.

Directors' Remuneration Report continued

Application of Remuneration Policy for the year ended 31 December 2018 continued

Non-executive Directors

The Non-executive Directors do not participate in the Company's annual incentive, share option or long-term incentive schemes.

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2018 £'000	2017 £'000
Emoluments	**1,712**	1,657
Long-term incentive plan (LTIP)	**72**	28
Gains made on exercise of share options	**232**	544
Money purchase pension contributions	**96**	84
	2,112	2,313

Directors' emoluments

	Salary and fees £'000	Taxable benefits[1] £'000	Incentive £'000	LTIP[2] £'000	Gains made on exercise of share options £'000	Pension contributions £'000	Total 2018 £'000	Total 2017 £'000
Executive								
P.E. Atherton	197	17	89	25	81	26	**435**	470
L. Bryan[3]	473	24	213	47	124	23	**904**	935
M.J. Knapper	124	11	56	—	27	15	**233**	198
B.W.J. Phillips[4]	—	—	—	—	—	—	**—**	307
M.T. Raybould	206	15	93	—	—	23	**337**	223
Non-executive								
A.A. Andrea	33	—	—	—	—	—	**33**	17
Lady Judge[5]	33	—	—	—	—	—	**33**	33
J. Kong	33	—	—	—	—	—	**33**	32
R.J. Steele	95	—	—	—	—	9	**104**	98
	1,194	67	451	72	232	96	**2,112**	2,313

Notes:

(1) The taxable benefits shown above for P.E. Atherton, M.J. Knapper, and M.T. Raybould arise from the provision of a company car, critical illness cover and private medical insurance. The taxable benefits for L. Bryan, who is resident in the US, arise from the provision of a company car and life assurance. A further £22,000 (2017: £29,000) in non-taxable benefits arise from the provision of disability, medical and dental insurance for L. Bryan. Non-executive taxable benefits relate to travel expenses.

(2) On 21 May 2018, L. Bryan and P.E. Atherton exercised options granted in 2015 under the 2018 Deferred Incentive Plan. The mid-market closing price of the Company's shares on 21 May 2018 was 1,180.00p. The amounts in the table above include the value of the shares on exercise by reference to the mid-market closing price of the Company's shares on the day before exercise (1,185.00p) and the amount paid in accordance with the rules of the Plan such that after discharge of necessary taxes a net amount was left sufficient to pay the taxes due in respect of the exercise of the options. Further details on the exercises are shown under the long-term incentive schemes section of this report on page 42.

(3) L. Bryan is remunerated in US dollars and his remuneration is translated into sterling at the average exchange rate for the year. In 2018, this was $1.3352/£ (2017: $1.2885/£).

(4) B.W.J. Phillips resigned from the Board on 5 May 2017.

(5) Lady Judge resigned from the Board on 17 May 2018. Amounts disclosed above reflect salary, taxable benefits and pension contributions to 17 May 2018. Included within the amount for salary and fees is £19,000 in respect of a payment for loss of office.

Directors' share options and long-term incentives

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors.

Application of Remuneration Policy for the year ended 31 December 2018 continued

Executive Share Option Plans

The Company has two share option plans, the 2012 Approved Plan and the 2012 Unapproved Plan as described on page 39. Details of options held under these schemes by Directors who served during the year are as follows:

Director	At 01.01.2018	Number of options Granted	Exercised	Lapsed	**At 31.12.2018**	Exercise price p	Dates on which exercisable Earliest	Latest
P.E. Atherton	33,000	—	(33,000)	—	**—**	935.00	28.04.2018	26.04.2025
P.E. Atherton	25,000	—	—	—	**25,000**	960.00	12.08.2020	10.08.2027
P.E. Atherton	—	25,000	—	—	**25,000**	1,180.00	23.05.2021	21.05.2028
L. Bryan	49,500	—	(49,500)	—	**—**	935.00	28.04.2018	26.04.2025
L. Bryan	40,000	—	—	—	**40,000**	960.00	12.08.2020	10.08.2027
L. Bryan	—	40,000	—	—	**40,000**	1,180.00	23.05.2021	21.05.2028
M.J. Knapper	11,000	—	(11,000)	—	**—**	935.00	28.04.2018	26.04.2025
M.J. Knapper	20,000	—	—	—	**20,000**	960.00	12.08.2020	10.08.2027
M.J. Knapper	—	25,000	—	—	**25,000**	1,180.00	23.05.2021	21.05.2028
M.T. Raybould	30,000	—	—	—	**30,000**	960.00	12.08.2020	10.08.2027
M.T. Raybould	—	30,000	—	—	**30,000**	1,180.00	23.05.2021	21.05.2028

Notes:

(1) The performance criteria attaching to share options are detailed on page 39.

(2) The Company's share price reached a high of 1,310.00p and a low of 905.00p during 2018. The average share price during 2018 was 1,084.40p. The share price on 31 December 2018 was 950.00p.

(3) There have been no changes to the Directors' interests in the shares or options over shares of the Company between 31 December 2018 and 20 March 2019.

Details of the options exercised under the 2012 Approved Plan and the 2012 Unapproved Plan during the year are as follows:

Director	Date of exercise	Number of options exercised	Total exercise price p	Market price on exercise per share p	**Total gains on exercise 2018 £'000**	Total gains on exercise 2017 £'000
P.E. Atherton	22.05.18	33,000	935.00	1,180.00	**81**	175
L. Bryan	21.05.18	49,500	935.00	1,185.00	**124**	261
M.J. Knapper	22.05.18	11,000	935.00	1,180.00	**27**	23

Directors' Remuneration Report continued

Application of Remuneration Policy for the year ended 31 December 2018 continued

Long-term incentive schemes

Details of options held under the 2018 Deferred Incentive Plan by Directors who served during the year are as follows:

		Number of options				Dates on which exercisable	
Director	At 01.01.2018	Granted	Exercised	Lapsed	**At 31.12.2018**	Earliest	Latest
P.E. Atherton	1,102	—	(1,102)	—	**—**	22.04.2018	20.07.2018
P.E. Atherton	1,365	—	—	—	**1,365**	12.05.2019	10.08.2019
P.E. Atherton	—	2,792	—	—	**2,792**	22.05.2021	20.08.2021
L. Bryan	2,034	—	(2,034)	—	**—**	22.04.2018	20.07.2018
L. Bryan	2,860	—	—	—	**2,860**	12.05.2019	10.08.2019
L. Bryan	—	6,940	—	—	**6,940**	22.05.2021	20.08.2021
M.J. Knapper	—	1,750	—	—	**1,750**	22.05.2021	20.08.2021
M.T. Raybould	—	2,917	—	—	**2,917**	22.05.2021	20.08.2021

Notes:

(1) The exercise price payable by the option holder to acquire shares upon the exercise of a 2018 Deferred Incentive Plan option is £1 in respect of all of the shares under option for that particular award.

Details of the options exercised under the 2018 Deferred Incentive Plan during the year are as follows:

Director	Date of exercise	Number of options exercised	Total exercise price p	Market price on exercise per share p	Gains on exercise £'000	**Total gains on exercise 2018 £'000**	Total gains on exercise 2017 £'000
P.E. Atherton	21.05.2018	1,102	100.00	1,185.00	13	**13**	3
L. Bryan	21.05.2018	2,034	100.00	1,185.00	24	**24**	7

Consultations with shareholders and statement of voting at general meeting

At the Annual General Meeting of the Company held on 17 May 2018, a resolution to approve the Directors' Remuneration Report for the year ended 31 December 2017 was passed with 6,101,563 proxy votes lodged, of which 99.25% were in favour and 0.75% voted against.

In March 2019, the Chairman wrote to major shareholders in the Company offering a meeting to discuss corporate governance matters. The Chairman is in contact with all institutional and other significant shareholders.

Approval

This report was approved by the Board and signed on its behalf by:

Dick Steele

Chairman of the Remuneration Committee

20 March 2019

Report of the Directors

The Directors have pleasure in presenting their Annual Report on the affairs of the Group, together with the audited financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2018. The Corporate Governance Statement set out on pages 28 to 33 forms part of this report.

The Company is a public limited company, registered in England and Wales and listed on the Alternative Investment Market (AIM) of the London Stock Exchange. The Company has been permanently domiciled in the UK since incorporation and is the ultimate parent company of the Portmeirion Group.

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Report of the Directors have been omitted as they are included in the Strategic Report on pages 1 to 25. These matters relate to a full review of the performance of the Group for the year, current trading and future outlook.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 32 on pages 86 to 89. This note also includes information on financial risk management objectives and policies, including the policy for hedging and an assessment of the Group's exposure to financial risk.

Dividends

On 1 October 2018 an interim dividend of 8.00p (2017: 7.40p) per share was paid on the ordinary share capital. The Directors recommend that a final dividend of 29.50p per share be paid (2017: 27.26p), making a total dividend for the year of 37.50p (2017: 34.66p) per share. The final dividend will be paid, subject to shareholders' approval, on 30 May 2019 to shareholders on the register at the close of business on 26 April 2019.

Research and development

The Group continues to research methods of tackling the environmental issues facing it as a ceramics and home fragrance manufacturer whilst improving manufacturing efficiency. The development of innovative new products and designs is a key part of the Group's strategy.

Directors and their interests

The Directors of the Company are listed on pages 26 and 27 together with biographical and Committee membership details. Angela Luger joined the Board on 1 March 2019. All other Directors served throughout the year ended 31 December 2018.

In accordance with our commitment to good corporate governance practice that is relevant to our business, the Board has voluntarily adopted the policy that in normal circumstances all continuing Directors stand for re-election on an annual basis in line with the recommendations of the UK Corporate Governance Code 2016. Andrew Andrea, Phil Atherton, Lawrence Bryan, Janis Kong, Mick Knapper, Mike Raybould and Dick Steele will therefore retire at the Annual General Meeting to be held on 16 May 2019 and all are offering themselves for re-election. In addition, Angela Luger is being proposed for election, as she joined the Board since the last Annual General Meeting. The Board has formally reviewed the performance of each continuing Director and concluded that they remain effective and are committed to their roles at Portmeirion Group PLC.

Further details on the composition of the Board and appointment of Directors are given in the Corporate Governance Statement on pages 28 to 33.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Corporate Governance Statement on pages 28 to 33.

Report of the Directors continued

Directors and their interests continued

The Directors who held office at 31 December 2018 had the following beneficial interests in the share capital of the Company:

	At 31 December 2018 5p ordinary shares Beneficial	At 31 December 2017 5p ordinary shares Beneficial
A.A. Andrea	—	—
P.E. Atherton	15,134	10,549
L. Bryan	95,701	143,667
M.J. Knapper	2,511	1,337
J. Kong	5,000	5,000
M.T. Raybould	—	—
R.J. Steele	27,000	27,000

Directors' share interests include the interests of their spouses, civil partners and infant children or stepchildren as required by section 822 of the Companies Act 2006. There were no changes in the beneficial interests of the Directors in the Company's shares between 31 December 2018 and 20 March 2019.

Details of Directors' share options are provided in the Directors' Remuneration Report on pages 41 and 42.

Details of transactions with Directors and other related parties are to be found in note 30 on page 82.

Directors' indemnities

The Company has qualifying third-party indemnity provisions for the benefit of its Directors which remain in force at the date of this report.

Capital structure

Details of the share capital in issue, together with details of the movements in the Company's issued share capital during the year, are shown in note 25 on page 80. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in notes 25 and 33 on page 80 and pages 89 and 90. Shares held by the Portmeirion Employees' Share Trust abstain from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Substantial shareholdings

On 31 December 2018 the Company had been notified, in accordance with chapter 5 of the Disclosure Guidance and Transparency Rules, of the following beneficial interests in 3% or more of its issued share capital excluding treasury shares:

	Percentage of voting rights and issued share capital(1)	Number of ordinary shares
Trustees of Caroline Fulbright Settlement(3)	16.48%	1,792,272
Investec Wealth & Investment Limited(3)	12.87%	1,399,867
Canaccord Genuity Group Inc	5.96%	647,918
Shahrzad Farhadi	5.82%	632,333
Kamrouz Farhadi	5.18%	562,917
Charles Stanley Group PLC(3)	5.00%	543,847
Ymddiriedolaeth Clough Williams-Ellis Foundation(3)	3.95%	430,000

Notes:

(1) The percentages are of the total shares in issue, excluding treasury shares (10,872,876).

(2) All holdings are direct holdings unless otherwise indicated.

(3) Shareholding held indirectly through a nominee.

During the period between 31 December 2018 and 20 March 2019, the Company did not receive any notifications under chapter 5 of the Disclosure Guidance and Transparency Rules.

Annual General Meeting

The Annual General Meeting will be held at the registered office of the Company at London Road, Stoke-on-Trent, on 16 May 2019 at 12:00 noon (the "2019 AGM"). All ordinary and special resolutions to be proposed at that meeting are detailed in the Notice of Annual General Meeting. As special business at the 2019 AGM, the following resolutions will be proposed together with the resolution described below regarding market purchases of the Company's shares:

- Authority to allot shares – under section 551 of the Companies Act 2006, the directors of a company may only allot shares or grant any rights to subscribe for or to convert any security into shares in the company if authorised to do so by shareholders. At the Annual General Meeting of the Company held on 17 May 2018, as in previous years, the Directors were given authority to allot shares and grant such rights. This authority is due to expire at the conclusion of the 2019 AGM, and the Directors propose to renew it. Share capital management guidelines published by the Investment Association confirm that the Association's members will regard as routine an authority to allot up to two-thirds of a company's existing issued share capital (excluding treasury shares), provided that any amount in excess of one-third of the existing issued shares can be applied only to fully pre-emptive rights issues. In light of these guidelines, which the Board considers represent best practice, this authority (if approved by shareholders) will allow the Directors to allot new shares or to grant rights to subscribe for, or to convert any security into, shares in the Company up to an aggregate nominal value of £362,428, approximately equal to two-thirds of the issued share capital excluding treasury shares as at 20 March 2019. Of this amount, £181,214 (representing approximately one-third of the Company's issued ordinary share capital excluding treasury shares as at 20 March 2019) can only be allotted pursuant to fully pre-emptive rights issues. The authority will last until the conclusion of the Company's next Annual General Meeting in 2020 or, if earlier, until 30 June 2020. The Directors have no current intention of exercising this authority except in relation to the allotment of shares under share option schemes. However, the Directors consider it appropriate to maintain the flexibility that this authority will provide to be in a position to respond to market developments and to enable allotments to take place to finance business opportunities should they arise.

- Disapplication of pre-emption rights – if equity securities are to be allotted for cash, section 561(1) of the Companies Act 2006 requires that those equity securities are offered first to existing shareholders in proportion to the number held by them at the time of the offer and otherwise in compliance with the technical requirements of that Act. Those pre-emption provisions also apply to the sale of treasury shares by the Company. However, it may be in the interests of the Company for the Directors to allot shares and/or sell treasury shares other than to shareholders in proportion to their existing holdings or otherwise than strictly in compliance with those requirements. This resolution would allow the Directors, pursuant to section 570 and section 573 of the Companies Act 2006, to allot shares and to sell treasury shares for cash without first offering them to shareholders in accordance with that Act. The authority is limited to the issue of equity securities and/or sale of treasury shares for cash up to a maximum nominal amount of £54,364, which is approximately equal to 10% of the present issued share capital excluding treasury shares as at 20 March 2019, and allotments of equity securities and/or sale of treasury shares in connection with a rights issue or other in proportion offer to shareholders.

Acquisition of the Company's own shares

The Company did not purchase any of its own shares during the year. The Company holds 234,607 treasury shares, purchased at an average cost of 187p per share. At the end of the year, the Directors had authority, under a shareholders' resolution of 17 May 2018, to purchase through the market 1,085,236 of the Company's ordinary shares. This authority expires on 30 June 2019.

The Directors believe that it is in the interests of the Company and its members to continue to have the flexibility to purchase its own shares and resolution 16 of the 2019 AGM seeks authority from members to allow the Company to make market purchases, subject to the restrictions set out in the Notice of the 2019 AGM, and in particular to the maximum number of ordinary shares that may be purchased being 1,087,287, approximately equal to 10% of the present issued share capital of the Company excluding treasury shares as at 20 March 2019. The Directors intend to renew this authority annually but only to exercise the authority where, after considering market conditions prevailing at the time, the investment needs of the Company, its opportunities for expansion and its overall financial position, they believe the effect of such exercise would be to increase the earnings per share and be in the best interests of shareholders generally.

Report of the Directors continued

Acquisition of the Company's own shares continued

The Portmeirion Employees' Share Trust (the "Trust") facilitates the acquisition and holding of shares in the Company by and for the benefit of the employees of the Group. The shares are held in the Trust to provide for awards under employee share option schemes. During 2018, 121,000 were transferred from the Trust to senior employees of the Group on the exercise of share options. The Trust purchased 213,606 shares during 2018. The Trust holds a total of 245,523 shares representing approximately 2.26% of the issued share capital of the Company excluding treasury shares as at 20 March 2019.

Employees

The Group has an Equal Opportunities Policy and is committed to ensuring that all employees are treated fairly, regardless of age, gender, race, marital status, sexual orientation, religion or disability. It is the Group's policy to give disabled people full and fair consideration for all job vacancies for which they offer themselves as suitable candidates, having regard to their particular aptitudes and abilities, including the consideration of any reasonable adjustments to the job or workplace. Training and career development opportunities are available to all employees and, if necessary, all efforts are made to retrain any member of staff who develops a disability during employment with the Group.

The Group recognises the importance of good communications with its employees and considers that the most effective form of communication regarding its activities, performance and plans is by way of informal daily discussions between management and other employees. During 2018, to complement these discussions, the Group has continued communicating information from Board level to all employees on a regular basis via a programme of team briefings and by use of the Company's intranet and notice boards.

Share option and profit related incentive schemes are operated to encourage the involvement of more senior employees in the Group's performance. The Group's UK operating subsidiaries are both Investors in People and Portmeirion UK has received the Investment in Young People award. The Directors are committed to the continuing development of the Group's employees through the principles of Investors in People. Details of staff numbers and costs are set out in note 7 on pages 69 and 70.

Political contributions

There were no political contributions during the year.

Auditors

Each of the persons who are Directors at the date of approval of this Annual Report confirms that:

1. so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

2. the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Mazars LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.

M MacDonald

Moira MacDonald
Company Secretary
20 March 2019

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Group and Company financial position, financial performance and cash flows. This requires the fair representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- properly select and apply accounting policies;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether IFRS as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Group and the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent Auditor's Report

to the members of Portmeirion Group PLC

Opinion

We have audited the financial statements of Portmeirion Group PLC (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated and Company statements of changes in equity, the consolidated and Company statements of cash flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to United Kingdom exiting the European Union on our audit

The Directors' view on the impact of Brexit is disclosed on page 4.

The terms on which the United Kingdom may withdraw from the European Union, currently due to occur on 29 March 2019, are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Group's and Company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Group and Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Group's and Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Group and Company and this is particularly the case in relation to Brexit.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters continued

Key Audit Matter	How we responded to this risk
Revenue recognition The Group's accounting policy for revenue recognition is set out in the accounting policy notes on pages 61 and 62. For Portmeirion Group PLC we see the risk of misstatement or fraud in revenue recognition as being principally in relation to cut-off. We see the cut-off risk being specifically applicable to three scenarios within the Group. **Revenue recognition for export sales** There is a risk that export sales close to the year end could be accounted for incorrectly as a result of revenue being recognised prior to the transfer of the risks and rewards of the stock involved. **Provisions for goods sold on sale or return** There is a risk that the provision required for sales which could potentially be returned is materially misstated. **Provision for rebates** There is a risk that the provision in place for rebates is underestimated.	**Our audit work included but was not limited to:** • reviewing the key elements underpinning the trigger points to recognise revenue; • focus on export sales made in December and ensure the cut-off between sales and stock movements is reflective of the year end position; • reviewing management's estimate for returns provision, assumptions and methodology used. Our review included a comparison to historical rate of returns, any correspondence with clients and actual returns post year end to the date of audit sign off; and • reviewing management's estimate for rebate provision including assumptions and methodology. We agreed a sample of these to post year end payments and credit notes where possible. Our work also included a review on historical accuracy of provisions and any correspondence with clients. Based on the work performed, no material misstatements noted in revenue cut-off.
Inventory provision Inventory accounts for 46% of total current assets of the Group. There is a risk that the inventory provision is materially misstated and that stock is not being held at the appropriate value. Therefore appropriate provisioning in respect of inventory is considered a key audit matter.	**Our audit work included but was not limited to:** • reviewing in detail the assessment made by management including the application of consistency of approach with the prior year, and any significant trends or events occurring in the year that could have an impact on the level of provision required; • reviewing slow-moving stock lines as well as any aged/old pattern items to validate the adequacy of the provision made against these; and • sample test a number of stock items to sales invoices post year end to validate that stock is held at the appropriate value. Based on the work performed, the level of provisioning adopted was considered reasonable.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality:	£728,000
Benchmark applied:	This has been calculated with reference to the Group's profit before tax, of which it represents approximately 7.5%.
Basis for chosen benchmark:	Profit before tax has been identified as the principal benchmark within the financial statements as it is considered to be the focus of the shareholders. 7.5% has been chosen to reflect the level of understanding of the stakeholders of the Group in relation to the inherent uncertainties around accounting estimates and judgements.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was £546,000 which is approximately 75% of overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £22,000 as well as any misstatements below that amount that, in our opinion, warranted reporting for qualitative reasons.

For each component in the scope of the Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £5,000 and £437,000. The parent Company materiality was set at £60,000. For all components across the Group performance materiality was set at 75%.

Independent Auditor's Report continued

to the members of Portmeirion Group PLC

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the Group and Company, the structure of the Group and the parent Company and the industry in which it operates. We considered the risk of acts by the Company which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006.

We tailored the scope of our Group audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the parent Company and Group's accounting processes and controls and its environment and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud, review of minutes of Directors' meetings in the year and enquiries of management. As a result of our procedures, we did not identify any Key Audit Matters relating to irregularities, including fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

Our Group audit scope included an audit of the Group and parent financial statements of Portmeirion Group PLC. Based on our risk assessment, Portmeirion Group UK Limited, Portmeirion Group USA, Inc. and Wax Lyrical Limited within the Group were subject to full scope audit and was performed by the Group audit team.

The locations subject to full audit procedures represent the principal business units and account for 94% of the Group's net assets, 99% of the Group's revenue and 99% of the Group's adjusted profit before tax.

At the parent level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 47, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Stephen Eames

Stephen Eames

(Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF

20 March 2019

Consolidated Income Statement

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Revenue	4,5	**89,594**	84,769
Operating costs	6	**(79,688)**	(75,687)
Operating profit		**9,906**	9,082
Interest income	9	**14**	17
Finance costs	10	**(301)**	(487)
Share of results of associated undertakings		**95**	210
Profit before tax		**9,714**	8,822
Tax	11	**(2,023)**	(1,944)
Profit for the year attributable to equity holders		**7,691**	6,878
Earnings per share	13	**72.12p**	65.07p
Diluted earnings per share	13	**71.90p**	64.79p
Dividends paid and proposed per share	12	**37.50p**	34.66p

All the above figures relate to continuing operations.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Profit for the year		**7,691**	6,878
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit pension scheme liability	31	**495**	4,428
Deferred tax relating to items that will not be reclassified subsequently to profit or loss	24	**(84)**	(753)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**680**	(767)
Deferred tax relating to items that may be reclassified subsequently to profit or loss	24	**(33)**	(57)
Other comprehensive income for the year		**1,058**	2,851
Total comprehensive income for the year attributable to equity holders		**8,749**	9,729

Consolidated Balance Sheet

31 December 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Goodwill	14	**7,229**	7,229
Intangible assets	15	**5,680**	6,058
Property, plant and equipment	16	**9,666**	10,149
Interests in associates	17	**2,567**	2,525
Deferred tax asset	24	**—**	340
Total non-current assets		**25,142**	26,301
Current assets			
Inventories	19	**19,179**	18,074
Trade and other receivables	20	**15,638**	12,431
Cash and cash equivalents	21	**7,214**	8,487
Total current assets		**42,031**	38,992
Total assets		**67,173**	65,293
Current liabilities			
Trade and other payables	22	**(12,025)**	(10,556)
Current income tax liabilities		**(546)**	(475)
Borrowings	27	**(1,981)**	(1,981)
Total current liabilities		**(14,552)**	(13,012)
Non-current liabilities			
Pension scheme deficit	31	**(6)**	(1,672)
Deferred tax liability	24	**(991)**	(882)
Borrowings	27	**(2,974)**	(4,955)
Total non-current liabilities		**(3,971)**	(7,509)
Total liabilities		**(18,523)**	(20,521)
Net assets		**48,650**	44,772
Equity			
Called up share capital	25	**555**	554
Share premium account		**7,310**	7,193
Investment in own shares	26	**(3,257)**	(1,876)
Share-based payment reserve		**282**	550
Translation reserve		**2,723**	2,076
Retained earnings		**41,037**	36,275
Total equity		**48,650**	44,772

These financial statements were approved by the Board of Directors and authorised for issue on 20 March 2019.

They were signed on its behalf by:

L. Bryan
Director

M.T. Raybould
Director

Company Balance Sheet

31 December 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Investment in subsidiaries	18	**12,366**	12,366
Total non-current assets		**12,366**	12,366
Current assets			
Trade and other receivables	20	**4,083**	3,986
Cash and cash equivalents		**—**	—
Total current assets		**4,083**	3,986
Total assets		**16,449**	16,352
Total liabilities		**—**	—
Net assets		**16,449**	16,352
Equity			
Called up share capital	25	**555**	554
Share premium account		**7,310**	7,193
Other reserves		**197**	197
Investment in own shares	26	**(3,257)**	(1,876)
Share-based payment reserve		**282**	550
Retained earnings		**11,362**	9,734
Total equity		**16,449**	16,352

The Company reported a profit for the financial year ended 31 December 2018 of £4,991,000 (2017: £3,483,000).

The financial statements of Portmeirion Group PLC, company registration number 124842, were approved by the Board of Directors and authorised for issue on 20 March 2019.

They were signed on its behalf by:

L. Bryan
Director

M.T. Raybould
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £'000	Share premium account £'000	Investment in own shares £'000	Share-based payment reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2017	550	6,624	(2,936)	496	2,900	29,154	36,788
Profit for the year	—	—	—	—	—	6,878	6,878
Other comprehensive income for the year	—	—	—	—	(824)	3,675	2,851
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**(824)**	**10,553**	**9,729**
Dividends paid	—	—	—	—	—	(3,433)	(3,433)
Increase in share-based payment reserve	—	—	—	66	—	—	66
Transfer on exercise or lapse of options	—	—	—	(12)	—	12	—
Shares issued under employee share schemes	4	569	1,094	—	—	(7)	1,660
Purchase of own shares	—	—	(34)	—	—	—	(34)
Deferred tax on share-based payment	—	—	—	—	—	(4)	(4)
At 1 January 2018	**554**	**7,193**	**(1,876)**	**550**	**2,076**	**36,275**	**44,772**
Profit for the year	—	—	—	—	—	7,691	7,691
Other comprehensive income for the year	—	—	—	—	647	411	1,058
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**647**	**8,102**	**8,749**
Dividends paid	—	—	—	—	—	(3,766)	(3,766)
Increase in share-based payment reserve	—	—	—	143	—	—	143
Transfer on exercise or lapse of options	—	—	—	(411)	—	411	—
Shares issued under employee share schemes	1	117	1,138	—	—	(6)	1,250
Purchase of own shares	—	—	(2,519)	—	—	(2)	(2,521)
Deferred tax on share-based payment	—	—	—	—	—	23	23
At 31 December 2018	**555**	**7,310**	**(3,257)**	**282**	**2,723**	**41,037**	**48,650**

Company Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £'000	Share premium account £'000	Other reserves £'000	Investment in own shares £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2017	550	6,624	197	(2,936)	496	9,679	14,610
Profit for the year	—	—	—	—	—	3,483	3,483
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**3,483**	**3,483**
Dividends paid	—	—	—	—	—	(3,433)	(3,433)
Increase in share-based payment reserve	—	—	—	—	66	—	66
Transfer on exercise or lapse of options	—	—	—	—	(12)	12	—
Shares issued under employee share schemes	4	569	—	1,094	—	(7)	1,660
Purchase of own shares	—	—	—	(34)	—	—	(34)
At 1 January 2018	**554**	**7,193**	**197**	**(1,876)**	**550**	**9,734**	**16,352**
Profit for the year	—	—	—	—	—	4,991	4,991
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**4,991**	**4,991**
Dividends paid	—	—	—	—	—	(3,766)	(3,766)
Increase in share-based payment reserve	—	—	—	—	143	—	143
Transfer on exercise or lapse of options	—	—	—	—	(411)	411	—
Shares issued under employee share schemes	1	117	—	1,138	—	(6)	1,250
Purchase of own shares	—	—	—	(2,519)	—	(2)	(2,521)
At 31 December 2018	**555**	**7,310**	**197**	**(3,257)**	**282**	**11,362**	**16,449**

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Operating profit		**9,906**	9,082
Adjustments for:			
Depreciation of property, plant and equipment	16	**1,326**	1,329
Amortisation of intangible assets	15	**591**	588
Charge for share-based payments	33	**143**	66
Exchange gain/(loss)		**31**	(168)
Profit on sale of tangible fixed assets		**(16)**	(17)
Operating cash flows before movements in working capital		**11,981**	10,880
Increase in inventories		**(657)**	(2,243)
Increase in receivables		**(3,005)**	(193)
Increase in payables		**1,355**	1,992
Cash generated from operations		**9,674**	10,436
Contributions to defined benefit pension scheme	31	**(1,200)**	(1,200)
Interest paid		**(248)**	(247)
Income taxes paid		**(1,591)**	(2,246)
Net cash from operating activities		**6,635**	6,743
Investing activities			
Interest received		**14**	17
Dividend received from associate		**115**	—
Proceeds on disposal of property, plant and equipment		**76**	47
Purchase of property, plant and equipment	16	**(879)**	(938)
Purchase of intangible assets	15	**(213)**	(80)
Net cash outflow from investing activities		**(887)**	(954)
Financing activities			
Equity dividends paid	12	**(3,766)**	(3,433)
Shares issued under employee share schemes		**1,250**	1,660
Purchase of own shares		**(2,521)**	(34)
New bank loans raised	27	**3,000**	3,000
Repayments of borrowings	27	**(5,000)**	(5,000)
Net cash outflow from financing activities		**(7,037)**	(3,807)
Net (decrease)/increase in cash and cash equivalents		**(1,289)**	1,982
Cash and cash equivalents at beginning of year		**8,487**	6,540
Effect of foreign exchange rate changes		**16**	(35)
Cash and cash equivalents at end of year		**7,214**	8,487

Company Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Operating profit		**4,991**	3,483
Adjustments for:			
Charge for share-based payments	33	**143**	66
Operating cash flows before movements in working capital		**5,134**	3,549
Increase in receivables		**(97)**	(1,742)
Cash generated from operations		**5,037**	1,807
Income taxes paid		**—**	—
Net cash from operating activities		**5,037**	1,807
Financing activities			
Equity dividends paid	12	**(3,766)**	(3,433)
Shares issued under employee share schemes		**1,250**	1,660
Purchase of own shares		**(2,521)**	(34)
Net cash outflow from financing activities		**(5,037)**	(1,807)
Net movement in cash and cash equivalents		**—**	—
Cash and cash equivalents at beginning of year		**—**	—
Cash and cash equivalents at end of year		**—**	—

Notes to the Financial Statements

1. Basis of preparation

Portmeirion Group PLC is a company incorporated in England and Wales. The address of the registered office is given on page 92. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 25. These accounts have been prepared in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards (IFRS)) and the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present an income statement.

The going concern basis has been considered in the Strategic Report on page 22.

These financial statements are presented in pounds sterling. Foreign operations are included in accordance with the policies set out in note 2.6.

In the current year, the Group has applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

The following new and revised standards and interpretations have also been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements:

	EU effective date periods beginning on or after
IFRS 9 'Financial Instruments' and subsequent amendments	1 January 2018
IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
IFRIC 22 'Foreign Currency Transactions and Advanced Consideration'	1 January 2018
Annual improvements to IFRS 2014–2016 Cycle: Amendments to IFRS 1 and IAS 28	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS that have been issued but are not yet effective and (in some cases) had not yet been adopted by the EU:

	EU effective date periods beginning on or after
Annual improvements to IFRS 2015–2017 Cycle	Not yet endorsed by the EU
IFRS 14 'Regulatory Deferral Accounts'	Not yet endorsed by the EU
IFRS 16 'Leases'	1 January 2019
IFRS 17 'Insurance Contracts'	Not yet endorsed by the EU
Amendments to references to the Conceptual Framework in IFRS	Not yet endorsed by the EU
Amendments to IFRS 3 'Business Combinations'	Not yet endorsed by the EU
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet endorsed by the EU
Amendments to IAS 1 and IAS 8: Definition of Material	Not yet endorsed by the EU
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	Not yet endorsed by the EU
Amendments to IAS 28: Long-term interests in Associates and Joint Ventures	Not yet endorsed by the EU
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods other than the adoption of IFRS 16.

IFRS 16 replaces existing leases guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

1. Basis of preparation continued

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Group has completed an initial assessment of the impact on its consolidated financial statements and the asset and corresponding liability at 1 January 2019 will amount to £5,293,000.

2. Significant accounting policies

The accounting policies which follow set out those policies which were applied in preparing the financial statements for the year ended 31 December 2018.

The financial statements have been prepared on the historical cost basis, with the exception of derivative financial instruments which are stated at their fair value.

2.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Portmeirion Group PLC and its subsidiaries. The Group's share of the results and retained earnings of associated undertakings is included.

Subsidiary undertakings are consolidated on the basis of the acquisition method of accounting where the Group has overall control of that entity. Intra-group transactions and balances are eliminated fully on consolidation and the consolidated accounts reflect external transactions only. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group.

All accounts for subsidiaries and associated undertakings have been prepared for the year ended 31 December 2018 except for the accounts of Portmeirion Canada Inc. which have a year end of 30 June 2018. The Group accounts include interim financial information to 31 December 2018 for Portmeirion Canada Inc.

2.2 Investments

Fixed asset investments for the Company in subsidiaries and associates are shown at cost less provision for impairment.

2.3 Investment in associated undertakings ("associates")

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate.

Where a Group company transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

2.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sales of goods are recognised when goods are delivered and title has passed.

Notes to the Financial Statements continued

2. Significant accounting policies continued

2.4 Revenue recognition continued

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement.

Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement.

2.5 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable or receivable under operating leases are charged or credited to income on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the term of the lease.

2.6 Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). The results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the year.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see note 2.17 for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

2.7 Operating profit

Operating profit is stated before interest income, finance costs and share of results of associated undertakings.

2.8 Group pension schemes

Payments to defined contribution retirement schemes are charged as an expense in the period to which they relate.

For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at least triennially and updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in other comprehensive income.

Past service costs are recognised in profit or loss when the plan amendment or curtailment occurs, or when the Group recognises related restructuring costs or termination benefits, if earlier. The retirement benefit obligation recognised in the balance sheet represents the deficit or surplus in the Group's defined benefit pension scheme. Any surplus resulting from this fluctuation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the scheme.

2. Significant accounting policies continued

2.9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.10 Property, plant and equipment

Freehold and leasehold land is not depreciated. Property, plant and equipment are held at cost less accumulated depreciation and any recognised impairment losses.

Depreciation is recognised so as to write off the cost of assets (other than land) less their residual values over their useful lives, using the straight-line or the reducing balance method, on the following bases:

Freehold and leasehold buildings	–	2% per annum
Leasehold improvements	–	6% to 30% per annum
Plant and vehicles	–	5% to 33% per annum

2.11 Intangible assets

Purchases of intellectual property and customer lists are included at cost and written off in equal annual instalments over their estimated useful economic life of between ten and twenty years. Provision is made for any impairment.

Computer software is held at cost less accumulated amortisation less any recognised impairment losses. Amortisation is charged so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method. The estimated useful life of computer software is between three and ten years.

Notes to the Financial Statements continued

2. Significant accounting policies continued

2.12 Impairment of tangible assets, intangible assets and goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Goodwill is not amortised but is reviewed for impairment at least annually. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying value of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset of the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.13 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is remeasured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2. Significant accounting policies continued

2.15 Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

2.16 Equity

Ordinary shares are classified as equity. The excess of the nominal value of ordinary shares received upon the issue of a new share is classified as share premium.

Investment in own shares has been classified as a deduction from equity. These shares are valued at the weighted average cost of purchase and comprise treasury shares and shares held by an employee benefit trust. The employee benefit trust is controlled by the Company and Group and as such is consolidated into the reported figures.

The share-based payment reserve represents the cumulative charge on outstanding share options. Once the options have been exercised or lapsed, this reserve is transferred into retained earnings.

The translation reserve represents the aggregate of the cumulative exchange differences arising from the retranslation of the balance sheets of non-sterling denominated subsidiary undertakings.

Retained earnings are the cumulative profits recognised by the Group and the Company.

The Company other reserve is a merger reserve arising on the purchase of subsidiary undertakings.

2.17 Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Derivative financial instruments

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to hedge this exposure. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Receivables

Trade receivables and other receivables are measured at amortised cost, because the payments are solely payments of principal and interest is held to collect. Impairment is determined by reference to expected credit loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Further details on the Group's financial instruments can be found in note 32.

Notes to the Financial Statements continued

2. Significant accounting policies continued

2.18 Share-based payments

Equity-settled share option schemes and long-term incentive plans are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods or services. A number of the Group's customers purchase goods on a sale or return basis, where at the year end the value of potential returns is unknown. Management have included an estimated provision for goods sold on a sale or return basis as a reduction to revenue.

Provision is made for goods sold on a sale on return basis. In making this judgement, management has considered the detailed criteria for the recognition of revenue from the sale of goods set out in IFRS 15 'Revenue', and made a best estimate of the anticipated returns from customers.

Depreciation and amortisation

The Directors exercise judgement to determine useful lives and residual values of tangible and intangible assets. The assets are depreciated or amortised over their estimated useful life.

Impairment of inventory

Inventories are stated at the lower of cost and net realisable value. At the year end, the future sale value of some slow-moving and obsolete inventory is uncertain, and a provision has been included where management feels this value falls below cost. The level of provision is determined by management estimates based on historical and forecast sales and potential net realisable value.

Defined benefit pension scheme

The valuation of the Group's defined benefit pension scheme assets and liabilities under IAS 19 'Employee Benefits' is disclosed in note 31. IAS 19 required a net asset or liability to be recognised in the Group balance sheet based upon relevant actuarial assumptions at each balance sheet date. The significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected inflation assumptions and life expectancy. Management receives independent advice from an actuary in the preparation of these assumptions.

Intangible assets and goodwill

The Group holds a number of intangible assets and goodwill that have been acquired in business combinations. These assets are held at fair value less amortisation and any impairment. At each balance sheet date management reviews the appropriate value of these assets to ensure there are no indicators of impairment that would require a write-down in fair value. Management also reviews future discounted cash flow forecasts to ensure the fair value is still appropriate.

4. Revenue

An analysis of the Group's revenue is as follows:

Continuing operations	2018 £'000	2017 £'000
Sale of goods	**89,416**	84,500
Royalties	**178**	269
	89,594	84,769

5. Segmental analysis

IFRS 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance. Based upon the nature and extent of these internal reports, the Directors are of the opinion that there are three reportable segments under IFRS 8, namely the Portmeirion UK and USA ceramic operations and Home Fragrance. The Directors are of the opinion that only one class of business is being undertaken, that of the manufacture and sale of ceramics, home fragrances and associated homeware.

	2018			2017		
Revenue by origin	Total sales £'000	Inter-segment sales £'000	Sales to third parties £'000	Total sales £'000	Inter-segment sales £'000	Sales to third parties £'000
Portmeirion UK – ceramic	**50,029**	**(1,888)**	**48,141**	48,637	(2,491)	46,146
Portmeirion USA – ceramic	**25,988**	**—**	**25,988**	24,700	—	24,700
Home fragrance	**15,465**	**—**	**15,465**	13,923	—	13,923
	91,482	**(1,888)**	**89,594**	87,260	(2,491)	84,769

No individual customer accounts for more than 10% of Group revenue.

Inter-segment sales are charged at prevailing market prices.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the products:

Revenue	2018 £'000	2017 £'000
United Kingdom	**31,487**	28,836
United States	**26,669**	25,156
South Korea	**8,229**	6,604
Rest of the World	**23,209**	24,173
	89,594	84,769

The accounting policies of the reportable segments are the same as the Group's accounting policies as described in note 2. Segment profit represents the profit earned by each segment without allocation of the share of results of associates, interest income, finance costs and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments the Group's Chief Executive monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of interests in associates. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

Notes to the Financial Statements continued

5. Segmental analysis continued

Operating profit by origin	2018 £'000	2017 £'000
Portmeirion UK – ceramic	7,059	6,419
Portmeirion USA – ceramic	1,299	1,196
Home fragrance	1,548	1,467
Operating profit	9,906	9,082
Unallocated items:		
Share of results of associated undertakings	95	210
Interest income	14	17
Finance costs	(301)	(487)
Profit before tax	9,714	8,822
Tax	(2,023)	(1,944)
Profit after tax	7,691	6,878

	2018				2017			
Other information	Portmeirion UK ceramic £'000	Portmeirion USA ceramic £'000	Home fragrance £'000	Consolidated £'000	Portmeirion UK ceramic £'000	Portmeirion USA ceramic £'000	Home fragrance £'000	Consolidated £'000
Capital additions	816	61	215	1,092	741	69	208	1,018
Depreciation and amortisation	1,041	166	710	1,917	1,014	183	720	1,917
Balance sheet:								
Assets								
Non-current segment assets	8,901	349	13,325	22,575	9,298	502	13,976	23,776
Other segment assets	25,288	8,780	7,963	42,031	22,300	8,412	8,280	38,992
Total segment assets	34,189	9,129	21,288	64,606	31,598	8,914	22,256	62,768
Interests in associates				2,567				2,525
Consolidated total assets				67,173				65,293
Liabilities								
Consolidated total liabilities	13,328	1,737	3,458	18,523	15,168	1,910	3,443	20,521

All non-current segment assets relate to the UK business other than £349,000 (2017: £474,000) which relate to the USA business segment.

Reconciliation of earnings before interest, tax, depreciation and amortisation (EBITDA)	2018 £'000	2017 £'000
Operating profit	9,906	9,082
Add back:		
Depreciation	1,326	1,329
Amortisation	591	588
Earnings before interest, tax, depreciation and amortisation	11,823	10,999

6. Operating costs

	2018 £'000	2017 £'000
Cost of inventories recognised as an expense	**39,087**	37,655
Movement on inventory impairment provision	**(276)**	(116)
Other external charges	**14,548**	13,214
Staff costs (note 7)	**24,159**	22,676
Depreciation of property, plant and equipment	**1,326**	1,329
Amortisation of intangible assets	**591**	588
Impairment of trade receivables	**94**	67
Cost of research and development	**303**	194
Net foreign exchange (gains)/losses	**(144)**	80
	79,688	75,687

7. Staff numbers and costs

	2018 Number	2017 Number
The average number of persons employed during the year, including Directors:		
Operatives	**457**	463
Salaried employees	**328**	320
	785	783

The Company had no employees in the current or preceding years. All employee costs are paid for by Group companies.

	2018 £'000	2017 £'000
Staff costs		
Wages and salaries	**20,349**	19,123
Social security costs	**1,768**	1,703
Other pension costs	**1,475**	1,304
Non-monetary benefits	**567**	546
	24,159	22,676

	2018 £'000	2017 £'000
Directors' emoluments:		
Salary and fees, taxable benefits and incentive	**1,712**	1,657
Gains made on exercise of share options	**232**	544
Long-term incentive plan	**72**	28
Pension contributions	**96**	84
	2,112	2,313

	2018 Number	2017 Number
Number of Directors who were members of a defined contribution pension scheme during the year	**5**	5
Number of Directors who exercised options over shares in the ultimate parent company	**3**	4

Notes to the Financial Statements continued

7. Staff numbers and costs continued

	2018 £'000	2017 £'000
Remuneration of the highest paid Director:		
Salary and fees, taxable benefits and incentive	**710**	635
Gains made on exercise of share options	**124**	261
Long-term incentive plan	**47**	14
Pension contributions	**23**	25
	904	935

The highest paid Director exercised options in the year over shares in the Company.

8. Auditors' remuneration

	2018 £'000	2017 £'000
Fees payable to the Group's auditors for the audit of the Group's annual accounts	**56**	53
Other audit related services – interim review	**6**	6
The audit of the Company's subsidiaries	**14**	13
Total audit related fees	**76**	72
Fees payable to the Group's auditors and their associates for other services to the Group		
Other taxation advisory services	**—**	14
Other services	**2**	1
Total non-audit fees	**2**	15
Fees payable to the Group's auditors and their associates in respect of associated pension schemes		
Audit of the Portmeirion Potteries Limited Retirement Benefits Scheme	**5**	5
	5	5

The audit fee for the Company was £1,700 (2017: £1,600).

Fees payable to Mazars LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

9. Interest income

	2018 £'000	2017 £'000
Bank deposits	**14**	17

Interest income relates to amounts received on financial assets and classified as cash and cash equivalents.

10. Finance costs

	2018 £'000	2017 £'000
Interest paid	**260**	313
Realised losses on financial derivatives	**12**	4
Net interest expense on pension scheme deficit (note 31)	**29**	170
	301	487

Interest paid relates to amounts paid on financial liabilities held at amortised cost.

11. Taxation on profit on ordinary activities

	2018 £'000	2017 £'000
Current taxation		
United Kingdom corporation tax at 19% (2017: 19.25%)	**1,336**	1,222
Overseas taxation	**332**	480
	1,668	1,702
Deferred taxation		
Origination and reversal of temporary differences	**156**	67
Pension scheme	**199**	175
	355	242
	2,023	1,944

United Kingdom corporation tax is calculated at 19% (2017: 19.25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The actual tax charge for the current and the previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2018 £'000	2017 £'000
Profit on ordinary activities before taxation	**9,714**	8,822
Tax on profit on ordinary activities at standard rate of 19% (2017: 19.25%)	**1,846**	1,698
Factors affecting charge for the year:		
Expenses not deductible for tax purposes and other adjustments	**95**	47
Foreign tax charged at higher rates than UK standard rate	**100**	239
Differences relating to associates' tax charge	**(18)**	(40)
Total tax on profit on ordinary activities	**2,023**	1,944

Future tax charges will be impacted by the continuing reduction in the UK corporation tax rate.

12. Dividends paid

	2018 £'000	2017 £'000
Final dividend of 27.26p per share paid in respect of the year ended 31 December 2017 (2017: final dividend of 25.25p per share paid in respect of the year ended 31 December 2016)	**2,917**	2,641
Interim dividend of 8.00p per share paid in respect of the year ended 31 December 2018 (2017: interim dividend of 7.40p per share paid in respect of the year ended 31 December 2017)	**852**	792
Unclaimed dividends written back	**(3)**	—
Total dividends paid in the year	**3,766**	3,433

The Directors recommend that a final dividend for 2018 of 29.50p (2017: 27.26p) per ordinary share be paid, making a total for the year of 37.50p (2017: 34.66p) per share. The final dividend will be paid, subject to shareholders' approval, on 30 May 2019, to shareholders on the register at the close of business on 26 April 2019. This dividend has not been included as a liability in these financial statements.

Notes to the Financial Statements continued

13. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	2018			2017		
	Earnings £'000	Weighted average number of shares	Earnings per share (p)	Earnings £'000	Weighted average number of shares	Earnings per share (p)
Basic earnings per share	**7,691**	**10,664,531**	**72.12**	6,878	10,570,942	65.07
Effect of dilutive securities:						
employee share options	**—**	**32,746**	**—**	—	45,459	—
Diluted earnings per share	**7,691**	**10,697,277**	**71.90**	6,878	10,616,401	64.79

14. Goodwill

	Total £'000
Cost	
At 31 December 2017 and 31 December 2018	**7,229**

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units, or group of units that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had all been allocated to the home fragrance segment.

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired. Goodwill has been tested for impairment during the year.

The recoverable amounts of the cash-generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash-generating unit. Future growth rates and expected changes to selling prices and direct costs are estimated based upon historical and anticipated trading performance. There have been no significant changes in these assumptions during the financial year.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management and projects these cash flows for the following five years based on an estimated growth rate of 1.5%. These budgets are based on current trading performance and do not envisage any changes to the current business model. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the home fragrance segment is 5%.

15. Intangible assets

	Development costs £'000	Computer software £'000	Intellectual property and customer lists £'000	Total £'000
Cost				
At 1 January 2017	59	309	8,661	9,029
Additions	—	80	—	80
Disposals	—	(7)	—	(7)
At 1 January 2018	59	382	8,661	9,102
Additions	—	213	—	213
Disposals	(59)	(60)	—	(119)
At 31 December 2018	**—**	**535**	**8,661**	**9,196**
Amortisation				
At 1 January 2017	59	214	2,190	2,463
Charge for the year	—	58	530	588
On disposals	—	(7)	—	(7)
At 1 January 2018	59	265	2,720	3,044
Charge for the year	—	61	530	591
On disposals	(59)	(60)	—	(119)
At 31 December 2018	**—**	**266**	**3,250**	**3,516**
Net book value				
At 31 December 2018	**—**	**269**	**5,411**	**5,680**
At 31 December 2017	—	117	5,941	6,058

Included within intellectual property and customer lists are the rights to certain intellectual property and the trade names of Spode and Royal Worcester (purchased in April 2009) and the intellectual property and customer lists recognised at fair value on the acquisition of Wax Lyrical (purchased in May 2016).

At the year end the Spode and Royal Worcester intellectual property had a carrying value of £688,000 (2017: £751,000). The remaining amortisation period is eleven years.

At the year end the Wax Lyrical intellectual property had a carrying value of £3,205,000 (2017: £3,465,000) and the customer lists had a carrying value of £1,518,000 (2017: £1,725,000). The remaining amortisation periods are twelve years four months and seven years four months respectively.

At 31 December 2018, the Group had entered into contractual commitments for the acquisition of intangible assets amounting to £41,000 (2017: £100,000).

Notes to the Financial Statements continued

16. Property, plant and equipment

	Land and buildings				
	Freehold £'000	Leasehold £'000	Leasehold improvements £'000	Plant and vehicles £'000	Total £'000
Cost					
At 1 January 2017	3,855	3,874	1,595	15,752	25,076
Additions	—	—	1	937	938
Disposals	—	—	—	(616)	(616)
Exchange rate adjustments	—	—	(62)	(119)	(181)
At 1 January 2018	3,855	3,874	1,534	15,954	25,217
Additions	—	—	63	816	879
Disposals	—	—	(19)	(344)	(363)
Exchange rate adjustments	—	—	41	76	117
At 31 December 2018	**3,855**	**3,874**	**1,619**	**16,502**	**25,850**
Depreciation					
At 1 January 2017	1,961	174	1,108	11,216	14,459
Charge for the year	70	51	109	1,099	1,329
On disposals	—	—	—	(586)	(586)
Exchange rate adjustments	—	—	(45)	(89)	(134)
At 1 January 2018	2,031	225	1,172	11,640	15,068
Charge for the year	70	51	110	1,095	1,326
On disposals	—	—	(19)	(284)	(303)
Exchange rate adjustments	—	—	30	63	93
At 31 December 2018	**2,101**	**276**	**1,293**	**12,514**	**16,184**
Net book value					
At 31 December 2018	**1,754**	**3,598**	**326**	**3,988**	**9,666**
At 31 December 2017	1,824	3,649	362	4,314	10,149

At 31 December 2018, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £nil (2017: £15,000).

17. Interests in associates

Group

Associated undertakings	**2018 £'000**	2017 £'000
Furlong Mills Limited		
2,080 ordinary shares of £1 each, representing 36.9% of the issued share capital		
Current assets	**3,632**	3,926
Non-current assets	**3,159**	2,886
Current liabilities	**(1,772)**	(1,692)
Non-current liabilities	**(176)**	(151)
Equity attributable to owners of the Company	**4,843**	4,969
Share of net assets	**1,787**	1,656
Discount on acquisition	**(13)**	(13)
Carrying value of the Group's interest in the associate	**1,774**	1,643
Revenue	**9,544**	8,631
Profit from continuing operations	**459**	429
Portmeirion Canada Inc.		
100 common shares representing 50% of the issued share capital		
Current assets	**1,799**	2,386
Non-current assets	**12**	14
Current liabilities	**(87)**	(324)
Equity attributable to owners of the Company	**1,724**	2,076
Share of net assets	**862**	1,038
Adjustment for intercompany profit held in inventories	**(69)**	(156)
Carrying value of the Group's interest in the associate	**793**	882
Revenue	**2,597**	2,769
(Loss)/profit from continuing operations	**(71)**	61
Aggregate carrying value of associated undertakings	**2,567**	2,525

A list of the investments in subsidiaries and associates, including the name, country of incorporation and proportion of ownership interest, is given in note 18.

Portmeirion Canada Inc. has been accounted for as an associate as it is independently managed from Canada, and with a 50% share of ownership the Directors consider that the Group asserts significant influence but not joint control.

18. Investment in subsidiaries

Company investment in subsidiary undertakings:

	2018 £'000	2017 £'000
30,100 ordinary shares of £1 each in Portmeirion Group UK Limited representing 100% of the issued share capital at cost	**1,455**	1,455
Capital contributions made to subsidiary undertakings:		
Portmeirion Group UK Limited	**10,146**	10,146
Portmeirion Enterprises Limited	**705**	705
Portmeirion Distribution Limited	**60**	60
	12,366	12,366

No interest is charged on these capital contributions.

Notes to the Financial Statements continued

18. Investment in subsidiaries continued

At 31 December 2018 the Company had the following subsidiary and associated undertakings:

	Country of operation and incorporation	Legal/registered address	Nature of business
Subsidiary undertakings			
Portmeirion Group UK Limited	England and Wales	London Road, Stoke-on-Trent ST4 7QQ	Ceramic manufacturer, marketing and distribution of homeware
Portmeirion Enterprises Limited(1)	England and Wales	London Road, Stoke-on-Trent ST4 7QQ	Intermediate holding company
Portmeirion Distribution Limited(1)	England and Wales	London Road, Stoke-on-Trent ST4 7QQ	Property company
Portmeirion Services Limited(1)	England and Wales	London Road, Stoke-on-Trent ST4 7QQ	Dormant
Portmeirion Group USA, Inc.(2)	USA	105 Progress Lane, Waterbury, Connecticut, USA 06705	Marketing and distribution of homeware
Portmeirion Group Designs, LLC(3)	USA	105 Progress Lane, Waterbury, Connecticut, USA 06705	Online marketing and distribution of homeware
Portmeirion Group Hong Kong Limited(1)	Hong Kong	42/F Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong	Intermediate holding company
Portmeirion (Shenzhen) Trading Company Limited(4)	China	Room A807, Block A, Lianhe Plaza, Futian District, Shenzhen, People's Republic of China	Marketing and distribution of homeware
Lighthouse Holdings Limited(1)	England and Wales	Lindal-in-Furness, Ulverston, Cumbria LA12 0LD	Intermediate holding company
Wax Lyrical Limited(5)	England and Wales	Lindal-in-Furness, Ulverston, Cumbria LA12 0LD	Manufacture, marketing and distribution of home fragrances
Colony Deutschland GmbH(6)	Germany	Pilotystr 4, 80538 München, Germany	Marketing and distribution of homeware
Colony Gift Corporation Limited(6)	England and Wales	Lindal-in-Furness, Ulverston, Cumbria LA12 0LD	Dormant
Associated undertakings			
Portmeirion Canada Inc.	Canada	20 Voyager Court South, Rexdale, Etobicoke, Toronto, Ontario, Canada	Marketing and distribution of homeware
Furlong Mills Limited	England and Wales	Furlong Lane, Burslem, Stoke-on-Trent ST6 3LE	Suppliers of clay and glaze

The companies are incorporated in England and Wales and registered in England and Wales except where stated. The share capital of all subsidiary undertakings consists solely of ordinary shares. The Company holds 100% of the share capital of all subsidiaries, 50% of the ordinary share capital of Portmeirion Canada Inc. and 36.9% of the ordinary share capital of Furlong Mills Limited. Furlong Mills Limited supplies Portmeirion Group UK Limited with all of its clay and most of its glaze raw materials.

Notes:

(1) Wholly owned by Portmeirion Group UK Limited.

(2) Wholly owned by Portmeirion Enterprises Limited.

(3) Wholly owned by Portmeirion Group USA, Inc.

(4) Wholly owned by Portmeirion Group Hong Kong Limited.

(5) Wholly owned by Lighthouse Holdings Limited.

(6) Wholly owned by Wax Lyrical Limited.

19. Inventories

Group

	2018 £'000	2017 £'000
Raw materials and other consumables	**2,435**	2,622
Work in progress	**809**	538
Finished goods	**15,935**	14,914
	19,179	18,074

20. Trade and other receivables

Group

	2018 £'000	2017 £'000
Amounts receivable for the sale of goods	**14,284**	11,348
Allowance for doubtful debts	**(369)**	(361)
Trade receivables	**13,915**	10,987
Amounts owed by associated undertakings	**77**	152
Other receivables	**152**	287
Prepayments and accrued income	**1,494**	1,005
	15,638	12,431

Generally no interest is charged on receivables; however, there is provision in the Group's terms and conditions for interest to be charged on late payments. The allowance for doubtful debts has been determined by reference to past default experience and a review of specific customers' debts at the year end.

Included in the Group's trade receivable balance are receivables with a carrying amount of £2,835,000 (2017: £3,383,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 50 days (2017: 53 days).

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £nil (2017: £nil), owed by companies which have been placed into liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

	Trade Receivables Days past due					
31 December 2018	**Current £'000**	**< 30 days £'000**	**30-60 days £'000**	**61-90 days £'000**	**>91 days £'000**	**Total £'000**
Expected credit loss rate	**0%**	**2.5%**	**5%**	**50%**	**75%**	
Estimated total gross carrying amount at default	**11,080**	**2,037**	**733**	**167**	**267**	**14,284**
Expected credit loss	**—**	**50**	**37**	**83**	**199**	**369**

	Trade Receivables Days past due					
31 December 2017	Current £'000	< 30 days £'000	30-60 days £'000	61-90 days £'000	>91 days £'000	Total £'000
Expected credit loss rate	0%	2.3%	4%	40%	50%	
Estimated total gross carrying amount at default	7,604	2,516	602	345	281	11,348
Expected credit loss	—	58	24	138	141	361

Notes to the Financial Statements continued

20. Trade and other receivables continued

Group continued

Movement in the allowance for doubtful debts	2018 £'000	2017 £'000
Balance at the beginning of the year	**361**	310
Impairment losses recognised	**94**	67
Amounts written off as uncollectable	**(86)**	(16)
Balance at the end of the year	**369**	361

Company

	2018 £'000	2017 £'000
Amounts owed by subsidiary undertakings	**4,083**	3,986

There is no expected credit loss on amounts owed by subsidiary undertakings.

The Directors consider that the carrying amount of trade and other receivables for the Group and the Company approximates to their fair value.

21. Cash and cash equivalents

Group

	2018 £'000	2017 £'000
Cash and cash equivalents	**7,214**	8,487

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

22. Trade and other payables

Group

	2018 £'000	2017 £'000
Trade payables and accruals	**10,263**	9,401
Amounts owed to associated undertakings	**29**	14
Other taxation and social security	**800**	643
Other payables	**933**	498
	12,025	10,556

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 35 days (2017: 36 days). For most suppliers no interest is charged on the trade payables from the date of invoice to the end of the following month. Thereafter, interest may be charged on the outstanding balances at various interest rates. The Group's policy is to pay all payables within the credit timeframe.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

23. Borrowings

The Group has three facilities:

a) A £2,000,000 overdraft facility available until 31 May 2019. Interest is payable at 1.9% on the net pooled fund balance, plus bank base rate on net sterling borrowings.

b) A £10,000,000 loan facility repayable in equal instalments over a five-year term until 4 May 2021. Interest is payable at an average 1.38% above three-month LIBOR. At the year end the outstanding balance was £5,000,000 which net of deferred facility fee costs of £45,000 left the balance sheet value of £4,955,000 (note 27).

c) A £10,000,000 revolving credit facility available until 26 May 2022. Interest is payable at 1.75% above three-month LIBOR.

These facilities are secured by an unlimited debenture from the Group and the Company and a first charge over the Group's property.

The overdraft and revolving credit facilities were not being utilised at 31 December 2018.

24. Deferred tax

Group

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting years:

	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Share-based payment £'000	Capital gain rolled over £'000	Other temporary differences £'000	Temporary difference acquired intangibles £'000	Total £'000
At 1 January 2017	(433)	1,212	80	(235)	851	(961)	514
Credit/(charge) to income	131	(175)	(65)	—	(212)	79	(242)
Charge to equity	—	—	(4)	—	—	—	(4)
Charge to other comprehensive income	—	(753)	—	—	(57)	—	(810)
At 1 January 2018	(302)	284	11	(235)	582	(882)	(542)
(Charge)/credit to income	(41)	(199)	(28)	43	(209)	79	(355)
Credit to equity	—	—	23	—	—	—	23
Charge to other comprehensive income	—	(84)	—	—	(33)	—	(117)
At 31 December 2018	**(343)**	**1**	**6**	**(192)**	**340**	**(803)**	**(991)**

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018 £'000	2017 £'000
Deferred tax liability	**(991)**	(882)
Deferred tax asset	**—**	340
	(991)	(542)

At the balance sheet date, the Group had no unused tax trading losses and no capital losses (2017: £nil) available for offset against future profits.

Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

Notes to the Financial Statements continued

25. Share capital

	2018		2017	
	Number '000	£'000	Number '000	£'000
Allotted, called up and fully paid share capital:				
ordinary shares of 5p each	**11,107**	**555**	11,090	554

The market price of the Company's shares at 31 December 2018 was 950.0p per share. During the year the price ranged between 905.0p and 1,310.0p per share.

The Company has one class of ordinary shares which carry no right to fixed income.

During the year the Company issued 17,379 new ordinary shares of 5p each for a total of £118,000 in order to satisfy the exercise of share options.

Options granted to Directors and employees (note 33) to acquire ordinary shares of 5p in the Company and still outstanding at 31 December 2018 were as follows:

	Number of shares	Exercise price per share (p)	Dates on which exercisable Earliest	Dates on which exercisable Latest
2018 Deferred Incentive Plan	4,225	—	12.05.2019	10.08.2019
2018 Deferred Incentive Plan	14,399	—	22.05.2021	20.08.2021
2012 Approved Plan	136	935.0	28.04.2018	26.04.2025
2012 Unapproved Plan	10,864	935.0	28.04.2018	26.04.2025
2012 Approved Plan	57,127	960.0	12.08.2020	10.08.2027
2012 Unapproved Plan	128,373	960.0	12.08.2020	10.08.2027
2012 Approved Plan	11,173	1,180.0	23.05.2021	21.05.2028
2012 Unapproved Plan	183,827	1,180.0	23.05.2021	21.05.2028

Options held by the Directors are shown in the Directors' Remuneration Report on pages 41 and 42.

26. Own shares

Treasury shares	2018 £'000	2017 £'000
At 1 January	**445**	448
Shares purchased	**—**	—
Shares issued under employee share schemes	**(6)**	(3)
At 31 December	**439**	445
ESOP shares		
At 1 January	**1,431**	2,488
Shares purchased	**2,519**	34
Shares issued under employee share schemes	**(1,132)**	(1,091)
At 31 December	**2,818**	1,431
Total at 31 December	**3,257**	1,876

The Group currently holds 234,607 (2017: 237,743) ordinary shares of 5p each in treasury.

The ESOP share reserve represents the cost of shares in Portmeirion Group PLC purchased in the market and held by the Portmeirion Employees' Share Trust to satisfy options under the Group's share option schemes (note 33). The number of ordinary shares held by the Portmeirion Employees' Share Trust at 31 December 2018 was 245,523 (2017: 152,917).

27. Notes to the statements of cash flows

Group

	1 January 2018	Financing[1] cash flows	Other[2] changes	31 December 2018
Current borrowings	1,981	—	—	**1,981**
Non-current borrowings	4,955	(2,000)	19	**2,974**
Total liabilities from financing activities	6,936	(2,000)	19	**4,955**

Notes:

(1) The cash flows make up the net amount of repayments of borrowings in the cash flow statement.

(2) Other changes are the amortisation of upfront facility fees.

28. Commitments

Operating lease arrangements

Operating lease payments represent rentals payable by the Group for:

- Portmeirion UK's retail outlets and motor vehicles;
- Portmeirion USA's warehouse, New York showrooms and New Jersey office; and
- Wax Lyrical's main operating site, warehouse, retail outlet and motor vehicles.

Leases are negotiated on an individual basis.

The Group as lessee

	2018 £'000	2017 £'000
Lease payments under operating leases recognised as an expense in the year	**1,491**	1,554

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Within one year	**1,424**	1,425
In the second to fifth years inclusive	**3,401**	4,091
After five years	**1,415**	1,880
	6,240	7,396

The Company did not have any operating lease arrangements.

29. Contingent liabilities

The Group and the Company have given a guarantee of up to $900,000 to the landlord of the premises of Portmeirion Group USA, Inc. located in Connecticut, USA. The Group and the Company have also provided a guarantee to the Trustees of the UK defined benefit pension scheme which guarantees all present and future obligations and liabilities up to a maximum amount equal to the entire aggregate liability.

Notes to the Financial Statements continued

30. Related party transactions

Transactions between the Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates and the Company and its subsidiaries and associates are disclosed below.

Group

The transactions during the year with associated undertakings were:

	Purchases 2018 £'000	Purchases 2017 £'000	**Sales 2018 £'000**	Sales 2017 £'000
Portmeirion Canada Inc.	**—**	—	**1,217**	1,541
Furlong Mills Limited	**898**	768	**—**	—

The outstanding balances at 31 December 2018 with associated undertakings were:

	Debtor 2018 £'000	Debtor 2017 £'000	**Creditor 2018 £'000**	Creditor 2017 £'000
Portmeirion Canada Inc.	**77**	152	**—**	—
Furlong Mills Limited	**—**	—	**29**	14

Sales to Portmeirion Canada Inc. are made at prices agreed between Portmeirion Group UK Limited and Portmeirion Canada Inc. The sales figure includes management fees for Group services.

Purchases from Furlong Mills Limited are made at prices agreed between Portmeirion Group UK Limited and Furlong Mills Limited. Portmeirion Group UK Limited receives a rebate related to its level of purchases from Furlong Mills Limited. The purchases figure includes a credit for management fees.

Several of the Directors made purchases of goods from the Group during the year on the same terms as those available to all employees. Total purchases did not exceed £1,000 for any Director in the year or in the prior year.

No Director of the Company had a financial interest in any material contract, other than those for service, to which the Company was a party during the financial year.

The key management personnel of the Group are considered to be the Directors, the remuneration of whom is set out in note 7 on pages 69 and 70.

Company

During 2018 net transactions totalling £97,000 were debited (2017: £1,742,000 debited) to the intercompany account with the Company's subsidiary, Portmeirion Group UK Limited. These transactions represented payments and receipts made on behalf of the Company by Portmeirion Group UK Limited, an intergroup dividend and the charge for share-based payments.

During the year the Portmeirion Employees' Share Trust increased an intercompany loan from the Company by a net amount of £1,387,000 (2017: £1,057,000 reduction). The purpose of the loan is for acquiring shares to satisfy Group share option exercises (note 33). The total outstanding loan is now £2,818,000 (2017: £1,431,000). The ESOP share reserve is disclosed in note 26 on page 80.

The outstanding balances with subsidiary undertakings at 31 December 2018 and 31 December 2017 are shown in note 20 on page 78.

No balances were owed to or from the Company by or to associated undertakings.

31. Pensions

The Group operates group personal pension plans in the UK and a discretionary money purchase scheme in the USA.

The total cost charged to income of £1,475,000 (2017: £1,304,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

The UK defined benefit scheme was frozen, i.e. closed to new entrants and for future accrual of benefits, at 5 April 1999. Following the decision for the scheme to be frozen, formal notice was given to employees in January 1999. A defined contribution pension scheme commenced on 6 April 1999 for all eligible UK employees. This scheme was closed on 31 October 2002 and was replaced by a group stakeholder pension plan. Membership in this scheme was transferred to a group personal pension plan during 2013.

All equity and debt instruments have quoted prices in active markets.

Investment risk

The present value of the defined benefit liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will increase the scheme deficit.

Interest risk

A decrease in the bond interest rate will increase the scheme liability.

Longevity risk

The present value of the defined benefit scheme liability is calculated by reference to the best estimate of the mortality of the scheme participants both during and after their employment. An increase in the life expectancy of the scheme participants will increase the scheme's liability.

Salary risk

The present value of the defined benefit scheme liability is calculated by reference to the salary of scheme participants at the point the scheme was closed. As such, only inflationary increases in the salary of scheme participants will increase the scheme's liability.

Valuation and assumptions

For the defined benefit scheme, the most recent triennial valuation was at 5 April 2017. The main actuarial assumptions used in the valuation were:

- RPI for current pensioners of 3.50% per annum;
- RPI for future pensioners of 4.00% per annum;
- CPI of 2.40% per annum;
- pre-retirement valuation rate of interest of 3.30% per annum;
- post-retirement valuation rate of interest for current pensioners of 1.80% per annum;
- post-retirement valuation rate of interest for future pensioners of 2.60% per annum; and
- mortality experience based upon S2PA tables with projections based on year of birth with a long-term rate of improvement of 1.50% per annum.

At the date of the last valuation on 5 April 2017 the market value of the scheme assets was £33,423,000 and the scheme had a deficiency of £4,099,000.

The actuarial valuation of the scheme was updated at 31 December 2018 in accordance with IAS 19 by qualified actuaries.

Notes to the Financial Statements continued

31. Pensions continued

Valuation and assumptions continued

The major assumptions used by the actuaries were:

	2018	2017
Rate of increase of pensions in payment:		
Post 06.04.88 GMP	**3.00%**	3.00%
Pre 06.04.97 excess over GMP	**5.00%**	5.00%
Post 06.04.97 pension	**3.00%**	3.00%
Rate of revaluation of pensions in deferment	**2.05%**	2.05%
Rate used to discount scheme liabilities	**2.90%**	2.50%
Inflation assumption:		
RPI	**3.15%**	3.15%
CPI	**2.05%**	2.05%
Life expectancy at 65 for a member:		
Currently aged 65 – male	**21.8**	21.9
Currently aged 45 – male	**22.8**	23.0
Currently aged 65 – female	**23.7**	23.7
Currently aged 45 – female	**24.9**	25.0

Sensitivity analysis

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected inflation increases and life expectancy. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 0.25% higher, the defined benefit obligation would reduce by £1,339,000 (2017: £1,341,000).

If inflation and related assumptions increased by 0.25%, the defined benefit obligation would increase by £289,000 (2017: £240,000).

If life expectancy increased by one year for both men and women, the defined benefit obligation would increase by £1,544,000 (2017: £1,452,000).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

31. Pensions continued

Analysis of scheme assets and liabilities

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows:

	2018 Fair value £'000	2017 Fair value £'000
Scheme assets		
Equities	**4,871**	5,361
Bonds	**7,805**	8,096
Gilts	**9,710**	9,683
Diversified growth funds	**5,682**	5,248
Insured pensions	**5,086**	5,631
Cash	**101**	106
Total fair value of assets	**33,255**	34,125
Present value of defined benefit obligations	**(33,261)**	(35,797)
Deficit in the scheme	**(6)**	(1,672)

Analysis of the amount charged to operating profit

	2018 £'000	2017 £'000
Current service cost	**—**	—
Past service cost	**—**	—
	—	—

Analysis of the amount included in the income statement

	2018 £'000	2017 £'000
Interest on pension scheme assets	**855**	842
Interest on pension scheme liabilities	**(884)**	(1,012)
Amount charged to other finance costs	**(29)**	(170)

Amounts recognised in the consolidated statement of comprehensive income

	2018 £'000	2017 £'000
Return on plan assets (excluding amounts included in net interest expense)	**(1,914)**	860
Actuarial gains and losses arising from changes in financial assumptions	**2,183**	114
Actuarial gains and losses arising from changes in demographic assumptions	**215**	2,144
Actuarial gains and losses arising from experience adjustments	**11**	1,310
Remeasurement of the net defined benefit pension scheme liability	**495**	4,428

The Group has assessed the impact of GMP equalisation on the defined benefit obligation. This has not been accounted for on the basis it is both immaterial and highly judgemental.

The cumulative amount of actuarial gains and losses recognised in the consolidated statement of comprehensive income since adoption of IFRS is a loss of £5,135,000 (2017: £5,630,000).

Notes to the Financial Statements continued

31. Pensions continued

Analysis of movements in scheme assets and liabilities

Movements in the present value of defined benefit obligations were as follows:

	2018 £'000	2017 £'000
At 1 January	**35,797**	39,489
Service cost	**—**	—
Interest cost	**884**	1,012
Remeasurements (financial assumptions)	**(2,183)**	(114)
Remeasurements (demographic assumptions)	**(215)**	(2,144)
Remeasurements (experience adjustments)	**(11)**	(1,310)
Benefits paid	**(1,011)**	(1,136)
At 31 December	**33,261**	35,797

Movements in the fair value of scheme assets were as follows:

	2018 £'000	2017 £'000
At 1 January	**34,125**	32,359
Interest on assets	**855**	842
Remeasurement of assets	**(1,914)**	860
Contributions by the employer	**1,200**	1,200
Benefits paid	**(1,011)**	(1,136)
At 31 December	**33,255**	34,125

Pension contributions

The estimated amount of contributions expected to be paid to the scheme during the next financial year is £1,200,000 (2018: £1,200,000). The Group is committed to paying into the scheme until January 2021, £1,200,000 per annum in line with the agreed schedule of contributions.

The average duration of the defined benefit obligation at the end of the reporting period is 17 years.

At 31 December 2018, contributions of £156,000 (2017: £136,000) due in respect of the current reporting period had not been paid over to the UK schemes.

In the United States there was a provision for payments into the money purchase scheme of £190,000 (2017: £133,000) at 31 December 2018.

32. Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

Financial risk management objectives

Capital management

The Group and the Company manage their capital to ensure that all entities in the Group will be able to continue as a going concern while maximising the return to stakeholders. The Group's overall strategy remains unchanged from 2017.

The capital structure of the Group consists of cash and cash equivalents, borrowings and equity attributable to equity holders, comprising capital, reserves and retained earnings.

The Group is not subject to any externally imposed capital requirements. The Group Board reviews the capital structure at each Board meeting and considers the cost of capital and the risks associated with each class of capital.

32. Financial instruments continued

Financial risk management objectives continued

Credit risk

The Group's principal financial assets are cash, short-term deposits and trade receivables. The Group's policy is to place funds on short-term deposit with highly rated institutions. Accounts receivable are monitored closely and provisions are made for expected credit loss where appropriate. The creditworthiness of customers is assessed prior to opening new accounts and on a regular basis for significant customers. The assessment of credit quality of trade receivables is outlined in note 20.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics that is not covered by credit insurance.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group and Company's maximum exposure to credit risk.

Interest rate risk management and sensitivity analysis

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates as disclosed in note 23. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and could further be mitigated by the use of interest rate swap contracts and forward interest rate contracts if deemed appropriate. If interest rates had been 1% higher and all the other variables were held constant, the Group's profit for the year ended 31 December 2018 would decrease by £87,000 (2017: £99,000).

Foreign currency risk management

The Group has exposure to foreign currency risk arising from its net investments in and cash flows from overseas subsidiaries and associates. Its policy in managing this risk is to maintain appropriate levels of net assets in the overseas companies and utilise foreign currency forward contracts. The most significant risk of exposure to foreign currency arises from the US dollar sales made by Portmeirion UK to Portmeirion USA. The Group's net exposure to US dollar cash flows for the coming year is not expected to be significant. At the year end the Group had in place an average rate option in US dollars to manage the risk arising from the retranslation of profit made in the United States, and subsequent to the year end the Group placed forward contracts for US dollars and euros.

The Group enters into derivative transactions only to manage exposure arising from its underlying businesses. No speculative derivative contracts are entered into.

The Group undertakes certain trading transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts when considered appropriate. Open derivative positions at the year end are not material.

The carrying amounts of the Group's material foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Euro	**198**	135	**585**	657
US dollar	**3,159**	3,217	**6,351**	5,950

Foreign currency sensitivity analysis

The Group is mainly exposed to the currencies of euro and US dollar.

The following table details the Group's sensitivity to a 10% increase and decrease in sterling against the relevant foreign currencies. 10% is the sensitivity rate which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. A negative number below indicates a decrease in profit where sterling strengthens 10% against the relevant currency. For a 10% weakening of sterling against the relevant currency, there would be an equal and opposite impact on profit.

	Euro impact		US dollar impact	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Loss	**(35)**	(48)	**(36)**	(13)

Notes to the Financial Statements continued

32. Financial instruments continued

Financial risk management objectives continued

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group's expected maturity for its assets and liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

At 31 December 2018	Weighted average effective interest rate %	Less than 1 month £'000	1–3 months £'000	Over 3 months £'000	Non-financial assets/ (liabilities) £'000	Total £'000
Financial assets	**0.75**	**17,219**	**3,987**	**—**	**—**	**21,206**
Other assets	**—**	**—**	**—**	**—**	**45,967**	**45,967**
Total assets		**17,219**	**3,987**	**—**	**45,967**	**67,173**
Shareholders' funds	**—**	**—**	**—**	**—**	**(48,650)**	**(48,650)**
Financial liabilities	**—**	**(9,768)**	**(1,384)**	**(73)**	**—**	**(11,225)**
Borrowings	**3.25**	**(500)**	**—**	**(4,455)**	**—**	**(4,955)**
Other liabilities	**—**	**(766)**	**(355)**	**(225)**	**(991)**	**(2,337)**
Pension scheme deficit	**—**	**—**	**—**	**—**	**(6)**	**(6)**
Total liabilities and shareholders' funds		**(11,034)**	**(1,739)**	**(4,753)**	**(49,647)**	**(67,173)**
Cumulative gap		**6,185**	**8,433**	**3,680**	**—**	**—**

At 31 December 2017	Weighted average effective interest rate %	Less than 1 month £'000	1–3 months £'000	Over 3 months £'000	Non-financial assets/ (liabilities) £'000	Total £'000
Financial assets	0.50	16,065	3,561	—	—	19,626
Other assets	—	—	—	—	45,667	45,667
Total assets		16,065	3,561	—	45,667	65,293
Shareholders' funds	—	—	—	—	(44,772)	(44,772)
Financial liabilities	—	(8,623)	(1,210)	(80)	—	(9,913)
Borrowings	3.0	(500)	—	(6,436)	—	(6,936)
Other liabilities	—	(785)	(274)	(59)	(882)	(2,000)
Pension scheme deficit	—	—	—	—	(1,672)	(1,672)
Total liabilities and shareholders' funds		(9,908)	(1,484)	(6,575)	(47,326)	(65,293)
Cumulative gap		6,157	8,234	1,659	—	—

32. Financial instruments continued

Liquidity and interest risk tables continued

Categories of financial instruments	2018 £'000	2017 £'000
Financial assets:		
Cash and cash equivalents	7,214	8,487
Loans and receivables	13,992	11,139
	21,206	19,626
Financial liabilities:		
Amortised cost	11,225	9,913

33. Share-based payments

Equity-settled share option schemes

The Group operates two share option schemes ("share schemes") and one long-term incentive plan ("LTIP") for senior managers and Directors.

The Group recognised total expenses of £143,000 and £66,000 related to share-based payment transactions in 2018 and 2017 respectively. The Company recharged these expenses to Portmeirion Group UK Limited.

a) The Portmeirion Group 2018 Deferred Incentive Share Option Plan (LTIP)

Options are granted to Executive Directors in a year over shares with a market value not exceeding 50% of the gross incentive earned by the relevant Director in respect of the previous financial year. Options are exercisable at £1 per individual as the total exercise price. The vesting period is three years. If the options remain unexercised after a period of three years and three months from the date of grant the options expire.

Details of the share options outstanding during the year are as follows:

	2018		2017	
	Number of share options	Total exercise price £	Number of share options	Total exercise price £
Outstanding at 1 January	7,361	4	12,021	9
Granted during the year	14,399	4	—	—
Lapsed during the year	—	—	(2,926)	2
Surrendered during the year	—	—	—	—
Exercised during the year	(3,136)	2	(1,734)	3
Outstanding at 31 December	18,624	6	7,361	4
Exercisable at 31 December	—	—	—	—

The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 2.2 years (2017: 1.2 years). In 2018, options were granted on 21 May. The aggregate of the estimated fair value of those options is £152,138.

The inputs into the Black Scholes pricing model are as follows:

	2018	2017
Weighted average share price at date of grant	£11.600	—
Weighted average exercise price	£nil	—
Expected volatility	18%	—
Expected life	3.125 years	—
Risk-free rate	0.88%	—
Expected dividend rate	2.99%	—

Expected volatility was determined by calculating the historical volatility over the previous 3.125 years. The expected life used in the model assumes that the options will be exercised on average halfway through the period during which they can be exercised.

Notes to the Financial Statements continued

33. Share-based payments continued

Equity-settled share option schemes continued

b) The Portmeirion 2012 Approved and Unapproved Share Option Plans (Share schemes)

Options are exercisable at a price equal to the closing quoted market price of the Company's shares on the day prior to the date of the grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire.

Details of the share options outstanding during the year are as follows:

	2018		2017	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at 1 January	**342,379**	**9.361**	425,121	7.811
Granted during the year	**195,000**	**11.800**	193,000	9.600
Lapsed during the year	**(7,500)**	**9.600**	(33,000)	9.350
Surrendered during the year	**—**	**—**	—	—
Exercised during the year	**(138,379)**	**9.029**	(242,742)	6.838
Outstanding at 31 December	**391,500**	**10.689**	342,379	9.361
Exercisable at 31 December	**11,000**	**9.350**	17,379	6.793

The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 8.9 years (2017: 8.5 years).

In 2018, options were granted on 22 May. The aggregate of the estimated fair value of those options is £190,790.

The range of exercise prices for the options outstanding at 31 December is from £9.350 to £11.800.

The inputs into the Black–Scholes pricing model are as follows:

	2018	2017
Weighted average share price at date of grant	**£11.600**	£9.550
Weighted average exercise price	**£11.800**	£9.600
Expected volatility	**17%**	17%
Expected life	**4 years**	4 years
Risk-free rate	**0.88%**	0.34%
Expected dividend rate	**2.99%**	3.38%

Expected volatility was determined by calculating the historical volatility over the previous four years. The expected life used in the model is based upon management's best estimate of life using historical experience as a benchmark.

34. Post balance sheet event

On 22 February 2019, the Group acquired an additional 423 shares in Furlong Mills Limited, an existing associated undertaking, for £363,000.

This increased the Group's shareholding from 36.9% to 44.4%. Furlong Mills Limited will continue to be accounted for as an associated undertaking.

Five-year Summary

Consolidated income statement information

Years ended 31 December

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Revenue	**89,594**	84,769	76,677	68,669	61,370
Profit before tax	**9,714**	8,822	7,806	8,649	7,611
Tax	**(2,023)**	(1,944)	(1,581)	(1,752)	(1,538)
Profit attributable to equity holders	**7,691**	6,878	6,225	6,897	6,073
Earnings per share	**72.12p**	65.07p	59.60p	66.02p	57.64p
Diluted earnings per share	**71.90p**	64.79p	59.10p	65.48p	57.30p
Dividends paid and proposed per share	**37.50p**	34.66p	32.25p	30.00p	26.50p

Consolidated balance sheet information

At 31 December

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Assets employed					
Non-current assets	**25,142**	26,301	28,200	13,281	13,031
Current assets	**42,031**	38,992	35,292	33,142	32,221
Current liabilities	**(14,552)**	(13,012)	(11,704)	(6,816)	(8,052)
Non-current liabilities	**(3,971)**	(7,509)	(15,000)	(3,085)	(4,153)
	48,650	44,772	36,788	36,522	33,047
Financed by					
Called up share capital	**555**	554	550	550	549
Share premium account and reserves	**48,095**	44,218	36,238	35,972	32,498
	48,650	44,772	36,788	36,522	33,047

Company Information

Board of Directors

Non-executive Chairman
Dick Steele BCOM FCA CTA

Chief Executive
Lawrence Bryan BA

Group Finance Director
Mike Raybould BSc ACA

Group Sales and Marketing Director
Phil Atherton

Operations Director
Mick Knapper

Non-executive Director
Andrew Andrea BA MA ACA

Non-executive Director
Janis Kong OBE BSc

Non-executive Director
Angela Luger BSc

Company Secretary

Moira MacDonald FCIS

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Registered number: 124842

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Financial Calendar

Annual General Meeting	**May**
Interim Report	**August**
Dividends	
Interim announced	August
Paid	October
Final announced	March
Paid	May

Retail Outlets

Bridgend shop
Unit 71, Bridgend Designer Outlet
The Derwen
Bridgend
South Wales
CF32 9SU
Tel: +44 (0) 1656 669038

Colne shop "Boundary Mill"
Boundary Mill Stores
Vivary Way
Colne
Lancashire
BB8 9NW
Tel: +44 (0) 1282 856200

Longton shop
Phoenix Works
Unit 1 & 2
500 King Street
Longton
Staffordshire
ST3 1EZ
Tel: +44 (0) 1782 326661

Rotherham shop "Boundary Mill"
Boundary Mill Stores
Catcliffe Retail Park
Poplar Way
Catcliffe
Rotherham
S60 5TR
Tel: +44 (0) 1709 832800

Shiremoor shop "Boundary Mill"
Boundary Mill Stores
Park Lane
Shiremoor
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Tel: +44 (0) 1912 972420

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Swindon shop
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Swindon
Wiltshire
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Tel: +44 (0) 1793 422910

Trentham shop
Unit 230, Trentham Shopping Village
Trentham
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Tel: +44 (0) 1782 657828

Walsall shop "Boundary Mill"
Boundary Mill Stores
Junction 10 Retail Park
Bentley Mill Way
Walsall
West Midlands
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Wax Lyrical Lindal shop
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portmeiriongroup.com

Details of opening times and directions to the outlets can be found on our websites at:

www.portmeiriongroupfactoryshops.co.uk and www.wax-lyrical.com/outlets.

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