Timeless Design

PORTMEIRION GROUP PLC

Report and Accounts for the year ended 31 December 2019

Stock code: PMP

Strategic Report

1 Headlines
2 At a Glance
4 Our Brands
6 Chairman's Statement
8 Chief Executive's Statement
12 Markets
14 Business Model
16 Our Strategy
18 Section 172 (1) Statement on the Discharge of Directors' Duties
19 Key Performance Indicators
20 Risk Management
21 Principal Risks and Uncertainties
22 Financial Review
24 Going Concern and Outlook
25 Corporate Responsibility

Corporate Governance

28 Board of Directors
30 Corporate Governance Statement
36 Audit Committee Report
38 Nomination Committee Report
39 Directors' Remuneration Report
47 Report of the Directors
50 Statement of Directors' Responsibilities
51 Independent Auditor's Report

Financial Statements

55 Consolidated Income Statement
56 Consolidated Statement of Comprehensive Income
57 Consolidated Balance Sheet
58 Company Balance Sheet
59 Consolidated Statement of Changes in Equity
60 Company Statement of Changes in Equity
61 Consolidated Statement of Cash Flows
62 Company Statement of Cash Flows
63 Notes to the Financial Statements
96 Five-year Summary
97 Company Information and Financial Calendar

Our vision is to be a leading force in the global homeware sector focused on growing our great brands. We aim to achieve this strategically through sustainable revenue growth and continued product development across our six established homeware brands.

Our Brands pages 4 and 5 >

Visit our website at
portmeiriongroup.com

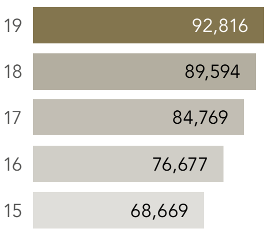
Pictured on front cover (clockwise from top): Nambé Classic and Gourmet, Royal Worcester Wrendale Designs and Spode Blue Italian

Pictured above: Sophie Conran for Portmeirion Mistletoe

Headlines

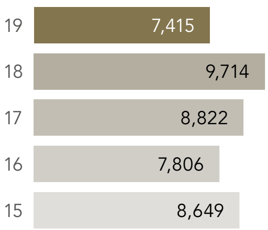
Revenue (£'000)

£92,816



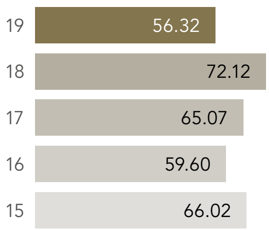
Headline profit before tax (£'000)

£7,415



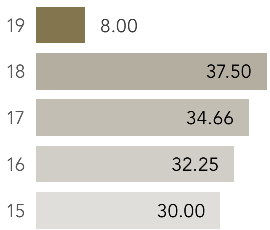
Headline basic EPS (p)

56.32p



Dividends paid and proposed per share (p)

8.00p



Financial Headlines

- Full year results are in line with market expectations.
- Group revenue increased by 3.6% to £92.8 million (2018: £89.6 million).
- Like-for-like revenue declined by 5.1% to £85.0 million (2018: £89.6 million).
- Headline profit before tax[1] of £7.4 million (2018: £9.7 million).
- EBITDA of £11.4 million (2018: £11.8 million).
- Headline basic earnings per share[1] of 56.32p (2018: 72.12p).
- Our intention was to maintain our total dividends paid and proposed for 2019 at 37.50p per share (2018: 37.50p). However, due to the unprecedented uncertainty facing businesses around the world from Covid-19, we are not recommending a final dividend at this time. We will review in three months and consider declaring an additional interim dividend in line with the final dividend for 2018 (29.50p). This will preserve approximately £3.1 million in forecast cash as part of Covid-19 contingency measures.
- We have a strong balance sheet and extensive bank facilities and headroom in place. We have put contingency plans in place across our business. These include looking after the health and safety of our staff as well as managing both potential supply chain risk and impacts on sales markets around the world. At the time of writing, we have seen only minor disruption to our supply chains and our factories are working against good sales order books. We continue to monitor our key sales markets around the world closely. Given that South Korea, our third largest market, has already seen a substantial outbreak of the virus and the fast changing situation in the UK and USA it is prudent to assume there will be further disruption to come. We will continue to adapt and flex our contingency plans over the coming weeks.

(1) Headline profit before tax and headline basic earnings per share exclude exceptional items – see note 6 on page 73.

Operational Headlines

- Growth in key markets including UK, USA and South Korea.
- Strong growth in online sales with core UK and USA markets growing by 17%, representing 30% of our total sales in these markets.
- Rest of the world sales down due to reducing sales of Portmeirion Botanic Garden to export markets to protect South Korean market from overcapacity and excessive parallel shipping.
- Good progress made to resolve short term issues in South Korea, with growth in sales to both existing distribution partner and new major retailer stocking other brands within our portfolio. This will remain a key area of focus throughout 2020.
- Completed $12 million acquisition of Nambé LLC, a US premium branded homewares business, providing exciting opportunities of sales growth and synergies. Strong progress has been made on integration into our existing US business.
- Appointments of Mike Raybould as Chief Executive and David Sproston as Group Finance Director.
- Excited about opportunities in 2020 including continued penetration in online channels and marking the 250th anniversary of our iconic Spode brand through marketing activities and new product launches.

At a Glance

A strong global outlook

Pictured: Spode Blue Italian and Nambé Classic and Gourmet

Who we are

Our vision is to be a leading force in the global homeware sector focused on growing our great 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 847 valued employees and sell into over 70 countries around the world where our brands and products are enjoyed by millions of consumers.

Our Brands

Portmeirion · Spode · Wax Lyrical · Royal Worcester · Pimpernel · Nambé

Business Model **pages 14 and 15** ›

Corporate Responsibility **pages 25 to 27** ›

What we do

Production and sourcing

We manufacture English earthenware from our factory in Stoke-on-Trent and home fragrances at our factory in the Lake District. We also source bone china and porcelain tableware, wood, glass and metal alloy giftware and other associated homewares. All are produced to the same exacting quality standards. The mix between own manufactured and sourced product was 46:54 for 2019. Our manufacturing plant in Stoke-on-Trent is well placed to produce in line with anticipated demand and our facility in the 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 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.

Our Strategy **pages 16 and 17** ›

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 are the creative hubs for new designs and extensions to existing ranges.

Markets **pages 12 and 13** ›

Where we operate

Investment case

1 Brands

Six global brands with combined history of over 700 years.

2 Established sales channels

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

3 Strong operational capabilities

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

4 Strong balance sheet and strong track record

Cash generative and strong funding position with £14.4 million of available facilities. Reported revenue growth for eleven consecutive years.

Our Brands

Established brands and markets

Portmeirion

Established in 1960

Beautiful designs and practicality for modern-day living.

Pictured: Sara Miller London Portmeirion

portmeirion.co.uk

Spode

Established in 1770

Contemporary yet timeless great British design.

Pictured: Spode 1770 Italian

spode.co.uk

Wax Lyrical England

Established in 1980

The UK's largest home fragrance company, based in the British Lake District.

Pictured: RHS Wildscents

wax-lyrical.com

ROYAL WORCESTER®
ESTABLISHED 1751

Established in 1751

A rich and diverse design heritage.

Pictured: Royal Worcester Wrendale Designs

royalworcester.co.uk

pimpernel.

Established in 1945

The premier brand for placemats and coasters

Pictured: Pimpernel Blue Lily

pimpernel international.co.uk

nambe
DESIGN YOUR LIFE®

Established in 1951

Making museum-quality art a part of daily life.

Pictured: Nambé Classic

nambeinternational.com

Chairman's Statement

Shaping for the future, a year of transition

Summary

- New Chief Executive and Finance Director embedded in business.
- Board strengthened with further independent Non-executive Director and another planned.
- Successful acquisition and integration of Nambé LLC.

Introduction

The year under review has been a tough one for the Group; a year of change and transition as we seek to shape the business to take advantage of future opportunities.

Our business and strategy

We design, manufacture, source and sell consumer products worldwide. Our Group is the guardian of six international consumer brands – Portmeirion, Spode, Royal Worcester, Wax Lyrical, Nambé and Pimpernel – with a combined heritage reaching back over 700 years. It is our duty to treasure, nurture and leverage our brands to generate wealth for stakeholders over the long term. Intellectual property and design are at the heart of our business, manifesting in valuable brands and in the long term nature of our revenues.

We trade in over 70 countries worldwide, have manufacturing and warehousing facilities in the UK, two warehouses in the US and one in China. We have 18 retail sites in the UK and US. Our main offices are in the UK and the US. We sell our products via retailers, wholesalers, agents, distributors and direct to consumers. We are particularly proud of our increasing sales through digital portals, either directly or via others for whom we distribute.

The Group's strategy is laid out in more detail on pages 16 and 17.

The Principal Risks and Uncertainties section is on page 21. We take care to identify and mitigate risks where appropriate and reasonable. Clearly there are external factors which we can have little control over, key amongst these at the moment are international trade worries whether because of epidemics or trade wars and the continuing uncertainty of Brexit. Our defences against these potential shocks are limited, however we are diversified and well-funded.

Governance

We are enthusiastic members of the Quoted Companies Alliance ("QCA") and have chosen to apply the QCA Corporate Governance Code, complying with its principles throughout 2019 and continuing to do so. Further details of the Company's governance programme can be found on our website and on pages 30 to 35 of this report. For a company of our size we consider our governance procedures to be excellent.

The Board

The Board keeps its composition and performance under review to ensure that we have the appropriate skills and experience in place to deliver our strategy.

In September 2019, Mike Raybould replaced Lawrence Bryan as Chief Executive. Lawrence retired after 18 years of leading the Group through significant change and lasting shareholder value. Lawrence remains on the Board as a Non-executive Director enabling the Group to continue to benefit from his international expertise. Mike joined the Group as Group Finance Director in 2017 and his progression has been part of our succession planning. With the business continuing to develop in size, geographical scope and complexity against a backdrop of rapidly changing markets, I have every confidence that Mike will lead the Group with success in these changing times.

David Sproston was appointed Group Finance Director in September 2019, prior to which he was Finance Director of Portmeirion Group UK Limited, our main UK operating company, having been with the Group since 2008.

As previously reported, Angela Luger joined the Board as Non-executive Director in March 2019 contributing her retail, digital and consumer experience. After 20 years on the Board, Janis Kong has decided to step down as a Non-executive Director and will not be seeking re-election at the Annual General Meeting in May 2020. Janis has provided independent, wise and robust advice to the Board during her tenure. We will be recruiting for an additional Non-executive Director to replace Janis.

Our people and culture

We aim to create an open, high performance culture through effective employee engagement, people development and diligent resource management. We are a caring employer with an excellent health and safety record, fair and balanced equality policies, a wide diversity in our workforce and a listening approach to our people. Further details can be found in the Corporate Responsibility section and the Corporate Governance Statement of this report.

Dividend

The Board is committed to a progressive dividend policy and aims to maintain a sustainable and appropriate level of dividend cover. We consider that a level of cover of earnings at or close to two times the dividends paid and proposed for the year is appropriate for the business over the long term.

Our intention was to maintain our total dividends paid and proposed for 2019 at 37.50p per share (2018: 37.50p). However, due to the unprecedented uncertainty facing businesses around the world from Covid-19, we are not recommending a final dividend at this time. We will review in three months and consider declaring an additional interim dividend in line with the final dividend for 2018 (29.50p).

The total dividends paid and proposed for 2019 are therefore 8.00p per share (2018: 37.50p per share). If we maintain our dividend at 37.50p per share, this level of dividend would be covered 1.46 times by earnings (2018: 1.93 times). This is below our internal target of 1.5 times, but we consider it appropriate given our strong balance sheet.

Dick Steele

Chairman

18 March 2020

Chief Executive's Statement

Key market growth and focus on online

Summary

- Strong online growth in UK and USA markets.
- Considerable progress made on protecting our brand and stabilising sales long term in South Korean market.
- Increased investment behind our brands and focus on digital transition.
- Strong progress made on Nambé LLC acquisition integration.

Introduction

We are pleased to report a resilient 2019 for the Group, which saw the acquisition of the US brand Nambé in July 2019.

Our like-for-like sales declined against the backdrop of 10 years of uninterrupted growth up to 2018. Although many parts of our business continued to grow in 2019, including the UK and USA, we saw a reduction in our rest of world export sales, primarily for our Portmeirion Botanic Garden range as we sought to protect our brand and sales in the South Korean market from the historical re-shipping of product from other markets.

We are confident in our Group strategy and expect our business, supported by our strong brands, to grow in 2020 and beyond.

Financial Headlines

Revenue was £92.8 million for the year, an increase of 3.6% over the previous year (2018: £89.6 million). Sales in 2019 benefited from the additional Nambé sales in the second half, and on a like-for-like basis sales were £85.0 million, a decline of 5.1%.

Headline profit before tax[1] was £7.4 million, a decline of £2.3 million or 24% over the previous year. Earnings before interest, tax, depreciation and amortisation (EBITDA) was £11.4 million compared to £11.8 million in the prior year.

Headline basic earnings per share[1] was 56.32p per share (2018: 72.12p), a decrease of 21.9%.

(1) Headline profit before tax and headline basic earnings per share exclude exceptional items – see note 6 on page 73.

Due to the fast evolving and unprecedented uncertainty facing businesses around the world from Covid-19, the Group is not recommending a final dividend at this time (2018: 29.50p per ordinary share). We will review this decision in three months and consider declaring an additional interim dividend in line with the final dividend for 2018.

Operational Overview

Revenue for the Group increased by 3.6% to £92.8 million (2018: £89.6 million).

Geographical performance

The UK became our largest geographical market following the Wax Lyrical acquisition in 2016, and in 2019 accounted for 35% of Group sales at £32.6 million, an increase of 3.5% over the prior year (2018: £31.5 million). Although the UK market remained challenging due to political uncertainty and Brexit, we were able to grow through further penetration of online channels and the breadth of our product offering and diversified routes to market.

The United States is our second largest market at just under 35% of Group sales. In translated figures, sales in the USA grew by 21.8% to £32.5 million (2018: £26.7 million) following the acquisition of Nambé LLC in July 2019. In local currency, sales increased by 16.6%.

Reported sales into South Korea increased by 38.7% to £11.4 million in the year (2018: £8.2 million) and accounted for 12% of Group sales. However, we became aware during the year that there were significant levels of Portmeirion Botanic Garden products, traditionally our best-selling pattern, being re-shipped from other markets into South Korea, leading to overstocking and that this would potentially damage our pricing and brand long term. We therefore undertook a considerable amount of work in 2019 to stabilise this market. This included cutting back on sales of Botanic Garden to other export markets and designing and manufacturing a large number of exclusive new product ranges for our long-term distributor. In addition, we have started diversifying our approach to this key sales market by taking on a new major retailer for our Royal Worcester brand. We will continue to act to regenerate this sales market through 2020 whilst protecting our brands for the long term.

Strategic areas of focus

- Stabilise and diversify within our South Korean market
- Accelerate our online transformation
- Investment in brands and new product development
- Rest of the world expansion
- Operating capabilities and efficiency
- Strategic acquisitions

As a result of these strategic actions, our sales to the rest of the world decreased by 29.6% to £16.3 million (2018: £23.2 million) largely due to lower sales of the Botanic Garden range. We strongly believe this reduction is a short term issue and expect to return to growth in our rest of world markets as we leverage our strong portfolio of brands, new product launches and the benefit of recent brand acquisitions including Wax Lyrical and Nambé.

We are delighted that our ongoing strategy of investing in online sales channels continues to show positive results, with total online sales growth in our core US and UK markets up 17% year on year. We now estimate that 30% of our total US and UK sales are made via online channels. Sales from our own e-commerce platforms grew 16% and are expected to continue to grow strongly in 2020.

Segmental performance

The Group continues to operate under our three key segments – Portmeirion UK, Portmeirion USA and Global home fragrance. Sales of Nambé product will be reported within the relevant segment responsible for the sale.

Portmeirion UK

Portmeirion UK, the main trading entity of the Group, experienced a 5.2% reduction in sales during the year to £45.6 million, (2018: £48.1 million). This reduction is largely due to the decline in export markets reported above, offset by growth in the UK and South Korea.

Our UK factory increased production over 2019, but this was done at a cost with significant new fast tracked product developments for our South Korean market impacting operating efficiency, as well as cost increases driven by labour and energy inflation. We have a number of innovation and automation projects underway, and we anticipate achieving benefits to operating margin from these and as our sales mix within South Korea stabilises.

Portmeirion USA

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.

In July 2019 the Group acquired Nambé LLC for a headline cash consideration of $12 million. Nambé is a premium branded US homewares business. Nambé's sales are largely concentrated in the US through wholesale channels, online and through eight retail stores across New Mexico and Arizona.

We remain pleased with the acquisition and the scale it adds to our US division. There are considerable sales and cost synergies to be achieved which we expect to realise from 2020.

We have already made significant progress integrating the Nambé business with Portmeirion USA by combining offices, operating functions and sales teams.

Segmental sales were £32.4 million, an increase of 24.6% over the prior year (2018: £26.0 million). 2019 sales benefited from additional sales from Nambé. Excluding these sales the market was slightly behind prior year, however this was due to us carefully managing sales of our Portmeirion Botanic Garden range to protect our South Korean market.

Global home fragrance

The Group acquired the Wax Lyrical business in May 2016. Our home fragrance sales declined by 4.3% over the prior year to £14.8 million (2018: £15.5 million) chiefly due to general trading challenges faced by the UK grocery channel in the fourth quarter and reduced end of line clearance in the US market.

During 2019, we have invested in a new research and development centre and testing laboratories, redesigned key existing ranges and developed a pipeline of new product that will be launched in 2020. We believe this will allow the business to grow strongly in 2020 with particular focus on our international markets.

We are proud to manufacture our home fragrance products in our UK factory in the Lake District. We plan to continue to increase investment in the factory to grow capacity and output to support our UK and international growth plan and increase market share.

Chief Executive's Statement continued

Products and brands

Our products and brands are the key economic drivers for the Group. We have six major brands – Portmeirion, Spode, Wax Lyrical, Nambé, Royal Worcester and Pimpernel. Supporting and investing in 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 £25 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.

Our Spode brand will celebrate its 250th anniversary in 2020 and we have a programme of marketing activity throughout the year to mark the occasion. Our Spode products are sold and loved around the world and we look forward in 2020 to launching a number of new and limited edition collections. 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 2019, we continued to refresh our key heritage patterns such as Portmeirion Botanic Garden and Spode Christmas Tree in order to expand their appeal, as well as launching key new manufactured product ranges such as Portmeirion Variations and Portmeirion Botanic Garden Embossed. This was in addition to the continuing growth of some of our licensed collections such as Sophie Conran for Portmeirion and Royal Worcester Wrendale Designs.

A list of our current ranges 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 and www.nambe.com.

People and culture

We are committed to the continuing promotion of our established 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 25 to 27 and the Corporate Governance Statement on pages 30 to 35.

Strategic areas of focus

The Group's strategy was developed and agreed by the Board in November 2019.

Our long-term strategy is evolving to reflect the changing habits of consumers around the world but remains 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.

Within these areas the Group has a number of specific areas of focus.

Stabilise and diversify within our South Korean market

South Korea remains a key area of focus following the challenges experienced in this market in 2019.

We have launched a number of exclusive new premium product ranges for our South Korean distributor, while opening new routes to market to sell other brands within our portfolio.

Going forward, we will maintain our disciplined approach to export markets in order to reduce the overstocking experienced in South Korea in 2019, and continue to diversify our product offering and route to market within South Korea.

Accelerate our online transformation

The Group has made strong progress to date in online channels. We believe there is a considerable further opportunity to leverage all of our powerful homeware brands and grow our sales across online channels.

We are expanding our teams and skillset to take advantage of this opportunity whilst increasing investment in our systems, websites and digital assets.

Investment in brands and new product development

Our six major brands have more than 700 years of history collectively, and we continue to invest and grow these brands via both line extensions to existing ranges and new collections.

The longevity of our Spode brand is testament to its strength. We are excited about the sales and marketing programme that we have in place for celebrating 250 years of Spode. New collections have already launched and are receiving positive feedback.

We have expanded our teams and capabilities during recent months to support our investment in our brands, particularly in online and to drive our product development roadmap. We have a strong new product pipeline that we believe will drive our sales across our key brands over the next few years.

Rest of the world expansion

The Group sells into more than 70 countries around the world, although 82% of Group sales are made into our three key markets.

Our long-term aim for the future is to expand our presence in other major export markets including China, the Middle East and the Far East.

Operating capabilities and efficiency

Our operating capabilities are constantly reviewed in order to position the Group to meet the requirements of our customers, including our ongoing strategy of growth in online and direct to consumer fulfilment.

We continue to invest in our operations and drive efficiency programmes through our manufacturing and distribution sites to combat inflationary cost pressures and remain competitive.

Strategic acquisitions

The Group remains committed to acquiring businesses where there is a strategic fit and the combination would be earnings enhancing.

We are pleased with the progress we have made on integrating the Nambé business and look forward to reporting on further progress later in the year.

Portmeirion Canada

We operate a 50% owned associated company for our distribution operation in our Canadian sales market, Portmeirion Canada Inc. Subsequent to the year end, the Group has been notified by the other 50% partner in Portmeirion Canada that they wish to terminate the current shareholder agreement. We are currently working with the associated company partner to review and agree the best future approach to serve the Canadian sales market including continuing to operate Portmeirion Canada as a 100% owned distribution company.

Our sales to the Canadian associate in 2019 were £1.1 million and we expect to finalise our future approach to this market in 2020.

Covid–19

We continue to monitor the impact of this virus on all parts of the business including the health and safety of our teams around the world, our supply chain and sales markets. At present, we have not experienced a material disruption to product supply, key sales markets or staffing levels.

It is too early to assess the impact this outbreak will have on the 2020 trading performance, but we expect some level of disruption to the business and are taking appropriate steps to preserve our short term cash balance.

Mike Raybould
Chief Executive
18 March 2020

Geographical markets insights

Portmeirion Group sells into over 70 countries around the world

United Kingdom

The UK marketplace was the largest for the Group in 2019, achieving £32.6 million or 35% of the Group's revenue.

Market implications

The UK marketplace remains competitive, as traditional retail stores are replaced by more online shopping.

Sales to traditional department stores were broadly flat, whilst growth was generated by our e-commerce sites and third party online platforms.

Response

The Group has responded well to the move to online sales. We continually invest in our e-commerce platforms to ensure our consumers have the best service and experience.

We will continue to invest further in online routes to market.

Link to strategy

1 2 3 4

United States

The United States was the largest export market for the Group in 2019, accounting for £32.5 million or 35% of the Group's revenue.

Market implications

Similar to the UK, with more consumers shifting to online purchasing and major department stores reporting a decline in sales and closing loss-making stores.

Response

Our online sales continue to grow strongly in the USA.

The acquisition of Nambé LLC accelerates our growth in this area, with a higher proportion of their overall sales made via online channels than our existing US business.

We continue to invest in our e-commerce operations and will integrate the existing US website with the Nambé website during 2020.

Link to strategy

1 2 3 4 5

South Korea

Sales made to South Korea were £11.4 million or 12% of total Group sales.

Market implications

Our sales into South Korea grew in 2019, although this impacted rest of the world sales where we implemented more discipline to trading with wholesale customers that had been shipping into South Korea.

We trade via a distributor who sells onto wholesale and retail customers. In 2019 we also established a new trading relationship with a major retailer to sell differentiated brands within our portfolio.

Response

In 2019, we introduced a new disciplined approach to trading, which has led to a return to growth in the South Korean marketplace.

We are well positioned to grow further in future with more diversified routes to the South Korean consumer.

Link to strategy

1 2 3 4

Key to strategy

1 Profitable sales growth
2 New product introduction
3 Developing our brands
4 Enhancing our operational efficiency and capability
5 Strategic acquisitions

Rest of the World

The Group sells into more than 70 countries around the world, which account for £16.3 million or 18% of the Group's revenue.

Market implications

Rest of the world markets have been challenging in 2019.

Whilst these markets have not delivered the growth we aimed for, we believe the foundations we have put in place will show progress in 2020.

We aim to diversify both our routes to market and product ranges.

Response

We continue to review and refresh our approach to markets, with the move to less dinnerware and more giftware within the homeware sector.

We are targeting a number of key markets for further growth in 2020.

Link to strategy

2 3

Pictured: Nambé Barware

Case study

Nambé LLC

The Group acquired Nambé LLC in July 2019 for a headline cash consideration of $12 million.

Nambé is a US based premium branded homewares business. The company designs, sources, markets and retails Nambé branded products. It was founded in 1951 and its ranges now include cutlery, glassware, dinnerware, kitchenware and home décor. Nambé's sales are largely concentrated in the US through wholesale channels, online and through eight retail stores across New Mexico and Arizona.

Nambé provides the Group with additional scale in its key US market and complements our existing US division, whilst continuing to diversify the Group into new homeware product categories. We plan to leverage the Nambé product ranges through our existing US sales channels and global infrastructure, and good progress was made in 2019 on that front, with further sales growth expected in 2020.

We have already commenced integration of Nambé with our existing US operations, and we expect to achieve cost savings and synergies once this exercise has been completed.

> "We remain very pleased with the Nambé acquisition, and the progress made on achieving both revenue growth and cost overlap synergies."

Diversified routes to market and product offering

Key resources and relationships

Intellectual property

Much of the value of the Group lies within our six brands and the patterns which underpin these brands.

Our Brands **pages 4 and 5** >

Our talented people

We have 847 skilled employees internationally who are committed to providing exceptional quality and craftsmanship across all our brands and ranges. The Group's senior management teams and Board of Directors are dynamic and have significant experience of the gift and homeware industries and retail sector.

Board of Directors **pages 28 to 29** >

Innovation and design

As with all companies, innovation is key to the Group's continuing success. We innovate to ensure our activities are sustainable and efficient and our products meet and exceed our customers' expectations.

Culture

The Group's culture, as set by the Board of Directors, is one of openness, honesty and transparency in all of its dealings.

Corporate Responsibility **pages 25 to 27** >

Corporate Governance Statement **pages 30 to 35** >

Suppliers

As the Group must ensure that it has a supply of quality raw materials and sourced products, processes are in place to mitigate the risks posed by overreliance on key suppliers and ensure the maintenance of strong supplier relationships.

Principal Risks and Uncertainties **page 21** >

Routes to market

Established global sales channels

70+ countries

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

Multiple sales routes

Sales are made through an established network of trade customers, agents and distributors combined with retail trade and independent stores in the UK and USA.

Diversified product offering

Four main product categories:

1. Manufactured ceramics;
2. Sourced ceramics;
3. Manufactured home fragrance; and
4. Sourced non-ceramics.

Our strengths

Brands portfolio

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

Global reach

The Group sells into more than 70 countries around the world via a number of different distribution routes.

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

Direct to customer

These routes are supplemented by direct to customer sales via our own retail stores and rapidly growing e-commerce platforms.

Flexible routes to market

Our route to market is determined by local requirements, with key export markets serviced by sites in the UK and USA and localised sales performed through Canada and China warehouses.

- Diverse sales reduce reliance on any one source of supply or customer group.
- Varied range of products including tableware, giftware, home fragrance, cookware and tabletop accessories.
- Intellectual property offers royalty income.

Synergies and scale

We benefit from economies of scale and shared synergies across our brands and global markets. 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.

Innovation and creativity

The Group launched 1,364 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.

For the year ended 31 December 2019:

8.00p Dividends paid and proposed per share

For customers

By working closely with our customers, we ensure that innovative products are launched that reflect current consumer requirements, are priced competitively to appeal across multiple sales channels and which adhere to our exacting quality standards.

1,364 New products developed in 2019

For our people and local communities

The successful execution of our business model and strategy provides additional employment opportunities within our local communities and long-term career development for our existing employees.

847 Employees across the world

For the environment

We strive for operational excellence whilst reducing environmental impact

55% Amount of Wax Lyrical energy generated by wind turbine

Corporate Responsibility **pages 25 to 27**

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
1	Profitable sales growth	• Eleventh consecutive year of sales growth. • Revenue growth in key markets of UK, US and South Korea. • Successful new premium product launches. • Strong online sales growth.
2	New product introduction	• Continued growth in licensed ranges of Sara Miller London Portmeirion and Royal Worcester Wrendale Designs. • Developed over 1,000 new premium products for our South Korean market. • Success of new UK manufactured ranges Portmeirion Botanic Garden Harmony, Portmeirion Atrium and Spode Kingsley.
3	Developing our brands	• Focus and investment in brand roadmaps. • Strong home fragrance brand investment. • Addition of Nambé to our brand portfolio.
4	Enhancing our operational efficiency and capability	• Supported key revenue growth across key markets of UK, US and South Korea. • Significant improvement in online service levels during key seasonal periods. • UK manufacturing sites both increased capacity output in 2019.
5	Strategic acquisitions	• Completed acquisition of Nambé brand and business in July 2019. • Further investment in acquired brands.

Future outlook	The Board's governance role
• Further diversification in South Korean market. • Online channel growth in UK and USA. • Focus on establishing growth in new export markets. • Customer targeted product development.	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.
• Strong product pipeline of line extensions and new collections. • New products celebrating Spode 250th anniversary. • New home fragrance ranges to provide growth. • Integration of Nambé product into our existing brands.	The Board oversees the Group's operations to ensure competent and prudent management by the Executive Directors and the senior management team.
• Investment in digital assets and online/social media. • Key Spode 250th anniversary advertising campaigns. • Targeted investment behind key new product launches.	Any extension of the Group's activities into new business areas would be subject to approval by the Board.
• Continue to invest in our manufacturing plants to drive efficiencies and ensure future cost competitiveness. • Build warehousing capabilities to cope with future growth in online and drop-ship fulfilment. • Review our procurement strategies to ensure we obtain best quality at appropriate prices.	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.
• Identify value adding acquisitions in global homeware that complement our strategy for profitable sales growth.	The Board approves all changes to the Group's corporate structure.

KPIs **page 19** >
Risk Management **page 20** >
Corporate Governance Statement **pages 30 to 35** >

Section 172 (1) Statement on the Discharge of Directors' Duties

During 2019, the Board of Directors consider that they have, individually and collectively, acted in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole.

In compliance with the Companies Act 2006, the Board of Directors are required to act in accordance with a set of general duties. During 2019, the Board of Directors consider that they have, individually and collectively, acted in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole, having regard to a number of broader matters including the likely consequence of decisions for the long term and the Company's wider relationships. In doing so, the Board has had regard to the matters contained in section 172(1) (a)-(f) of the Companies Act 2006.

This statement focuses on matters material to shareholders. The Group's key resources and relationships are detailed in the Business Model on pages 14 and 15. The Board recognises the importance of building and maintaining relationships with its key stakeholders, and considering the external impact of the Group's operations, in order to achieve long term success. The Board's understanding of the interests of the Group's stakeholders is informed by the Board's programme of stakeholder engagement. Further details can be found in the Corporate Governance Statement on pages 30 to 35.

Matters that have impacted key decisions and strategies during the year ended 31 December 2019 are set out below.

Acquisition of Nambé

During the year, the Group acquired Nambé LLC, a US based premium homewares business. The acquisition provided the Group with additional scale in our key US market and strategically complements our existing US subsidiary while continuing to diversify the company into new homeware product categories. The acquisition provides enhanced sales opportunities and revenue generation, providing returns to shareholders in the longer term and enhanced employment opportunities as part of a wider Group. Prior to the acquisition the Board considered the effects it would have on the Group's gearing and creditors but reached the conclusion that creditors' interests would not be impacted significantly and any impact would be offset by the positive effects of the acquisition on the Group.

Link to strategy

1 2 3 4 5

Chief Executive's Statement **pages 8 to 11** ›

Addressing challenges in South Korea

Sales into South Korea, specifically for the Portmeirion Botanic Garden range, continued to be weaker than expected throughout 2019 leading to the Board taking strategic decisions to provide differentiated product development for our South Korean distributor, intensified due diligence and diversification of brand and channels in the market together with development of other markets outside South Korea. The Board believes that the actions taken will be successful in protecting our brands and export markets in the long term thus supporting our commitment to our key customer, shareholder returns and continuing employment security for the wider workforce.

Link to strategy

1 2 4

Chief Executive's Statement **pages 8 to 11** ›

Capital allocation and dividend policy

Promoting the success of our business for the benefit of our shareholders, whether large institutions or small retail investors, is fundamental. Alongside employees, we are under a duty to consider the on-going long term funding of the closed defined benefit pension scheme. When considering the level of dividend, the Board has been mindful of the balance between delivering returns to shareholders whilst increasing investment behind key strategic areas such as driving online growth and brand marketing. The Board is confident in our strategic plan and the long term opportunities to grow our business thus addressing all our stakeholders' interests.

Link to strategy

1 4

Chairman's Statement **pages 6 and 7** ›

Culture

The Board is committed to a culture of openness and integrity by maintaining high standards of business conduct. We carefully consider how our business operations impact our local communities and the environment; details of our activities are contained within the Corporate Responsibility section on pages 25 to 27. We are confident that as a Group and through our people we are fostering the right culture to make a positive impact. With operations in a number of countries, during 2020 we are committing specific resource to identify how we can drive further positive impact through our products, processes and people.

Link to strategy

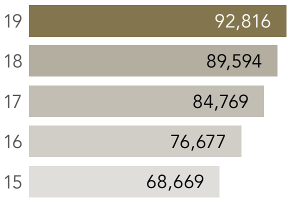
4

Corporate Governance Statement **pages 30 to 35** ›

Key Performance Indicators

Revenue (£'000)

£92,816



Total Group revenue grew by 3.6% during 2019, an eleventh consecutive year of growth.

Why we measure it

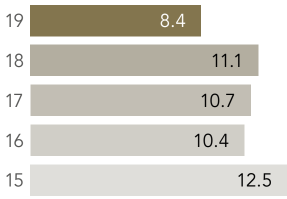
Revenue growth is the key driver of business performance and profit growth.

Link to strategy

1 2 3 4 5

Headline operating profit margin (%)

8.4%



Due to the underlying ceramic revenue decrease, particularly to export markets, and additional production expenses, the Group's operating margin declined during the year to 8.4%.

Why we measure it

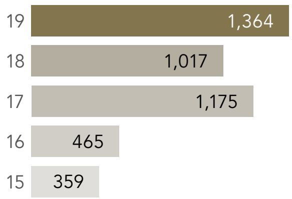
Operating margin compares all operating costs incurred against total revenue, which allows the Group to assess how effective it has been at converting costs incurred into revenue.

Link to strategy

1 4

New products launched

1,364



During 2019, the Group increased the number of new products launched to 1,364.

Why we measure it

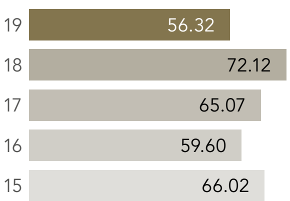
New product is essential to the Group, in the form of both new ranges and line extensions to existing collections.

Link to strategy

1 2 3

Headline basic EPS (p)

56.32p



In 2019, the Group's basic earnings per share (EPS) fell to 56.32p due to the underlying profit reduction.

Why we measure it

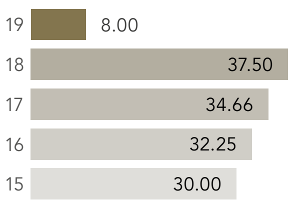
Earnings per share is a shorthand measure of profitability, as it divides the post-tax profit in the year by the number of active shares in issue. As a listed business, this allows comparability between the Group and other listed companies.

Link to strategy

1 2 3 4 5

Dividends paid and proposed per share (p)

8.00p



Due to the unprecedented uncertainty facing businesses around the world from Covid-19, the Group is not recommending a final dividend at this time.

Why we measure it

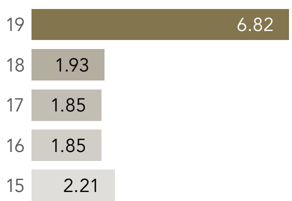
Dividends paid and proposed are a direct measure of the return per share received by a shareholder. The Group maximises returns to shareholders where our expectations for the future permit an appropriate distribution.

Link to strategy

1 2 3 4 5

Dividend cover (x)

6.82x



As a final dividend is not being recommended at this time, dividend cover has increased to 6.82 times.

Why we measure it

Dividend cover shows the extent to which profits exceed dividends paid. The board believes an appropriate medium-term target is two times cover.

Link to strategy

1 2 3 4 5

Key to strategy

1 Profitable sales growth
2 New product introduction
3 Developing our brands
4 Enhancing our operational efficiency and capability
5 Strategic acquisitions

Managing risk in order to deliver our strategy

The Group is exposed to a number of risks in the markets it operates across. The 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 and process

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

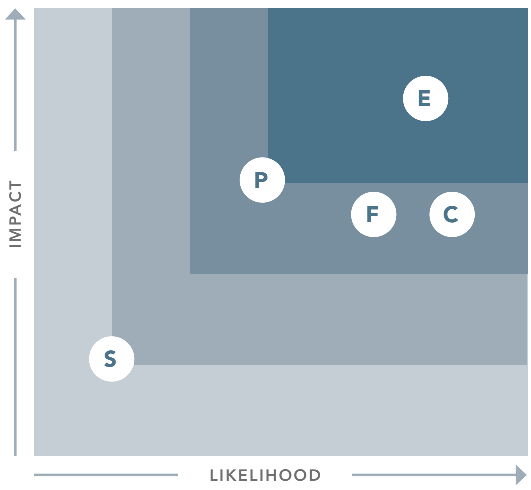
The Board and senior managers are all responsible for reviewing and evaluating risk. The Executive Directors meet at least monthly to review ongoing trading performance, discuss budgets and forecasts and consider new risks associated with ongoing trading.

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



Key to strategy

1. Profitable sales growth
2. New product introduction
3. Developing our brands
4. Enhancing our operational efficiency and capability
5. Strategic acquisitions

Principal Risks and Uncertainties

Risk	Mitigation	Outlook
Economic environment Retail conditions remain very competitive within our three key markets and further around the world. Any adverse conditions within this sector have a detrimental impact on trading. The recent impact in the UK over ongoing Brexit negotiations has been replaced by further uncertainty over the Covid-19 outbreak around the world.	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 Group continues to monitor the impact of the Covid-19 outbreak and will respond accordingly to any material disruption to our product supply, key sales markets or staff. We are in close communication with our teams around the world to ensure their health and safety, and we are responding to the potential threat as it evolves.	The Group will continue to review retail conditions for opportunities including the increasing shift to online channels. The recent outbreak of Covid-19 has increased the risk of a global economic downturn. **Link to strategy** 1 5
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.	The Group continues to invest in both its strong brands and new product development in order to provide a point of difference to its competitors. **Link to strategy** 2 3 4 5
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.	The Group remains committed to hiring and retaining key personnel in order for the business to achieve its strategic objectives. **Link to strategy** 2 3 4
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. The ongoing outbreak of Covid-19 has the ability to disrupt our supply chain.	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.	The Group continues to ensure dual-supply where practical and maintain strong supplier relationships. The Group will continue to review and monitor any potential disruption due to Covid-19. **Link to strategy** 2 4
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 33 on pages 90 to 93. The Group has a detailed budget review process and assesses performance, including cash flow and liquidity, as part of regular management information reviews.	The Group has a strong natural currency hedge, monitors and manages cash prudently and monitors its trading relationships closely. **Link to strategy** 1 4

Financial Review

Revenue growth in core markets

Summary

- Revenue growth of 3.6% to £92.8 million following Nambé LLC acquisition.
- Headline profit before tax of £7.4 million, a decrease of £2.3 million over 2018.
- £14.4 million of available credit facilities.

2019 was a challenging year for the Group, with a like-for-like sales decline driven by a more disciplined approach in rest of the world markets to prevent parallel shipping into our South Korean market. Notwithstanding this, we saw underlying growth in our three core markets and strong online revenue increases in the UK and USA.

Revenue

Revenue totalled £92.8 million for the year ended 31 December 2019. This represented an increase of 3.6% over the previous year (2018: £89.6 million). On a like-for-like basis revenue was £85.0 million, a 5.1% reduction over 2018.

Sales in our US market were translated based on a weaker sterling value than in 2018. At constant currency the Group's sales were up 2.3% on the previous year.

The Group saw revenue growth in our three biggest geographical markets. The UK marketplace grew by 3.5% over the prior year, which was encouraging given Brexit and ongoing political uncertainty. In the US our sales benefited from the Nambé acquisition in July 2019, and we expect further growth in this division in future years as we integrate the Nambé business into our existing US division. Reported sales into South Korea improved, with growth to our existing distributor due to significant new product development, as well as direct to a retailer which is selling other brands within our portfolio.

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. We launched a number of key new UK manufactured patterns such as Portmeirion Variations and Portmeirion Botanic Garden Embossed which both performed well.

Our home fragrance division sales were slightly behind 2018, although a significant amount of work was performed on establishing key new export markets that should come to fruition in 2020.

Profit

Headline profit before taxation[1] was £7.4 million, a decrease of £2.3 million over 2018. This reduction was a combination of the underlying like-for-like sales reduction, and additional factory costs experienced through both lower efficiency for new product throughput and inflationary labour and energy costs.

As a result of these challenges, our operating profit margin reduced to 8.4% (2018: 11.1%). Following the challenges experienced in 2019, this is an area of focus and we are working hard to rebuild this rate going forward.

Headline basic earnings per share[1] decreased from 72.12p to 56.32p per share.

(1) Headline profit before tax and headline basic earnings per share exclude exceptional items – see note 6 on page 73.

Interest and financing costs

Finance costs increased by £0.3 million over the prior year due to a combination of increased borrowing costs for the Nambé acquisition funding and the lease liability interest portion on the new IFRS 16 standard.

Taxation

The charge for taxation was £1.3 million (2018: £2.0 million), an effective rate of taxation of 18.1% (2018: 20.8%). The decrease in the effective tax rate relates to the gain on disposal of the Furlong Mills shares generating profit which is not taxable.

Dividends

Due to the unprecedented uncertainty facing businesses around the world from Covid-19, the Board is not recommending a final dividend at this time (2018: 29.50p per share), giving total dividends paid and proposed for the year of 8.00p (2018: 37.50p). We will review in three months and consider declaring an additional interim dividend in line with the final dividend for 2018 (29.50p).

The Group remains committed to a progressive dividend policy.

Cash generation and net debt

At 31 December 2019, our net debt level was £12.3 million (versus net cash of £2.3 million as at 31 December 2018). This movement was driven by the Nambé acquisition for a net cash sum of £9.4 million.

This acquisition was in addition to £2.0 million of new capital investment, pension deficit contributions of £1.2 million, dividend payments of £4.0 million and tax of £1.5 million.

We continue to expect that Portmeirion Group will remain a business that is cash generative, and we are committed to reducing our debt levels upon the expiry of existing loan facilities. Whilst our bank facilities listed below remain prudent, due to the evolving threat of the Covid-19 outbreak we have taken a number of short term measures to preserve our cash balances, including deferring the final dividend decision for 2019 which will save £3.1 million of forecast cash and headroom.

Bank facilities

The Group has agreed debt facilities with Lloyds Bank, totalling £28 million at the balance sheet date. This consists of a £10 million revolving credit facility repayable in full in May 2022, a £5 million overdraft facility on an annual renewal cycle, a £10 million term loan repayable equally over 5 years from May 2016, of which £3 million was outstanding at the year end, and a £10 million term loan repayable over 4.5 years from January 2020.

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 £19.2 million to £26.6 million, although £3.6 million of this increase was driven by the Nambé acquisition and exchange movements. We continue to focus on this area and anticipate inventory levels reducing in 2020.

During 2019, 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 increased slightly from £nil in 2018 to £0.4 million at the end of 2019 despite these contributions. This was mainly due to a fall in the discount rate used on scheme liabilities which is based upon corporate bond yields. 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 230,382 shares, having used 4,225 during the year. In addition, we also hold 234,523 shares in The Portmeirion Employees' Share Trust ('ESOP shares') to satisfy employees' share options. These ESOP shares have a book value of £2.7 million, having been bought at an average cost of £11.58 each. We used 11,000 of our ESOP shares during the year in order to satisfy share option exercises.

Goodwill and intangibles on our balance sheet represent the value of acquired brands, including Spode and Royal Worcester, Wax Lyrical and Nambé. The value of goodwill increased by £1.7 million during the year due to goodwill recognised on the Nambé acquisition. The net book value of intangibles increased by £2.0 million in the year, largely as a result of £2.3 million of intellectual property recognised within the Nambé acquisition.

The Group applied the new requirements of IFRS 16 Leases in 2019 for the first time. The standard requires a right-of-use asset to be recognised for all operating leases, with a corresponding liability for future lease payments.

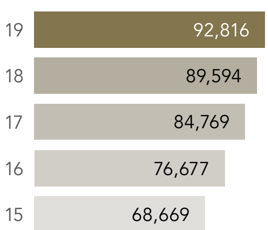
Treasury and risk management

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 20.

David Sproston
Group Finance Director
18 March 2020

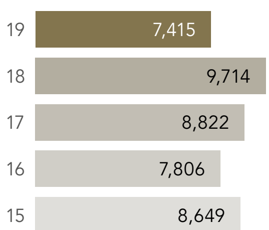
Revenue (£'000)

£92,816



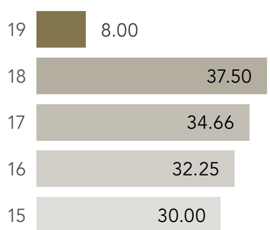
Headline profit before tax (£'000)

£7,415



Dividends paid and proposed per share (p)

8.00p



Going Concern and Outlook

Going concern

The business activities of the Group, its current operations and factors likely to affect future development, performance and position are set out in the Chief Executive's Statement on pages 8 to 11 and in the Financial Review on pages 22 and 23. In addition, note 33 on pages 90 to 93 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 debt of £12.3 million and, as disclosed in note 25 on page 84, had unutilised funding of £14.4 million. Operating cash used during the year was £0.6 million (2018: £6.6 million generated), although this was down to investment in working capital and timing, and we expect to generate positive cash flows in the future.

The Group continues to monitor the impact of the Covid-19 outbreak on all parts of the business, and whilst no material disruption has been experienced to date, it is prudent to expect some level of disruption to the business. Accordingly, a number of cash conserving measures have been undertaken including the deferral of the final dividend decision until we have a clearer view on the impact Covid-19 will have on the Group. We believe these decisions are prudent and will ensure sufficient cash headroom for the business to continue trading as a going concern.

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 46% 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

We face political and economic uncertainties around the world, including the ongoing Brexit transition period and the outbreak of Covid-19 which at the time of writing is a fast-evolving threat which will inevitably create some disruption to our business.

Our strategy and core values remain unchanged. We are focused on profitable sales growth through new product introduction, developing our markets, investing in our brands and enhancing our operational capabilities and efficiency supported with complementary strategic acquisitions. In particular we will continue to stabilise and diversify within our key South Korean market whilst seeking further penetration in our export markets, accelerate our online transformation, invest in our brands and new product development, and leverage the benefit of both our home fragrance division and the newly acquired Nambé business.

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

Mike Raybould
Chief Executive
18 March 2020

Corporate Responsibility

Inevitably, the Group's operations impact on others and so we strive to do business ethically and sustainably– for the environment, our people, our customers, our suppliers and the communities we operate in. The Group is dedicated to ensuring, as far as possible, that its actions have a positive impact on its stakeholders. We acknowledge that businesses can and should be a force for good and see engagement with our stakeholders as a vital tool to ensure that our commitment to ethical and sustainable business is translated into the actions of the Group.

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. Both Portmeirion UK and Wax Lyrical have Green Teams who have implemented various programmes to encourage recycling within their offices and reduce energy consumption. Wax Lyrical operates a cycle to work scheme which saw an increase in uptake during 2019.

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 reducing the amount of disposable plastic used in packaging.

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.

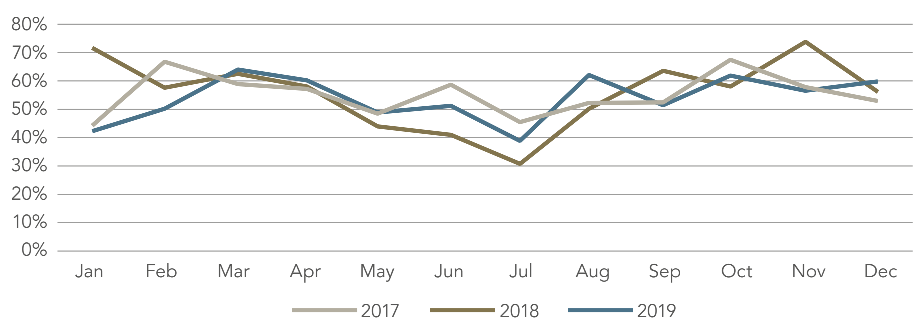
Waste management

The Group will continue to recycle its main waste streams: off specification product, plaster of Paris moulds, glass, paper and cardboard, as appropriate. As part of the initiative to reduce waste, during 2019 Nambé stopped purchasing disposable items such as cups, plates, bowls and utensils for the kitchen at its Espanola warehouse and instead encouraged employees to utilise reusable alternatives. Portmeirion USA also started repairing wooden pallets which were deemed salvageable rather than discarding them. Wax Lyrical has a collection point for the recycling of batteries and also collects spectacles which are then donated to charities who send them to developing countries.

Greenhouse gas (GHG) emissions

Over half of the energy used at Wax Lyrical's production site in Cumbria during 2019 was provided by wind turbine, supplying 555,460 kWh of "green" electricity and preventing generation of 195 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.

Percentage of total electricity used at Wax Lyrical generated by wind turbine



Portmeirion UK's commitment to reducing its carbon emissions is evidenced by having been subject to a Climate Change Agreement since 2000. During 2019, it continued to meet the challenging targets on energy efficiency set as part of its ongoing membership of this agreement and is committed to achieving this again in the period 2020 to 2021.

For the first time, the Group has used Carbon Balanced Paper for the production of its Annual Report and Accounts. Carbon Balancing is where the carbon impacts of a product or service have been estimated and an equivalent amount of carbon dioxide is either prevented from being released into, or is absorbed from, the atmosphere. Through the Group's use of Carbon Balanced Paper, it has balanced, through World Land Trust, the equivalent of 661kg of carbon dioxide, enabling World Land Trust to protect 463m^2 of critically threatened tropical forest.

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

Corporate Responsibility continued

Our people continued

Diversity continued

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.

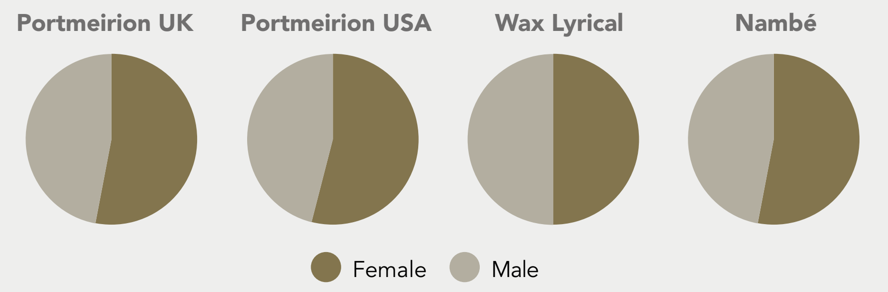
Portmeirion UK published its gender pay statistics in April 2019 which noted a mean pay gap of 13.9% which was less than the mean gender pay gap of 17.9% cited by the Office for National Statistics.

Training, development and wellbeing

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. Where possible, e-learning is utilised to provide training in a more interactive and time convenient manner. 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.

29 employees who passed a qualification during the year attended Portmeirion UK's annual Achievement Awards ceremony which took place in January 2020. In 2019, Portmeirion UK embarked on a programme of further development of health and safety related training, to support our commitment to health and safety, which resulted in ten members of the management team becoming Institute of Occupational Safety and Health (IOSH) qualified. This programme will continue in 2020 with a further ten managers scheduled to complete this training.

Gender breakdown



During 2019, Portmeirion UK had two 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 was again an area of focus in 2019, which saw a number of promotions to the Group Board and senior management positions. 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 its commitment to wellbeing, Portmeirion UK held several support days which included advice on pension planning and caring responsibilities. It also provided 167 employees with free flu vaccinations. Wax Lyrical offered advice on smoking cessation and workshops run by its occupational health team to support employees to maintain a healthy lifestyle whilst working night shifts. Portmeirion USA and Nambé fund health and dental plans which provide employees who elect to participate with multiple opportunities to access health and wellness initiatives.

Investors in People

Both Portmeirion UK and Wax Lyrical are officially recognised as Investors in People at gold level. This prestigious accreditation is recognised across the world as a mark of excellence and demonstrates our commitment to employee engagement, health and wellbeing and skills enhancement.

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 the National Living Wage. Within the UK, all employees are offered membership of our group personal pension plans, which provide employer contributions for all members, and are included in generous life cover and healthcare policies. Portmeirion UK and Wax Lyrical operate employee recognition schemes including discretionary incentive schemes, 100% attendance awards, Christmas gifts, VIP "family and friends" Christmas shopping evenings and retirement afternoon teas. The Group also provides long service awards to its employees.

During 2019, Portmeirion UK and Wax Lyrical celebrated the long service of 14 employees and 100% attendance by 96 employees. Portmeirion UK also hosted seven retirement afternoon teas, shared with valued colleagues in our 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.

Portmeirion UK operates Employee of the Month and Employee of the Year awards to recognise and celebrate employee successes. Having been Employee of the Month, Daniel Rhodes won Portmeirion UK's Employee of the Year 2019 award for his dedication and commitment to helping us to achieve our vision. Employee of the Month and Team of the Quarter awards also continued at Wax Lyrical in 2019, enhancing our teamwork ethos.

Health and safety

The Group promotes a positive health and safety culture throughout the business through safety programmes and learning opportunities 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 scheduled health and safety meetings which are attended by representatives from across the business. Health and safety performance, accidents, training and legislation are among the topics discussed. 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. Portmeirion UK's health and safety performance is regularly benchmarked against industry standards.

Engagement

One of the ways we measure employee engagement is by opinion surveys. In the 2019 survey, 88% of Portmeirion UK's employees said that they were happy to be working for the Group with 87% stating that it was a great place to work. Further information on how we engage with our employees can be found within the Corporate Governance Statement on pages 30 to 35.

Community and social

The communities where our operations 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's employee-chosen Charities of the Year for 2019 were the Douglas Macmillan Hospice, Arch and Approach. Fundraising included a charity football match, which was very popular with our employees and families in attendance, a five kilometre run/walk, an Easter fundraiser, several raffles and a mindfulness walk. Just over £14,000 was raised during 2019. In addition, 657 volunteering hours were delivered by Portmeirion UK, which authorised at least two employees per month to have a paid day off to volunteer for our Charities of the Year. Volunteers helped with activities such as gardening, coin counting, retail and event day support and the very popular mobile lithography workshop for inpatients at the Douglas Macmillan day therapy unit. For the first time Portmeirion UK provided a lithography workshop at Approach, which was thoroughly enjoyed by the day centre patients. In addition, Portmeirion UK also donated over 5,000 products to local charities and schools.

Portmeirion USA and Nambé support local and national charities within the USA in a number of ways including through the donation of products.

In 2019, St Mary's Hospice, North West Air Ambulance and MIND Furness were Wax Lyrical's chosen charities. A total of over £6,500 was raised through the dedicated support of Wax Lyrical's employees, exceeding their fundraising target for the year.

Portmeirion UK and Wax Lyrical have also supported other fundraising initiatives throughout 2019, delivering well received support to other charities and fostering employee teamwork 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.

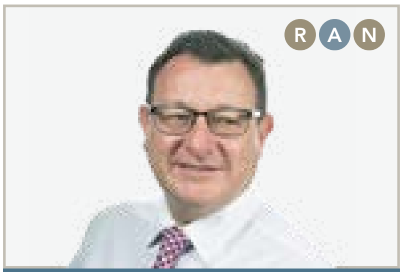
Board of Directors

Dick Steele
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, Non-executive Chairman of Country Baskets and Trustee of Haig Housing Trust.

Key skills

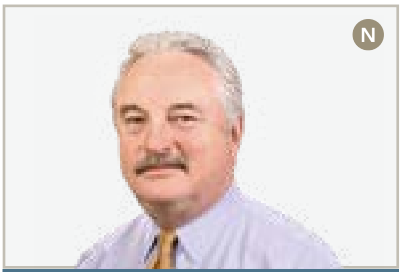


Andrew Andrea
Non-executive Director

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



Lawrence Bryan
Non-executive Director

Has extensive knowledge of the global homeware sector. He is a Fellow of the Royal Society of Arts.

Lawrence was, until 2 September 2019, Chief Executive of the Group and President of Portmeirion Group USA, Inc. Prior to joining the Group, he was the Vice President, Sales of Waterford Wedgwood USA, President of Waterford Wedgwood USA Retail and President of International China Company.

Other appointments
None.

Key skills

Mike Raybould
Chief Executive

Oversees the Group's business and is responsible for formulating the Group's objectives and strategy. Mike is a qualified Chartered Accountant and was previously the Group Finance Director. Before joining the Group, he was 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
None.

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 the Group 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

Janis Kong OBE
Non-executive Director

Has extensive experience in retail and consumer products and services.

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

Key skills

Angela Luger
Non-executive Director

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

Other appointments
Angela is Chair of TM Lewin and Non-executive Director of ScS Group plc, The Hiring Hub Holdings Limited and New Look Retail Holdings Limited. Formerly, she held positions as Non-executive Director of Distribuidora Internacional de Alimentacion, S.A. (DIA Group) and Manchester Airport Group. Her previous executive positions included Chief Executive of N Brown plc, CEO of The Original Factory Shop Limited and senior executive positions at Debenhams PLC, ASDA Group Limited and Mars Corporation.

Key skills

David Sproston
Group Finance Director

Responsible for all aspects of financial control and sits on all subsidiary boards. David is a qualified Chartered Accountant and joined the Group from Deloitte in 2008. He was previously Group Financial Controller and Finance Director of Portmeirion Group UK Limited, the Group's main trading subsidiary.

Other appointments
None.

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

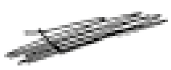
Dear shareholder,

The Board remains committed to effective corporate governance as the basis for promoting the long-term growth 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 and that these arrangements are followed in practice. In accordance with the AIM rules which 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.

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 build trust and 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 2018 (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. As a Board, we are committed to providing the robust leadership and oversight of the business required in setting and monitoring the Company's culture to ensure that behaviours align with our purpose, values and strategy. The Board is very aware that the tone and culture set by the Board will greatly impact all aspects of the Group as a whole and the way that employees behave. We 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 25 to 27. 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 page 32), 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 and is one that is consistent with our vision to be a leading force in the global homeware sector. Our business model and mitigation of our principal risks rely on positive relationships with key stakeholders which can only occur if a culture of openness and integrity exists.

We keep our governance arrangements under review. There have been no significant corporate governance challenges in 2019. Maintaining a skilled, well-balanced and experienced Board is of fundamental importance to the long-term success of the business. During 2019, in line with our succession planning, Mike Raybould replaced Lawrence Bryan as Chief Executive on Lawrence's retirement. We were pleased however to retain Lawrence's expert sector knowledge in his role as a Non-executive Director. We also welcomed David Sproston as Group Finance Director to the Board during the year. Both Mike and David have in-depth knowledge of the Group gained in their previous roles as Group Finance Director and Finance Director of Portmeirion Group UK Limited respectively. We currently have five Non-executive Directors alongside four Executive Directors. Whilst we appreciate the view that Lawrence was previously an Executive Director and cannot be considered to be entirely independent, we are of the view that the Board is still a balanced team. We have in place a Board that is extremely capable, energetic and focused on delivering our strategy for the benefit of all our stakeholders.



Dick Steele

Non-executive Chairman

18 March 2020

Corporate Governance Statement

This statement describes key features of the Group's corporate governance framework, 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 27, 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 16 and 17. Information on our business model can be found on pages 14 and 15.

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 page 21 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 20.

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 2019, 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 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; and
- the presentation of a fair, balanced and understandable assessment of the Group's position and prospects.

During 2019, the Group made positive progress in a number of key areas; however, challenges were also experienced. Throughout the year, the Board was committed to ensuring that both shareholders and stakeholders were regularly updated on the Group's progress.

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 the Company's Investor Relations website.

The Chairman, with the support of the Chief Executive and 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 2019. 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, normally, 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 16 May 2019, 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.

Investor communications strategy throughout the year

January

Trading update

March

Full-year results announcement and presentation

Governance letter to institutional and larger shareholders

May

Trading update

Annual General Meeting

August

Interim results announcement and presentation

Corporate Governance Statement continued

Building trust through open dialogue continued

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 14 and 15) and principal risks and uncertainties (page 21).

Why we engage	Stakeholder expectations	How we have engaged	Engagement outcomes
Employees Our people deliver the high quality products and exceptional service that we are renowned for. Engaging with our people helps to ensure the culture the Board wants to foster is embedded throughout the Group, promotes open, two-way communication and encourages innovative and collaborative working.	• A safe place to work; • security of employment; • fair treatment (including pay); • access to training; • to receive a pension under a defined benefit or defined contribution scheme; and • purposeful employment through community engagement.	• Briefings, newsletters, team meetings and opinion surveys; • Innovation Scheme; • health and safety meetings; • providing training; and • community involvement (further details can be found in the Corporate Responsibility section on pages 25 to 27).	Ideas submitted by six employees as part of the Innovation Scheme have resulted in a total annual saving of £131,000 for the Group. **Link to strategy** 2 3 4
Sourced product suppliers In 2019, 54% 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 be treated fairly; and • to 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 encourage increased sustainability in the production and packaging of sourced products. **Link to strategy** 2 3 4
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 Board or subsidiary Directors; and • via customer services and social media.	Feedback from customers has led to the creation of customised product offerings. **Link to strategy** 1 2 3 4
Finance provider The Group uses finance to assist with its cash flow and to capitalise on business opportunities as they arise. Ensuring a good working relationship with our finance provider allows the Group to continue to trade and expand.	• Repayment to agreed terms; • security of loan and overdraft facilities; and • compliance with covenants.	• Regular contact and meetings.	Finance was provided which assisted the Group to purchase Nambé LLC. **Link to strategy** 1 4 5
Defined benefit pension scheme (the 'Scheme') The Group and the Trustees of the Scheme each have an important role to play in ensuring the proper management of the Scheme. As such, a good working relationship must exist between the Group and the Trustees of the Scheme. Key to this relationship is open and clear communication.	• To be kept informed of changes within the Group which may impact the funding of the Scheme; • to be treated fairly relative to other Group stakeholders; and • for the Group to continue to meet its financial obligations to the Scheme (further details can be found in note 32 on pages 87 to 90).	• Regular contact with the Trustees of the Scheme and the Scheme advisers; • the Group Finance Director attends, by invitation, the bi-annual meetings of the Trustees of the Scheme; and • the Trustees of the Scheme were consulted in advance of the acquisition of Nambé.	The Group has continued to meet its financial obligations in accordance with the agreed Schedule of Contributions. **Link to strategy** 1 4

Key to strategy

1 Profitable sales growth
2 New product introduction
3 Developing our brands
4 Enhancing our operational efficiency and capability
5 Strategic acquisitions

Maintaining a dynamic management framework

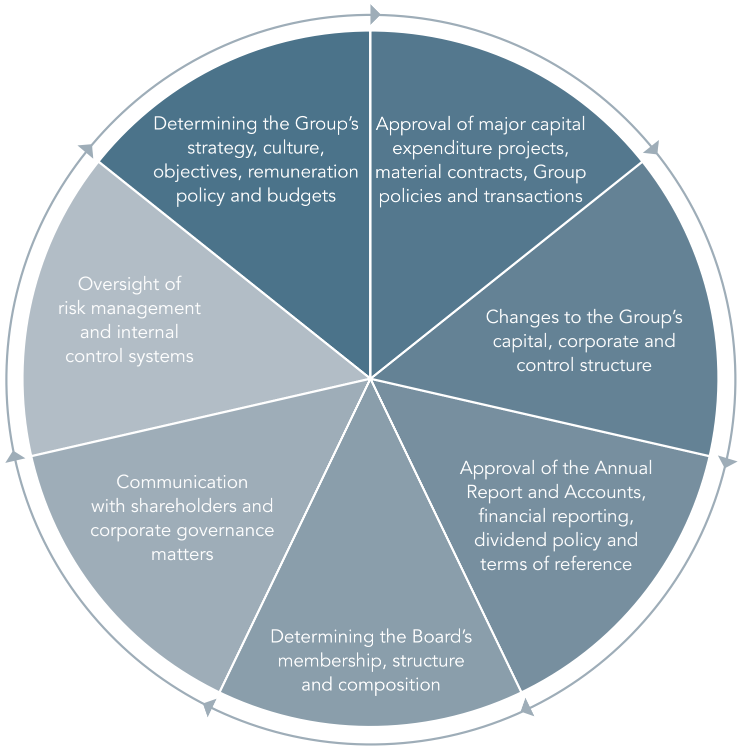
Board composition and roles

The Board is responsible for the overall leadership and management of the Group. The Board comprises four Executive Directors and five Non-executive Directors. Biographies of all the Directors appear on pages 28 and 29. In September 2019, Lawrence Bryan retired as Chief Executive of the Group and was appointed as a Non-executive Director. Mike Raybould, formerly the Group Finance Director, was appointed as the Chief Executive and David Sproston, previously the Group Financial Controller and Finance Director of Portmeirion Group UK Limited, was appointed as the Group Finance Director.

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 four 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. Mike Raybould, 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.

Matters reserved to the Board



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.

Independence

The expertise and wealth of experience from across different industries which is brought by our Non-executive Directors is considered invaluable to the Company. The Board, after careful review, considers that each Non-executive Director, excluding Lawrence Bryan, is independent and 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. Whilst the Company's Articles of Association require retirement by rotation every three years, 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 35.

Corporate Governance Statement continued

Maintaining a dynamic management framework continued

Independence continued

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 Group UK Limited, are circulated to the Board.

Skills and experience

Details of each Director's skills and experience can be found in the biographies of the Directors on pages 28 and 29. 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 Report on page 38), 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 2019. The Board did, however, seek external advice in relation to operational matters.

The following table shows the attendance of the Directors at meetings of the Board during 2019:

	Board
Total meetings held[1]	● ● ● ● ●
Meetings attended	
R.J. Steele (Non-executive Chairman)	● ● ● ● ●
M.T. Raybould (Chief Executive)[2]	● ● ● ● ●
A.A. Andrea (Non-executive)	● ● ● ● ●
P.E. Atherton (Group Sales and Marketing Director)	● ● ● ● ●
L. Bryan (Non-executive)[3]	● ● ● ● ●
M.J. Knapper (Operations Director)	● ● ● ● ●
J. Kong (Non-executive)	● ● ● ● ●
A.L. Luger (Non-executive) (appointed 1 March 2019)	○ ● ● ● ●
D. Sproston (Group Finance Director) (appointed 2 September 2019)	○ ○ ○ ○ ●

Notes:

(1) During the year additional Board meetings were held principally to approve the appointment of A.L. Luger and acquisition of Nambé LLC.

(2) M.T. Raybould was appointed as Chief Executive of the Group on 2 September 2019, having previously held the role of the Group Finance Director since May 2017.

(3) L. Bryan was appointed as a Non-executive Director on 2 September 2019 following his retirement, on the same day, as Chief Executive of the Group.

● Attended ○ Did not attend

Maintaining a dynamic management framework continued

Board evaluation process

Stage one

The Chairman and Company Secretary prepared a Board evaluation questionnaire following consideration of the QCA Code and UK Corporate Governance Code.

Institutional investors were approached to provide feedback on the Board to the Chairman and Chief Executive.

Stage two

The evaluation questionnaire and feedback provided by the institutional investors were circulated to the Board for consideration.

Stage three

Combined feedback was discussed by the Board and actions agreed.

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. All recommendations arising from the Board's evaluations of its performance in 2018 have been addressed.

As part of the evaluation of 2019 performance, each Director reviewed Board performance against set criteria covering areas such as the Board's approach to risk, the effectiveness of each Director and Board communication, as well as reviewing Board performance in respect of key events in 2019.

Specific actions arising from the evaluation were:

(i) wider dissemination of risk control mechanisms and analysis to senior management beyond Board level to enhance their understanding and development; and

(ii) allocation of specific slots within Board meetings to focus on progress on strategic projects in addition to annual overview strategy sessions.

Following the evaluation, the Board is satisfied that it has a good balance of experience and skills, which allows both strong collaborative working and robust challenge.

Each year, the Board also considers the need for an external evaluation of its performance. No external evaluation was conducted in 2019.

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

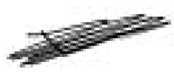
Key to the effectiveness of Board decision making is a detailed understanding of the homeware market, our history and products, the operating environment, relevant legislation and regulation to which the Group is subject and the challenges the Group faces.

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 2019, the Board received updated anti-corruption and bribery training and training on 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

18 March 2020

Audit Committee Report

Andrew Andrea

Chair of the
Audit Committee

Dear shareholder,

On behalf of the Board, I am pleased to present the Audit Committee Report for the year ended 31 December 2019.

Membership and meetings

Only members of the Audit Committee have the right to attend meetings. When appropriate and necessary, other Directors and representatives from the external auditors, Mazars LLP, attend meetings (in whole or in part) by invitation. Meetings are held no less than three times a year. There is at least one meeting per year (or part meeting) which the external auditors attend without the Executive Directors or management present.

Experience of the Audit Committee

Biographies of each member of the Committee, including their skills and experience, can be found on pages 28 and 29. Andrew Andrea and Dick Steele are considered to have recent and relevant financial experience. The Board believes the Committee as a whole has competence relevant to the homeware sector.

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 terms of reference are reviewed annually against good practice and appropriate guidelines.

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.

Attendance at Audit Committee meetings

Total meetings held	●●●
A.A. Andrea (Chair of the Audit Committee)	●●●
J. Kong	●●●
A.L. Luger (joined Committee on 19 March 2019)	●●●
R.J. Steele	●●●

Key responsibilities

The key responsibilities of the Audit Committee are:

- monitoring the adequacy and effectiveness of the Group's systems for internal control and risk management;
- overseeing the relationship with the external auditors;
- monitoring the integrity of the Group's financial statements and accounting policies; and
- reviewing the adequacy of the Group's whistle-blowing arrangements.

Significant issues considered in 2019

The Audit Committee considered the following significant issues, with management and the external auditors, in relation to the financial statements:

- impact of over-stocking in the South Korean market;
- implications of Brexit;
- internal controls;
- defined benefit pension scheme;
- goodwill and intangible assets;
- revenue and income recognition;
- stock valuation; and
- inventory provisions.

Role and responsibilities continued

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 2019, 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 was appointed in 2019. Mazars LLP are recommended for reappointment as auditors at the Annual General Meeting on 19 May 2020.

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 Committee has agreed a policy whereby the Group will 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 74.

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 31.

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.

Andrew Andrea

Chair of the Audit Committee

18 March 2020

Nomination Committee Report

Dick Steele

Chair of the
Nomination Committee

Dear shareholder,

I am pleased to present the Nomination Committee Report on behalf of the Board.

The Nomination Committee has continued its focus on Board composition and succession planning, including reviewing the skills and experience needed to ensure a robust and sustainable leadership model for the Board, its Committees and the wider management team.

The composition of the Board has evolved during the last year. As previously reported, Lawrence Bryan stepped down as Chief Executive on 2 September 2019 and was replaced by Mike Raybould on the same date. Lawrence has remained on the Board as a Non-executive Director. David Sproston was appointed as Group Finance Director on 2 September 2019.

In addition, in March 2019 we welcomed Angela Luger as a new Non-Executive Director who brought to the Board her retail, digital and customer-focused experience.

In identifying suitable candidates for Board appointment, the Committee uses 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.

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 succession planning arrangements.

Dick Steele

Chair of the Nomination Committee

18 March 2020

Attendance at Nomination Committee meetings

Total meetings held	●●
R.J. Steele (Chair of the Committee)	●●
A.A. Andrea	●●
L. Bryan	●●
J. Kong	●●
A.L. Luger (joined Committee on 19 March 2019)	○○
M.T. Raybould (joined Committee on 2 September 2019)	○○

● Attended ○ Did not attend

Key responsibilities

The Committee reviews its terms of reference on an annual basis. These describe the Committee's responsibilities in detail and they are available on the Company's website. Key responsibilities are:

- regular review of the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and making recommendations to the Board with regard to changes;
- succession planning for Directors and other senior managers taking into account the challenges and opportunities facing the Group, and what skills and expertise are therefore needed on the Board in the future; and
- prior to any appointment being made by the Board, evaluating the composition of the Board and, in light of this evaluation, preparing a description of the role and capabilities required for the appointment.

Directors' Remuneration Report

Dick Steele

Chair of the Remuneration Committee

This report is on the activities of the Remuneration Committee for the year ended 31 December 2019 and sets out the Remuneration Policy and remuneration details for the Executive and Non-executive Directors of the Company. As a company listed on 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 2018. 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 19 May 2020 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 2019. This report is split into four sections: my overview; details of the Remuneration Committee; the Remuneration Policy; and the annual report on the application of remuneration policy for the year ended 31 December 2019.

Our report aims to provide shareholders with the information to understand our Remuneration Policy and its linkage to the Group's financial performance.

The Remuneration Committee has taken into consideration the overall performance of the Group when determining remuneration matters for 2019 and 2020. The Group's financial performance in 2019 is reported in the Strategic Report on pages 1 to 27. 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. As a result of these demanding targets not being met, there have been no annual incentives paid to Executive Directors for the year ended 31 December 2019. Additionally, as a consequence, there will be no options granted under the Group's long-term incentive plan in 2020.

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.

There have been no structural changes to the Remuneration Policy during 2019.

Attendance at Remuneration Committee meetings

Total meetings held	●●●●
R.J. Steele (Chair of the Committee)	●●●●
A.A. Andrea	●●●●
J. Kong	●●●●
A.L. Luger (joined Committee on 19 March 2019)	○●●●

● Attended ○ Did not attend

Key responsibilities

The key responsibilities of the Remuneration Committee are:

- 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.

We are committed to maintaining an open and transparent dialogue with shareholders. Each year, we review how shareholders voted on the Directors' Remuneration Report, together with any feedback received. I would like to take this opportunity to thank you for the strong support received for our Directors' Remuneration Report at the 2019 AGM, where 99.81% of the proxy votes lodged were in favour.

I hope that you find this report a clear account of the Committee's approach and remuneration outcomes for the year. I welcome any comments from you regarding Directors' remuneration.

Dick Steele

Chair of the Remuneration Committee

18 March 2020

Directors' Remuneration Report continued

Remuneration Committee

The members of the Remuneration Committee are set out on pages 28 and 29. The terms of reference of the Remuneration Committee are available at www.portmeiriongroup.com.

Dick Steele is Chair of the Remuneration Committee and has been throughout 2019. The Board considers it appropriate that Dick Steele, with his experience in this area, chairs this Committee. Angela Luger joined the Committee on 19 March 2019 following her appointment to the Board. There have been no other changes in the composition of the Remuneration Committee during 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. During 2019, the Committee held four 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 2019. In determining the Directors' remuneration for the year, the Committee consulted the 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 2019 are set out on page 44. 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 EPS targets as detailed on page 43.

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 2019 are set out on page 44. 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
M.J. Knapper	01.03.2017	12 months
M.T. Raybould	02.09.2019	12 months
D. Sproston	02.09.2019	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 19 May 2020 are set out in the Directors and their interests section of the Report of the Directors on pages 47 and 48.

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 2019

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 (or cash alternative).

Annual incentive payments

Each Executive Director's remuneration package includes an annual incentive payment opportunity. 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 2019, the profit target was not met and no incentive payment was made.

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 2017, 2018 and 2019 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. The performance conditions for options granted in 2017 have not been met and therefore these options will not vest.

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

The Company operates The Portmeirion Group 2018 Deferred Incentive Plan (the "2018 Deferred Incentive Plan") which 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.

Under the 2018 Deferred Incentive Plan, 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, David Sproston and Dick Steele are members of the Portmeirion Group UK Limited Group Personal Pension Plan, a money purchase pension scheme. Lawrence Bryan received 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 44.

Directors' Remuneration Report continued

Application of Remuneration Policy for the year ended 31 December 2019 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:

	2019 £'000	2018 £'000
Emoluments	**1,526**	1,712
Long-term incentive plan (LTIP)	**80**	72
Gains made on exercise of share options	**—**	232
Money purchase pension contributions	**120**	96
	1,726	2,112

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[3] £'000	Total 2019 £'000	Total 2018 £'000
Executive								
P.E. Atherton	203	17	—	25	—	30	**275**	435
M.J. Knapper	150	11	—	—	—	22	**183**	233
M.T. Raybould	247	27	—	—	—	27	**301**	337
D. Sproston[4]	93	9	—	—	—	8	**110**	n/a
Non-executive								
A.A. Andrea	34	—	—	—	—	—	**34**	33
L. Bryan[5]	550	26	—	55	—	24	**655**	904
Lady Judge[6]	—	—	—	—	—	—	**—**	33
J. Kong	34	1	—	—	—	—	**35**	33
A.L. Luger[7]	26	—	—	—	—	—	**26**	n/a
R.J. Steele	98	—	—	—	—	9	**107**	104
	1,435	91	—	80	—	120	**1,726**	2,112

Notes:

(1) The taxable benefits shown above for P.E. Atherton, M.J. Knapper, M.T. Raybould and D. Sproston arise from the provision of a company car (or cash alternative), travel allowance, critical illness cover and private medical insurance. The taxable benefits for L. Bryan, who is a resident in the US, arose from the provision of a company car and life assurance. A further £16,000 (2018: £22,000) in non-taxable benefits arose from the provision of disability, medical and dental insurance for L. Bryan. Non-executive taxable benefits relate to travel expenses.

(2) On 8 August 2019, L. Bryan and P.E. Atherton exercised options granted in 2016 under the 2018 Deferred Incentive Plan. The mid-market closing price of the Company's shares on 8 August 2019 was 980.00p. 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 (980.00p) 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 46.

(3) The pension figures shown in the single figure table above represent the cash value of pension contributions received by the Executive. This includes any salary supplement in lieu of a Company pension contribution.

(4) D. Sproston joined the Board on 2 September 2019. D. Sproston was an employee of Portmeirion Group UK Limited for all of 2019. Amounts disclosed above reflect salary, taxable benefits and pension contributions for all of 2019.

(5) L. Bryan retired as Chief Executive on 2 September 2019 and continued as a Non-executive Director from that date. L. Bryan was remunerated in US dollars and his remuneration is translated into sterling at the average exchange rate for the year. In 2019, this was $1.2767/£ (2018: $1.3352/£). Amounts disclosed above reflect salary, taxable benefits and pension contributions for all of 2019. Included within the amount for salary and fees is £199,000 in respect of a payment for loss of office.

(6) Lady Judge resigned from the Board on 17 May 2018.

(7) A.L. Luger joined the Board on 1 March 2019. Amounts disclosed above reflect fees, taxable benefits and pension contributions from 1 March 2019.

Application of Remuneration Policy for the year ended 31 December 2019 continued

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.

Executive Share Option Plans

The Company has two share option plans, the 2012 Approved Plan and the 2012 Unapproved Plan as described on page 43. Details of options held under these schemes by Directors who served during the year are as follows:

		Number of options					Dates on which exercisable	
Director	At 01.01.2019	Granted	Exercised	Lapsed	**At 31.12.2019**	Exercise price p	Earliest	Latest
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	40,000	—	—	(7,778)	**32,222**	960.00	12.08.2020	10.08.2027
L. Bryan	40,000	—	—	(18,889)	**21,111**	1,180.00	23.05.2021	21.05.2028
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
D. Sproston	5,000	—	—	—	**5,000**	960.00	12.08.2020	10.08.2027
D. Sproston	7,500	—	—	—	**7,500**	1,180.00	23.05.2021	21.05.2028
D. Sproston	—	4,600	—	—	**4,600**	980.00	09.08.2022	07.08.2029

Notes:

(1) The performance criteria attaching to share options are detailed on page 43.

(2) The Company's share price reached a high of 1,215.00p and a low of 655.00p during 2019. The average share price during 2019 was 965.30p. The share price on 31 December 2019 was 800.00p.

(3) There have been no changes to the Directors' interests in the shares or options over shares of the Company between 31 December 2019 and 18 March 2020.

Directors' Remuneration Report continued

Application of Remuneration Policy for the year ended 31 December 2019 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:

Director	At 01.01.2019	Number of options Granted	Number of options Exercised	Number of options Lapsed	At 31.12.2019	Dates on which exercisable Earliest	Dates on which exercisable Latest
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
P.E. Atherton	—	4,173	—	—	**4,173**	09.08.2022	07.11.2022
L. Bryan	2,860	—	(2,860)	—	**—**	12.05.2019	10.08.2019
L. Bryan	6,940	—	—	(3,277)	**3,663**	22.05.2021	20.08.2021
L. Bryan	—	10,007	—	(8,617)	**1,390**	09.08.2022	07.11.2022
M.J. Knapper	1,750	—	—	—	**1,750**	22.05.2021	20.08.2021
M.J. Knapper	—	2,615	—	—	**2,615**	09.08.2022	07.11.2022
M.T. Raybould	2,917	—	—	—	**2,917**	22.05.2021	20.08.2021
M.T. Raybould	—	4,358	—	—	**4,358**	09.08.2022	07.11.2022

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.

(2) D. Sproston does not hold 2018 Deferred Incentive Plan options as he was appointed on 2 September 2019.

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 2019 £'000	Total gains on exercise 2018 £'000
P.E. Atherton	08.08.2019	1,365	100.00	980.00	13	**13**	13
L. Bryan	08.08.2019	2,860	100.00	980.00	28	**28**	24

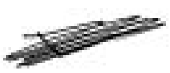
Consultations with shareholders and statement of voting at general meeting

At the Annual General Meeting of the Company held on 16 May 2019, a resolution to approve the Directors' Remuneration Report for the year ended 31 December 2018 was passed with 6,271,870 proxy votes lodged, of which 99.81% were in favour and 0.19% voted against.

In March 2020, 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

Chair of the Remuneration Committee

18 March 2020

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 2019. The Corporate Governance Statement set out on pages 30 to 35 forms part of this report.

The Company is a public limited company, registered in England and Wales and is listed on 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 27. 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 33 on pages 90 to 93. 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 4 October 2019 an interim dividend of 8.00p (2018: 8.00p) per share was paid on the ordinary share capital. Due to the unprecedented uncertainty facing businesses around the world from Covid-19, the Board is not recommending a final dividend at this time (2018: 29.50p per share), giving total dividends paid and proposed for the year of 8.00p (2018: 37.50p). We will review in three months and consider declaring an additional interim dividend in line with the final dividend for 2018 (29.50p).

Research and development

The Group continues to research methods of tackling the environmental issues facing it as a tableware, giftware 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 28 and 29 together with biographical and Committee membership details. Angela Luger joined the Board on 1 March 2019. David Sproston joined the Board on 2 September 2019. Lawrence Bryan retired from his position as Chief Executive on 2 September 2019 but remained on the Board as a Non-executive Director. Mike Raybould was promoted to Chief Executive on 2 September 2019. All other Directors served throughout the year ended 31 December 2019.

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 2018. Andrew Andrea, Phil Atherton, Lawrence Bryan, Janis Kong, Mick Knapper, Angela Luger, Mike Raybould and Dick Steele will therefore retire at the Annual General Meeting to be held on 19 May 2020 and all apart from Janis Kong are offering themselves for re-election. In addition, David Sproston is offering himself for election, as he has 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 30 to 35.

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 30 to 35.

The Directors who held office at 31 December 2019 had the following beneficial interests in the share capital of the Company:

	At 31 December 2019 5p ordinary shares Beneficial	At 31 December 2018 5p ordinary shares Beneficial
A.A. Andrea	**1,000**	—
P.E. Atherton	**16,499**	15,134
L. Bryan	**98,561**	95,701
M.J. Knapper	**2,511**	2,511
J. Kong	**5,000**	5,000
A.L. Luger	**—**	n/a
M.T. Raybould	**—**	—
D. Sproston	**—**	n/a
R.J. Steele	**27,000**	27,000

Report of the Directors continued

Directors and their interests continued

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 2019 and 18 March 2020.

Details of Directors' share options are provided in the Directors' Remuneration Report on pages 45 and 46.

Details of transactions with Directors and other related parties are to be found in note 31 on pages 86 and 87.

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 27 on page 85. 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 27 and 34 on page 85 and pages 93 and 94. 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.

The Company was authorised at the 2019 AGM to allot shares or grant rights to or subscribe for or convert any security into shares in the Company up to a nominal amount of £362,428, of which £181,214 can only be allotted pursuant to fully pre-emptive rights issues. Such authority shall expire at the earlier of the next AGM of the Company or 30 June 2020.

Substantial shareholdings

On 31 December 2019 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)	11.87%	1,291,344
Canaccord Genuity Group Inc(3)	5.96%	647,918
Shahrzad Farhadi	5.81%	632,333
Kamrouz Farhadi	5.18%	562,917
Charles Stanley Group PLC(3)	5.00%	543,847

Notes:

(1) The percentages are of the total shares in issue, excluding treasury shares (10,877,101).

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

(3) Shareholding held indirectly through a nominee.

During the period between 31 December 2019 and 18 March 2020, 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 19 May 2020 at 12:00 noon (the "2020 AGM"). All ordinary and special resolutions to be proposed at that meeting are detailed in the Notice of Annual General Meeting which is contained in a separate circular to shareholders and on the Company's website at www.portmeiriongroup.com/investors/shareholder-information/notice-agms.

Acquisition of the Company's own shares

The Company did not purchase any of its own shares during the year. The Company holds 230,382 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 16 May 2019, to purchase through the market 1,087,287 of the Company's ordinary shares. This authority expires on 30 June 2020.

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 further authority is sought from members as set out in the Notice of the 2020 AGM.

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 2019, 11,000 shares were transferred from the Trust to a senior employee of the Group on the exercise of share options. The Trust did not purchase any shares during 2019. The Trust holds a total of 234,523 shares representing approximately 2.16% of the issued share capital of the Company excluding treasury shares as at 18 March 2020.

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.

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 73 and 74.

Employee engagement

The Group recognises the importance of two-way communication with its employees. The Board 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 supplemented with briefings, newsletters and team meetings. In addition, employees receive presentations from either the Chief Executive or senior management updating them on the Group's performance and prospects, which provides the opportunity for employees to ask questions and feedback any comments directly to a member of the Board or senior management. Further details of how the Board has engaged with the Group's employees can be found in the Corporate Governance Statement on pages 30 to 35.

The Group strives to ensure that it meets employees' expectations of a safe place to work, security of employment, fair treatment and access to training. Details of how the Board has had regard to the interests of the Group's employees can be found in the Corporate Responsibility section on pages 25 to 27 and in the Section 172 (1) Statement on page 18.

Business relationships

To be successful in the long-term, the Group must establish and maintain positive business relationships with its stakeholders, including its suppliers and customers. Details of how the Board has engaged with the Group's key stakeholders, and the resulting outcomes of this engagement, can be found in the Corporate Governance Statement on pages 30 to 35. Details of how the Board has had regard to the interests of the Group's stakeholders can be found in the Section 172 (1) Statement on page 18.

Political contributions

There were no political contributions during the year.

Modern slavery

In compliance with the Modern Slavery Act 2015, the Company's Transparency Statement on Human Trafficking and Modern Slavery can be found on the Company's website at www.portmeiriongroup.com.

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.

Moira MacDonald
Company Secretary
18 March 2020

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 2019 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statement of changes in equity, the consolidated and company statements of cash flows and 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 2019 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 both the Covid-19 coronavirus and the United Kingdom exiting the European Union on our audit

The Directors' view on the impacts of the Covid-19 coronavirus and Brexit is disclosed on page 24.

The full impact following the recent emergence of the global coronavirus is still unknown. It is therefore not currently possible to evaluate all the potential implications to the Group and parent Company's trade, customers, suppliers and the wider economy.

The United Kingdom withdrew from the European Union on 31 January 2020 and entered into an Implementation Period which is scheduled to end on 31 December 2020. However the terms of the future trade and other relationships with the European Union are not yet clear, and it is therefore not currently possible to evaluate all the potential implications to the Group and parent Company's trade, customers, suppliers and the wider economy.

We considered the impacts of Covid-19 coronavirus and 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 parent Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the parent Company or the Group and this is particularly the case in relation to both Covid-19 coronavirus and Brexit.

Conclusions relating to going concern

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.

We have nothing to report in this regard.

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.

Independent Auditor's Report continued

to the members of Portmeirion Group PLC

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 page 65. 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, result in misstatement in revenue. **Provision for rebates** There is a risk that the provision in place for rebates is under estimated resulting in a misstatement in revenue.	**Our audit work included but were not limited to:** • reviewing the key elements underpinning the trigger points to recognise revenue; • focusing 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 specific returns provisions such as Christmas Tree, reviewing 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. **Key observations** Based on the work performed, we are satisfied that appropriate cut-off procedures have been applied in line with revenue recognition policies.
Inventory provision Inventory accounts for 56% of total current assets of the Group. The provision is calculated on a formulaic basis which also considers management's assessment of unit and sales values in the future. This involves a degree of judgement, therefore there is a risk that the inventory provision is materially misstated and that stock is not being held at the appropriate value. As a result, we consider completeness of stock provision in respect of inventory as a key audit matter.	**Our audit work included but was not limited to:** • reviewing the consistency of provision methodology across the Group; • 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. **Key observations** Based on the work performed, the level of provisioning adopted was considered reasonable.
Acquisition of Nambé LLC ("Nambé") The Group acquired Nambé LLC, a US based premium homewares business in July 2019. The Group's accounting policy for consolidation of acquired entities is set out in the accounting policy note on 2.1 on page 64 and 2.14 on page 68. Under IFRS3, the Group recognises the identifiable assets acquired, at their fair value on the acquisition date. Reflecting the requirement for management judgement in acquisition accounting, we have identified the estimate of the fair value of the acquired assets, including intangibles assets and goodwill as a key audit matter.	We addressed this risk by: • reviewing management's assessment and application of acquisition accounting to gain an understanding of the applied methodology and underlying assumptions; • with the assistance of our valuation experts, challenging management's identification of individual intangible assets such as brand intangibles and reviewing management's valuation methodology and underlying assumptions; and • recalculation of goodwill and appropriateness of the disclosures in financial statement in relation to this. **Key observations** Based on the work performed, we noted that the acquisition accounting and the disclosures in financial statements are appropriate.

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:	£556,000
How we determined it	This has been calculated with reference to the Group's profit before tax, of which it represents approximately 7.5%.
Rationale for benchmark applied	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.
Performance materiality	This has been calculated as 75% of overall materiality. This is on the basis of our risk assessment, together with an assessment of the Group's overall control environment.
Reporting threshold	This has been calculated as 3% of overall materiality. In addition, we also reported any misstatements below this threshold that, in our opinion, warranted further 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 £400,000. The parent Company materiality was set at £40,000. For all components across the Group performance materiality was set at 75%.

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 parent 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 parent 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., Nambé LLC and the Wax Lyrical Limited group entities 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 96% of the Group's net assets, 100% of the Group's revenue and 98% 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

Independent Auditor's Report continued

to the members of Portmeirion Group PLC

Other information continued

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 50, 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.

Robert Neate (Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

The Pinnacle, 60 Midsummer Boulevard

Milton Keynes, MK9 1FF

18 March 2020

Consolidated Income Statement

for the year ended 31 December 2019

	Notes	**Year to 31 December 2019 £'000**	Year to 31 December 2018 £'000
Revenue	4,5	**92,816**	89,594
Operating costs	6	**(84,988)**	(79,688)
Headline operating profit[1]		**7,828**	9,906
Exceptional items	6		
– restructuring costs		**(688)**	—
– acquisition costs		**(574)**	—
– gain on disposal of associate		**947**	—
Operating Profit		**7,513**	9,906
Interest income	9	**44**	14
Finance costs	10	**(632)**	(301)
Share of results of associated undertakings		**175**	95
Headline profit before tax[1]		**7,415**	9,714
Exceptional items	6		
– restructuring costs		**(688)**	—
– acquisition costs		**(574)**	—
– gain on disposal of associate		**947**	—
Profit before tax		**7,100**	9,714
Tax[2]	11	**(1,286)**	(2,023)
Profit for the period attributable to equity holders		**5,814**	7,691
Earnings per share	13		
Basic		**54.66p**	72.12p
Diluted		**54.58p**	71.90p
Headline earnings per share[1]	13		
Basic		**56.32p**	72.12p
Diluted		**56.24p**	71.90p
Dividends proposed and paid per share	12	**8.00p**	37.50p

All the above figures relate to continuing operations.

(1) Headline operating profit is statutory operating profit of £7,513,000 (2018: £9,906,000) add exceptional items of £315,000 (2018: £nil). Headline profit before tax is statutory profit before tax of £7,100,000 (2018: £9,714,000) add exceptional items of £315,000 (2018: £nil).

(2) Tax on exceptional items in the current period has reduced the charge by £138,000 (2018: £nil).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	**2019 £'000**	2018 £'000
Profit for the year		**5,814**	7,691
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit pension scheme liability	32	**(1,624)**	495
Deferred tax relating to items that will not be reclassified subsequently to profit or loss	26	**276**	(84)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(1,141)**	680
Deferred tax relating to items that may be reclassified subsequently to profit or loss	26	**46**	(33)
Other comprehensive income for the year		**(2,443)**	1,058
Total comprehensive income for the year attributable to equity holders		**3,371**	8,749

Consolidated Balance Sheet

31 December 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Goodwill	14	**8,978**	7,229
Intangible assets	15	**7,647**	5,680
Property, plant and equipment	16	**11,261**	9,666
Right-of-use assets	17	**6,146**	—
Interests in associates	18	**713**	2,567
Deferred tax asset	26	**306**	—
Total non-current assets		**35,051**	25,142
Current assets			
Inventories	20	**26,619**	19,179
Trade and other receivables	21	**19,274**	15,638
Current income tax asset		**247**	—
Cash and cash equivalents	22	**1,151**	7,214
Total current assets		**47,291**	42,031
Total assets		**82,342**	67,173
Current liabilities			
Trade and other payables	23	**(12,915)**	(12,025)
Current income tax liabilities		**—**	(546)
Lease liabilities	24	**(1,273)**	—
Borrowings	29	**(4,543)**	(1,981)
Total current liabilities		**(18,731)**	(14,552)
Non-current liabilities			
Pension scheme deficit	32	**(414)**	(6)
Deferred tax liability	26	**(1,086)**	(991)
Lease liabilities	24	**(5,083)**	—
Borrowings	29	**(8,930)**	(2,974)
Total non-current liabilities		**(15,513)**	(3,971)
Total liabilities		**(34,244)**	(18,523)
Net assets		**48,098**	48,650
Equity			
Called up share capital	27	**555**	555
Share premium account		**7,310**	7,310
Investment in own shares	28	**(3,146)**	(3,257)
Share-based payment reserve		**87**	282
Translation reserve		**1,628**	2,723
Retained earnings		**41,664**	41,037
Total equity		**48,098**	48,650

These financial statements were approved by the Board of Directors and authorised for issue on 18 March 2020.

They were signed on its behalf by:

M.T. Raybould
Director

D. Sproston
Director

Company Balance Sheet

31 December 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Investment in subsidiaries	19	**12,366**	12,366
Total non-current assets		**12,366**	12,366
Current assets			
Trade and other receivables	21	**3,928**	4,083
Cash and cash equivalents		**—**	—
Total current assets		**3,928**	4,083
Total assets		**16,294**	16,449
Total liabilities		**—**	—
Net assets		**16,294**	16,449
Equity			
Called up share capital	27	**555**	555
Share premium account		**7,310**	7,310
Other reserves		**197**	197
Investment in own shares	28	**(3,146)**	(3,257)
Share-based payment reserve		**87**	282
Retained earnings		**11,291**	11,362
Total equity		**16,294**	16,449

The Company reported a profit for the financial year ended 31 December 2019 of £3,771,000 (2018: £4,991,000).

The financial statements of Portmeirion Group PLC, company registration number 124842, were approved by the Board of Directors and authorised for issue on 18 March 2020.

They were signed on its behalf by:

M.T. Raybould
Director

D. Sproston
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	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 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 1 January 2019	**555**	**7,310**	**(3,257)**	**282**	**2,723**	**41,037**	**48,650**
Profit for the year	—	—	—	—	—	5,814	5,814
Other comprehensive income for the year	—	—	—	—	(1,095)	(1,348)	(2,443)
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**(1,095)**	**4,466**	**3,371**
Dividends paid	—	—	—	—	—	(3,990)	(3,990)
Decrease in share-based payment reserve	—	—	—	(39)	—	—	(39)
Transfer on exercise or lapse of options	—	—	—	(156)	—	156	—
Shares issued under employee share schemes	—	—	111	—	—	(8)	103
Deferred tax on share-based payment	—	—	—	—	—	3	3
At 31 December 2019	**555**	**7,310**	**(3,146)**	**87**	**1,628**	**41,664**	**48,098**

The nature of each reserve is explained in note 2.17 on page 69.

Company Statement of Changes in Equity

for the year ended 31 December 2019

	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 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 1 January 2019	**555**	**7,310**	**197**	**(3,257)**	**282**	**11,362**	**16,449**
Profit for the year	—	—	—	—	—	3,771	3,771
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**3,771**	**3,771**
Dividends paid	—	—	—	—	—	(3,990)	(3,990)
Decrease in share-based payment reserve	—	—	—	—	(39)	—	(39)
Transfer on exercise or lapse of options	—	—	—	—	(156)	156	—
Shares issued under employee share schemes	—	—	—	111	—	(8)	103
At 31 December 2019	**555**	**7,310**	**197**	**(3,146)**	**87**	**11,291**	**16,294**

The nature of each reserve is explained in note 2.17 on page 69.

Consolidated Statement of Cash Flows

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Operating profit		**7,513**	9,906
Adjustments for:			
Depreciation of property, plant and equipment	16	**1,479**	1,326
Depreciation of right-of-use assets	17	**1,770**	—
Amortisation of intangible assets	15	**677**	591
(Credit)/charge for share-based payments	34	**(39)**	143
Exchange (loss)/gain		**(14)**	31
Profit on sale of associated undertakings		**(947)**	—
Loss/(profit) on sale of tangible fixed assets		**4**	(16)
Operating cash flows before movements in working capital		**10,443**	11,981
Increase in inventories		**(3,882)**	(657)
Increase in receivables		**(2,390)**	(3,005)
(Decrease)/Increase in payables		**(1,518)**	1,355
Cash generated from operations		**2,653**	9,674
Contributions to defined benefit pension scheme	32	**(1,200)**	(1,200)
Interest paid		**(566)**	(248)
Income taxes paid		**(1,478)**	(1,591)
Net cash (outflow)/inflow from operating activities		**(591)**	6,635
Investing activities			
Interest received		**11**	14
Dividend received from associate		**120**	115
Proceeds on disposal of property, plant and equipment		**—**	76
Proceeds on disposal of investments		**3,263**	—
Purchase of investments		**(363)**	—
Purchase of property, plant and equipment	16	**(1,548)**	(879)
Purchase of intangible assets	15	**(450)**	(213)
Acquisition of subsidiary		**(9,434)**	—
Net cash outflow from investing activities		**(8,401)**	(887)
Financing activities			
Equity dividends paid	12	**(3,990)**	(3,766)
Shares issued under employee share schemes		**103**	1,250
Purchase of own shares		**—**	(2,521)
New bank loans raised	25	**17,491**	3,000
Principal elements of lease payments		**(1,635)**	—
Repayments of borrowings	25	**(9,000)**	(5,000)
Net cash inflow/(outflow) from financing activities		**2,969**	(7,037)
Net decrease in cash and cash equivalents		**(6,023)**	(1,289)
Cash and cash equivalents at beginning of year		**7,214**	8,487
Effect of foreign exchange rate changes		**(40)**	16
Cash and cash equivalents at end of year		**1,151**	7,214

Company Statement of Cash Flows

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Operating profit		**3,771**	4,991
Adjustments for:			
(Credit)/charge for share-based payments	34	**(39)**	143
Operating cash flows before movements in working capital		**3,732**	5,134
Decrease/(increase) in receivables		**155**	(97)
Cash generated from operations		**3,887**	5,037
Income taxes paid		**—**	—
Net cash from operating activities		**3,887**	5,037
Financing activities			
Equity dividends paid	12	**(3,990)**	(3,766)
Shares issued under employee share schemes		**103**	1,250
Purchase of own shares		**—**	(2,521)
Net cash outflow from financing activities		**(3,887)**	(5,037)
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 97. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 27. 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 24.

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 2019.

The following new and revised standards and interpretations have also been adopted in the current year. The adoption of IFRS 16 is the only new and revised standard and interpretation that has had a significant impact on the amounts reported in these financial statements and will continue to impact the accounting for future transactions. The impact is set out further in note 2.

	EU effective date periods beginning on or after
IFRS 16 'Leases'	1 January 2019
Amendments to IAS 28: Long-term interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
IFRIC 23 'Uncertainty over Income Tax Treatments'	1 January 2019
Annual improvements to IFRS 2015 – 2017 Cycle	1 January 2019

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) have not yet been adopted by the EU:

	EU effective date periods beginning on or after
IFRS 17 'Insurance Contracts'	Not yet endorsed by the EU
Amendments to IFRS 3 'Business Combinations'	Not yet endorsed by the EU
Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform	1 January 2020
Amendments to IAS 1, Presentation of financial statements' on classification of liabilities	Not yet endorsed by the EU

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.

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 2019.

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.

IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (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').

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

Notes to the Financial Statements continued

2. Significant accounting policies continued

IFRS 16 Leases continued

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as a lease under IAS 17 and IFRIC 4. The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.7%.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, EBITDA (earnings before interest, tax, depreciation and amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Impact of adoption

IFRS 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. There was no impact of adoption on opening retained profits as at 1 January 2019. A reconciliation of the operating lease commitments to the opening right-of-use asset and lease liability is shown below:

	Operating lease commitments at 31 December 2018 £'000	Incremental borrowing rate at 1 January 2019 %	Interest calculated on Right-of-use assets at 1 January 2019 £'000	Right-of-use assets at 1 January 2019 £'000	**Lease liability recognised at 1 January 2019 £'000**
Group					
Land & buildings	5,771	2.70	(922)	4,849	**4,849**
Other	469	2.70	(19)	450	**450**
Total	6,240	—	(941)	5,299	**5,299**

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 are 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 2019 except for the accounts of Portmeirion Canada Inc. which have a year end of 30 June 2019. The Group accounts include interim financial information to 31 December 2019 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. Significant accounting policies continued

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. Customer returns are provided for as required.

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

The Group as a lessee

Policy applicable before 1 January 2019

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.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

Significant accounting policy

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an asset, the Group assesses whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use. Considering its rights within the defined scope of the contract, the Group has the right to direct the use of the identified asset throughout the period of use; and
- the Group has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Notes to the Financial Statements continued

2. Significant accounting policies continued

2.5 Leases continued

Measurement and recognition of leases as a lessee

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset. The Group has applied this methodology to its land and buildings where sufficient historical information has been available to facilitate this.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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 2.18 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 Exceptional items

The Group's income statement separately identifies exceptional items. Such items are those that in the Director's judgement are one-off in nature or non-operating and need to be disclosed separately by virtue of their size or incidence and may include, but are not limited to, restructuring costs, acquisition related costs, gains/losses from disposal of investments. In determining whether an item should be disclosed separately as an exceptional item, the Directors consider quantitative as well as qualitative factors such as the frequency, predictability of occurrence and significance. This is consistent with the way financial performance is measured by management and reported to the Board. Disclosing exceptional items separately provides additional understanding and transparency of the performance of the Group.

2. Significant accounting policies continued

2.9 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.

2.10 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.

2.11 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 method, aside from vehicles which are on a reducing balance method, on the following basis:

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

Notes to the Financial Statements continued

2. Significant accounting policies continued

2.12 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.

2.13 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.

2.14 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 as exceptional items.

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. Significant accounting policies continued

2.15 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.

2.16 Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development activities are capitalised where appropriate.

2.17 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.

2.18 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 33.

2.19 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 34.

Notes to the Financial Statements continued

2. Significant accounting policies continued

2.19 Share-based payments continued

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 or 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 32. 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.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Critical judgements in applying the Group's accounting policies continued

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

4. Revenue

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

Continuing operations	2019 £'000	2018 £'000
Sale of goods	**92,639**	89,416
Royalties	**177**	178
	92,816	89,594

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 Portmeirion USA operations and Global 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.

	2019			2018		
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	**48,203**	**(2,569)**	**45,634**	50,029	(1,888)	48,141
Portmeirion USA	**32,513**	**(136)**	**32,377**	25,988	—	25,988
Global home fragrance	**14,805**	**—**	**14,805**	15,465	—	15,465
	95,521	**(2,705)**	**92,816**	91,482	(1,888)	89,594

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	2019 £'000	2018 £'000
United Kingdom	**32,579**	31,487
United States	**32,477**	26,669
South Korea	**11,412**	8,229
Rest of the World	**16,348**	23,209
	92,816	89,594

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. The effect of the Nambé LLC acquisition has been included in note 35.

Notes to the Financial Statements continued

5. Segmental analysis continued

Operating profit by origin	2019 £'000	2018 £'000
Portmeirion UK	**5,025**	7,059
Portmeirion USA	**1,785**	1,299
Global home fragrance	**1,018**	1,548
Operating profit	**7,828**	9,906
Unallocated items:		
Exceptional items	**(315)**	—
Share of results of associated undertakings	**175**	95
Interest income	**44**	14
Finance costs	**(632)**	(301)
Profit before tax	**7,100**	9,714
Tax	**(1,286)**	(2,023)
Profit after tax	**5,814**	7,691

	2019				2018			
Other information	Portmeirion UK £'000	Portmeirion USA £'000	Global home fragrance £'000	Consolidated £'000	Portmeirion UK £'000	Portmeirion USA £'000	Global home fragrance £'000	Consolidated £'000
Capital additions	**1,543**	**191**	**788**	**2,522**	816	61	215	1,092
Depreciation and amortisation	**1,495**	**1,285**	**1,146**	**3,926**	1,041	166	710	1,917
Balance sheet:								
Assets								
Non-current segment assets	**9,898**	**9,573**	**14,867**	**34,338**	8,901	349	13,325	22,575
Other segment assets	**23,831**	**15,083**	**8,377**	**47,291**	25,288	8,780	7,963	42,031
Total segment assets	**33,729**	**24,656**	**23,244**	**81,629**	34,189	9,129	21,288	64,606
Interests in associates				**713**				2,567
Consolidated total assets				**82,342**				67,173
Liabilities								
Consolidated total liabilities	**22,473**	**7,274**	**4,497**	**34,244**	13,328	1,737	3,458	18,523

All non-current segment assets relate to the UK business other than £9,573,000 (2018: £349,000) which relate to the USA business segment.

Reconciliation of earnings before interest, tax, depreciation and amortisation (EBITDA)	2019 £'000	2018 £'000
Operating profit	**7,513**	9,906
Add back:		
Depreciation	**3,249**	1,326
Amortisation	**677**	591
Earnings before interest, tax, depreciation and amortisation	**11,439**	11,823

6. Operating costs

	2019 £'000	2018 £'000
Cost of inventories recognised as an expense	**40,980**	39,087
Movement on inventory impairment provision	**(1,936)**	(276)
Other external charges	**14,650**	14,548
Staff costs (note 7)	**26,912**	24,159
Depreciation of property, plant and equipment	**1,479**	1,326
Depreciation of right-of-use assets	**1,770**	—
Amortisation of intangible assets	**677**	591
Impairment of trade receivables	**9**	94
Cost of research and development	**412**	303
Net foreign exchange losses/(gains)	**35**	(144)
	84,988	79,688

Exceptional items by type are as follows:

	2019 £'000	2018 £'000
Restructuring costs	**688**	—
Acquisition costs	**574**	—
Gain on disposal of associate	**(947)**	—
	315	—

7. Staff numbers and costs

	2019 Number	2018 Number
The average number of persons employed during the year, including Directors:		
Operatives	**496**	457
Salaried employees	**351**	328
	847	785

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

	2019 £'000	2018 £'000
Staff costs		
Wages and salaries	**22,587**	20,349
Social security costs	**1,992**	1,768
Other pension costs	**1,605**	1,475
Non-monetary benefits	**728**	567
	26,912	24,159

Notes to the Financial Statements continued

7. Staff numbers and costs continued

	2019 £'000	2018 £'000
Directors' emoluments:		
Salary and fees, taxable benefits and incentive	**1,526**	1,712
Gains made on exercise of share options	**—**	232
Long-term incentive plan	**80**	72
Pension contributions	**120**	96
	1,726	2,112

	2019 Number	2018 Number
Number of Directors who were members of a defined contribution pension scheme during the year	**6**	5
Number of Directors who exercised options over shares in the ultimate parent company	**2**	3

	2019 £'000	2018 £'000
Remuneration of the highest paid Director:		
Salary and fees, taxable benefits and incentive	**576**	710
Gains made on exercise of share options	**—**	124
Long-term incentive plan	**55**	47
Pension contributions	**24**	23
	655	904

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

8. Auditors' remuneration

	2019 £'000	2018 £'000
Fees payable to the Group's auditors for the audit of the Group's annual accounts	**90**	56
Other audit related services – interim review	**7**	6
The audit of the Company's subsidiaries	**15**	14
Total audit related fees	**112**	76
Fees payable to the Group's auditors and their associates for other services to the Group		
Other services	**—**	2
Total non-audit fees	**—**	2
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 (2018: £1,700).

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

	2019 £'000	2018 £'000
Bank deposits	**11**	14
Unrealised profits on financial derivatives	**17**	—
Net interest income on pension scheme deficit (note 32)	**16**	—
	44	14

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

10. Finance costs

	2019 £'000	2018 £'000
Interest paid	**487**	260
Interest on lease liabilities	**138**	—
Realised losses on financial derivatives	**7**	12
Net interest expense on pension scheme deficit (note 32)	**—**	29
	632	301

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

11. Taxation on profit on ordinary activities

	2019 £'000	2018 £'000
Current taxation		
United Kingdom corporation tax at 19% (2018: 19%)	**519**	1,336
Overseas taxation	**168**	332
	687	1,668
Deferred taxation		
Origination and reversal of temporary differences	**392**	156
Pension scheme	**207**	199
	599	355
	1,286	2,023

United Kingdom corporation tax is calculated at 19% (2018: 19%) 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:

	2019 £'000	2018 £'000
Profit on ordinary activities before taxation	**7,100**	9,714
Tax on profit on ordinary activities at standard rate of 19% (2018: 19%)	**1,349**	1,846
Factors affecting charge for the year:		
Expenses not deductible for tax purposes and other adjustments	**(116)**	95
Foreign tax charged at higher rates than UK standard rate	**86**	100
Differences relating to associates' tax charge	**(33)**	(18)
Total tax on profit on ordinary activities	**1,286**	2,023

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

Notes to the Financial Statements continued

12. Dividends paid

	2019 £'000	2018 £'000
Final dividend of 29.50p per share paid in respect of the year ended 31 December 2018 (2018: final dividend of 27.26p per share paid in respect of the year ended 31 December 2017)	**3,138**	2,917
Interim dividend of 8.00p per share paid in respect of the year ended 31 December 2019 (2018: interim dividend of 8.00p per share paid in respect of the year ended 31 December 2018)	**852**	852
Unclaimed dividends written back	**—**	(3)
Total dividends paid in the year	**3,990**	3,766

Due to the unprecedented uncertainty facing businesses around the world from Covid-19, the Board is not recommending a final dividend at this time (2018: 29.50p per share), giving total dividends paid and proposed for the year of 8.00p (2018: 37.50p).

13. Earnings per share

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

	2019			2018		
	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	**5,814**	**10,637,059**	**54.66**	7,691	10,664,531	72.12
Effect of dilutive securities:						
– employee share options	**—**	**15,935**	**—**	—	32,746	—
Diluted earnings per share	**5,814**	**10,652,994**	**54.58**	7,691	10,697,277	71.90

The calculation of basic and diluted headline earnings per share adjusted for exceptional items and associated tax benefits is based on the following data:

	2019			2018		
	Earnings £'000	Weighted average number of shares	Earnings per share (p)	Earnings £'000	Weighted average number of shares	Earnings per share (p)
Headline basic earnings per share	**5,991**	**10,637,059**	**56.32**	7,691	10,664,531	72.12
Effect of dilutive securities:						
– employee share options	**—**	**15,935**	**—**	—	32,746	—
Headline diluted earnings per share	**5,991**	**10,652,994**	**56.24**	7,691	10,697,277	71.90

14. Goodwill

	Total £'000
Cost	
At 1 January 2018 and 1 January 2019	**7,229**
Recognised on acquisition of a subsidiary	**1,851**
Exchange rate adjustments	**(102)**
At 31 December 2019	**8,978**

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.

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.

14. Goodwill continued

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 into perpetuity at a growth rate of 1.5% for all cash-generating units. 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 is 5%.

The Directors performed sensitivity analysis on the estimates of value in use by assuming no growth in cash flow forecasts in one scenario and by increasing the discount rate to 10% in another scenario. It was found that the excess of value in use over the carrying amount would be reduced, but still no impairment would be required.

Goodwill includes £7,229,000 relating to the Global home fragrance division and £1,749,000 relating to the Portmeirion USA division.

15. Intangible assets

	Development costs £'000	Computer software £'000	Intellectual property and customer lists £'000	Total £'000
Cost				
At 1 January 2018	59	382	8,661	9,102
Additions	—	213	—	213
Disposals	(59)	(60)	—	(119)
At 1 January 2019	—	535	8,661	9,196
Additions	—	450	—	450
Recognised on acquisition of a subsidiary	—	—	2,319	2,319
Disposals	—	(1)	—	(1)
Exchange rate adjustments	—	—	(128)	(128)
At 31 December 2019	**—**	**984**	**10,852**	**11,836**
Amortisation				
At 1 January 2018	59	265	2,720	3,044
Charge for the year	—	61	530	591
On disposals	(59)	(60)	—	(119)
At 1 January 2019	—	266	3,250	3,516
Charge for the year	—	99	578	677
On disposals	—	(1)	—	(1)
Exchange rate adjustments	—	—	(3)	(3)
At 31 December 2019	**—**	**364**	**3,825**	**4,189**
Net book value				
At 31 December 2019	**—**	**620**	**7,027**	**7,647**
At 31 December 2018	—	269	5,411	5,680

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), the intellectual property and customer lists recognised at fair value on the acquisition of Wax Lyrical (purchased in May 2016) and the intellectual property of Nambé (purchased July 2019).

At the year end the Spode and Royal Worcester intellectual property had a carrying value of £626,000 (2018: £688,000). The remaining amortisation period is ten years.

Notes to the Financial Statements continued

15. Intangible assets continued

At the year end the Wax Lyrical intellectual property had a carrying value of £2,945,000 (2018: £3,205,000) and the customer lists had a carrying value of £1,311,000 (2018: £1,518,000). The remaining amortisation periods are eleven years four months and six years four months respectively.

At the year end the Nambé intellectual property had a carrying value of £2,145,000 (2018: £nil). The remaining amortisation period is fourteen years seven months.

At 31 December 2019, the Group had entered into contractual commitments for the acquisition of intangible assets amounting to £nil (2018: £41,000).

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 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 1 January 2019	3,855	3,874	1,619	16,502	25,850
Additions	163	—	232	1,153	1,548
Recognised on acquisition of a subsidiary	945	—	207	481	1,633
Disposals	—	—	—	(383)	(383)
Transfers	—	—	(358)	358	—
Exchange rate adjustments	(130)	—	(63)	(234)	(427)
At 31 December 2019	**4,833**	**3,874**	**1,637**	**17,877**	**28,221**
Depreciation					
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 1 January 2019	2,101	276	1,293	12,514	16,184
Charge for the year	95	51	142	1,191	1,479
On disposals	—	—	—	(378)	(378)
Transfers	—	—	(358)	358	—
Exchange rate adjustments	(79)	—	(49)	(197)	(325)
At 31 December 2019	**2,117**	**327**	**1,028**	**13,488**	**16,960**
Net book value					
At 31 December 2019	**2,716**	**3,547**	**609**	**4,389**	**11,261**
At 31 December 2018	1,754	3,598	326	3,988	9,666

At 31 December 2019, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £120,000 (2018: £nil).

17. Right-of-use assets

	Land & buildings £'000	Other £'000	Total £'000
Cost			
On transition to IFRS 16	4,849	450	5,299
Additions	372	152	524
Recognised on acquisition of a subsidiary	2,231	48	2,279
Exchange rate adjustments	(218)	(5)	(223)
At 31 December 2019	**7,234**	**645**	**7,879**
Depreciation			
Charge for the year	1,531	239	1,770
Exchange rate adjustments	(37)	—	(37)
At 31 December 2019	**1,494**	**239**	**1,733**
Net book value			
At 31 December 2019	**5,740**	**406**	**6,146**
At 31 December 2018	—	—	—

The Group leases land and buildings for its offices, warehouses and retail outlets under agreements of between five to one hundred years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The Group also leases plant and equipment under agreements of between three to seven years.

During the year, the Group acquired Nambé LLC which had right-of-use assets of £2,279,000.

The Company has no right-of-use assets.

Notes to the Financial Statements continued

18. Interests in associates

Group

Associated undertaking	2019 £'000	2018 £'000
Furlong Mills Limited		
Disposed of on 30 September 2019		
Current assets	—	3,632
Non-current assets	—	3,159
Current liabilities	—	(1,772)
Non-current liabilities	—	(176)
Equity attributable to owners of the Company	—	4,843
Share of net assets	—	1,787
Discount on acquisition	—	(13)
Carrying value of the Group's interest in the associate	—	1,774
Revenue	**7,473**	9,544
Profit from continuing operations	**300**	459
Portmeirion Canada Inc.		
100 common shares representing 50% of the issued share capital		
Current assets	**1,660**	1,799
Non-current assets	**11**	12
Current liabilities	**(147)**	(87)
Equity attributable to owners of the Company	**1,524**	1,724
Share of net assets	**762**	862
Adjustment for intercompany profit held in inventories	**(49)**	(69)
Carrying value of the Group's interest in the associate	**713**	793
Revenue	**2,466**	2,597
Loss from continuing operations	**(33)**	(71)
Aggregate carrying value of associated undertakings	**713**	2,567

A list of the investments in subsidiaries and associates, including the name, country of incorporation and proportion of ownership interest, is given in note 19.

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.

19. Investment in subsidiaries

Company investment in subsidiary undertakings:

	2019 £'000	2018 £'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

19. Investment in subsidiaries continued

No interest is charged on these capital contributions.

At 31 December 2019 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
Nambé LLC[3]	USA	200 West DeVargas Street, Unit 8, Santa Fe, NM 87501	Design, 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
Wax Lyrical SAS[6]	France	13–15, 13 Rue Taitbout, 75009 Paris, France	Marketing and distribution of homeware
Associated undertakings			
Portmeirion Canada Inc.	Canada	20 Voyager Court South, Rexdale, Etobicoke, Toronto, Ontario, Canada	Marketing and distribution of homeware

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 and 50% of the ordinary share capital of Portmeirion Canada Inc.

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.

Notes to the Financial Statements continued

20. Inventories

Group

	2019 £'000	2018 £'000
Raw materials and other consumables	**2,991**	2,435
Work in progress	**805**	809
Finished goods	**22,823**	15,935
	26,619	19,179

21. Trade and other receivables

Group

	2019 £'000	2018 £'000
Amounts receivable for the sale of goods	**17,367**	14,284
Allowance for doubtful debts	**(96)**	(369)
Trade receivables	**17,271**	13,915
Amounts owed by associated undertakings	**246**	77
Other receivables	**150**	152
Prepayments and accrued income	**1,607**	1,494
	19,274	15,638

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 £2,617,000 (2018: £2,835,000) 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 68 days (2018: 57 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, unrelated and also credit insured. 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 (2018: £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 2019	Current £'000	< 30 days £'000	30–60 days £'000	61–90 days £'000	>91 days £'000	Total £'000
Expected credit loss rate	0%	0%	0%	0%	31%	
Estimated total gross carrying amount at default	14,654	1,499	845	57	312	17,367
Expected credit loss	—	—	—	—	96	96

21. Trade and other receivables continued

Group continued

31 December 2018	Current £'000	< 30 days £'000	30–60 days £'000	61–90 days £'000	>91 days £'000	Total £'000
	Trade Receivables Days past due					
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

Movement in the allowance for doubtful debts	2019 £'000	2018 £'000
Balance at the beginning of the year	**369**	361
Impairment losses recognised	**9**	94
Amounts written off as uncollectable	**(282)**	(86)
Balance at the end of the year	**96**	369

Company

	2019 £'000	2018 £'000
Amounts owed by subsidiary undertakings	**3,928**	4,083

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.

22. Cash and cash equivalents

Group

	2019 £'000	2018 £'000
Cash and cash equivalents	**1,151**	7,214

Cash and cash equivalents comprise cash held by the Group including overdrafts 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.

23. Trade and other payables

Group

	2019 £'000	2018 £'000
Trade payables and accruals	**11,540**	10,263
Amounts owed to associated undertakings	**—**	29
Other taxation and social security	**990**	800
Other payables	**385**	933
	12,915	12,025

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 39 days (2018: 35 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.

Notes to the Financial Statements continued

24. Lease liabilities

Group

	2019 £'000	2018 £'000
Less than 1 month	**133**	—
1 – 3 months	**267**	—
Over 3 months	**873**	—
Total lease liability less than one year	**1,273**	—
Total lease liability greater than one year	**5,083**	—
	6,356	—

25. Borrowings

The Group has four facilities:

a) A £5,000,000 overdraft facility available until 31 August 2020. Interest is payable at 1.90% 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 £3,000,000 which net of deferred facility fee costs of £26,000 left the balance sheet value of £2,974,000 (note 29).

c) A £10,000,000 loan facility repayable in 18 equal quarterly instalments starting January 2020, followed by a final instalment. Interest is payable at an average 1.90% above three-month LIBOR. At the year end the outstanding balance was £10,000,000 which net of deferred facility fee costs of £82,000 left the balance sheet value of £9,918,000 (note 29).

d) 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 was being utilised at 31 December 2019 amounting to £581,000. The revolving credit facilities were not being utilised at 31 December 2019.

26. 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 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 1 January 2019	(343)	1	6	(192)	340	(803)	(991)
(Charge)/credit to income	(277)	(207)	(17)	—	(178)	80	(599)
Acquired on acquisition of Nambé LLC	—	—	—	—	485	—	485
Credit to equity	—	—	3	—	—	—	3
Credit to other comprehensive income	—	276	—	—	46	—	322
At 31 December 2019	**(620)**	**70**	**(8)**	**(192)**	**693**	**(723)**	**(780)**

26. Deferred tax continued

Group continued

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:

	2019 £'000	2018 £'000
Deferred tax liability	**(1,086)**	(991)
Deferred tax asset	**306**	—
	(780)	(991)

At the balance sheet date, the Group had no unused tax trading losses and no capital losses (2018: £nil) available for offset against future profits.

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

27. Share capital

	2019		2018	
	Number '000	£'000	Number '000	£'000
Allotted, called up and fully paid share capital:				
– ordinary shares of 5p each	**11,107**	**555**	11,107	555

The market price of the Company's shares at 31 December 2019 was 800.0p per share. During the year the price ranged between 655.0p and 1,215.0p per share.

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

There were no shares issued during the year.

Options granted to Directors and employees (note 34) to acquire ordinary shares of 5p in the Company and still outstanding at 31 December 2019 were as follows:

	Number of shares	Exercise price per share (p)	Dates on which exercisable	
			Earliest	Latest
2018 Deferred Incentive Plan	11,122	—	22.05.2021	20.08.2021
2018 Deferred Incentive Plan	12,536	—	09.08.2022	07.11.2022
2012 Approved Plan	54,135	960.0	12.08.2020	10.08.2027
2012 Unapproved Plan	116,087	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	157,438	1,180.0	23.05.2021	21.05.2028
2012 Approved Plan	12,671	980.0	09.08.2022	07.08.2029
2012 Unapproved Plan	64,629	980.0	09.08.2022	07.08.2029

Options held by the Directors are shown in the Directors' Remuneration Report on pages 45 and 46.

Notes to the Financial Statements continued

28. Own shares

Treasury shares	2019 £'000	2018 £'000
At 1 January	**439**	445
Shares purchased	**—**	—
Shares issued under employee share schemes	**(8)**	(6)
At 31 December	**431**	439

ESOP shares		
At 1 January	**2,818**	1,431
Shares purchased	**—**	2,519
Shares issued under employee share schemes	**(103)**	(1,132)
At 31 December	**2,715**	2,818
Total at 31 December	**3,146**	3,257

The Group currently holds 230,382 (2018: 234,607) 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 34). The number of ordinary shares held by the Portmeirion Employees' Share Trust at 31 December 2019 was 234,523 (2018: 245,523).

29. Notes to the statements of cash flows

Group

	1 January 2019	Financing[(1)] cash flows	Arrangement fees	Other[(2)] changes	31 December 2019
Current borrowings	1,981	2,581	(19)	—	**4,543**
Non-current borrowings	2,974	6,000	(71)	27	**8,930**
Total liabilities from financing activities	4,955	8,581	(90)	27	**13,473**

Notes:

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

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

30. 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.

31. 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:

	Sales 2019 £'000	Sales 2018 £'000	Purchases 2019 £'000	Purchases 2018 £'000
Portmeirion Canada Inc.	**1,087**	1,217	**—**	—
Furlong Mills Limited	**—**	—	**572**	898

31. Related party transactions continued

Group continued

The outstanding balances at 31 December 2019 with associated undertakings were:

	Debtor 2019 £'000	Debtor 2018 £'000	Creditor 2019 £'000	Creditor 2018 £'000
Portmeirion Canada Inc.	**246**	77	**—**	—
Furlong Mills Limited	**—**	—	**—**	29

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 £3,000 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 page 74.

Company

During 2019 net transactions totalling £155,000 were credited (2018: £97,000 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 reduced an intercompany loan from the Company by a net amount of £103,000 (2018: £1,387,000 increase). The purpose of the loan is for acquiring shares to satisfy Group share option exercises (note 34). The total outstanding loan is now £2,715,000 (2018: £2,818,000). The ESOP share reserve is disclosed in note 28.

The outstanding balances with subsidiary undertakings at 31 December 2019 and 31 December 2018 are shown in note 21.

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

32. 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 £1,605,000 (2018: £1,475,000) 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 to 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.

Notes to the Financial Statements continued

32. Pensions continued

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 2019 in accordance with IAS 19 by qualified actuaries.

The major assumptions used by the actuaries were:

	2019	2018
Rate of increase of pensions in payment:		
– Post 06.04.88 GMP	**2.85%**	3.00%
– Pre 06.04.97 excess over GMP	**5.00%**	5.00%
– Post 06.04.97 pension	**2.85%**	3.00%
Rate of revaluation of pensions in deferment	**1.85%**	2.05%
Rate used to discount scheme liabilities	**1.95%**	2.90%
Inflation assumption:		
– RPI	**2.95%**	3.15%
– CPI	**1.85%**	2.05%
Life expectancy at 65 for a member:		
– Currently aged 65 – male	**21.6**	21.8
– Currently aged 45 – male	**22.6**	22.8
– Currently aged 65 – female	**23.9**	23.7
– Currently aged 45 – female	**25.0**	24.9

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 £1,544,000 (2018: £1,339,000).

If inflation and related assumptions increased by 0.25%, the defined benefit obligation would increase by £210,000 (2018: £289,000).

If life expectancy increased by one year for both men and women, the defined benefit obligation would increase by £1,716,000 (2018: £1,544,000).

32. Pensions continued

Sensitivity analysis continued

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.

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:

	2019 Fair value £'000	2018 Fair value £'000
Scheme assets		
Equities	**5,892**	4,871
Bonds	**9,016**	7,805
Gilts	**10,387**	9,710
Diversified growth funds	**6,689**	5,682
Insured pensions	**5,221**	5,086
Cash	**150**	101
Total fair value of assets	**37,355**	33,255
Present value of defined benefit obligations	**(37,769)**	(33,261)
Deficit in the scheme	**(414)**	(6)

Analysis of the amount charged to operating profit

	2019 £'000	2018 £'000
Current service cost	**—**	—
Past service cost	**—**	—
	—	—

Analysis of the amount included in the income statement

	2019 £'000	2018 £'000
Interest on pension scheme assets	**965**	855
Interest on pension scheme liabilities	**(949)**	(884)
Amount credited to interest income/(charged to) finance costs	**16**	(29)

Amounts recognised in the consolidated statement of comprehensive income

	2019 £'000	2018 £'000
Return on plan assets (excluding amounts included in net interest expense)	**3,072**	(1,914)
Actuarial gains and losses arising from changes in financial assumptions	**(4,997)**	2,183
Actuarial gains and losses arising from changes in demographic assumptions	**373**	215
Actuarial gains and losses arising from experience adjustments	**(72)**	11
Remeasurement of the net defined benefit pension scheme liability	**(1,624)**	495

Notes to the Financial Statements continued

32. Pensions continued

Amounts recognised in the consolidated statement of comprehensive income continued

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 £6,759,000 (2018: £5,135,000).

Analysis of movements in scheme assets and liabilities

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

	2019 £'000	2018 £'000
At 1 January	**33,261**	35,797
Service cost	**—**	—
Interest cost	**949**	884
Remeasurements (financial assumptions)	**4,997**	(2,183)
Remeasurements (demographic assumptions)	**(373)**	(215)
Remeasurements (experience adjustments)	**72**	(11)
Benefits paid	**(1,137)**	(1,011)
At 31 December	**37,769**	33,261

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

	2019 £'000	2018 £'000
At 1 January	**33,255**	34,125
Interest on assets	**965**	855
Remeasurement of assets	**3,072**	(1,914)
Contributions by the employer	**1,200**	1,200
Benefits paid	**(1,137)**	(1,011)
At 31 December	**37,355**	33,255

Pension contributions

The estimated amount of contributions expected to be paid to the scheme during the next financial year is £1,200,000 (2019: £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 18 years.

At 31 December 2019, contributions of £152,000 (2018: £156,000) 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 £143,000 (2018: £190,000) at 31 December 2019.

33. 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 2018.

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.

33. 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 21.

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 25. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of an interest rate cap on the loan facility repayable from January 2020. 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 2019 would decrease by £102,000 (2018: £87,000).

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.

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	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Euro	**163**	198	**397**	585
US dollar	**4,564**	3,159	**8,813**	6,351

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	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
(Loss)/profit	**(21)**	(35)	**86**	(36)

Financial Statements

Notes to the Financial Statements continued

33. 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 2019	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**	**17,540**	**1,128**	**—**	**—**	**18,668**
Other assets	**—**	**—**	**—**	**—**	**63,674**	**63,674**
Total assets		**17,540**	**1,128**	**—**	**63,674**	**82,342**
Shareholders' funds	**—**	**—**	**—**	**—**	**(48,098)**	**(48,098)**
Financial liabilities	**—**	**(11,726)**	**(136)**	**(63)**	**—**	**(11,925)**
Borrowings	**2.70**	**(1,000)**	**—**	**(12,473)**	**—**	**(13,473)**
Other liabilities	**—**	**(610)**	**(780)**	**(5,956)**	**(1,086)**	**(8,432)**
Pension scheme deficit	**—**	**—**	**—**	**—**	**(414)**	**(414)**
Total liabilities and shareholders' funds		**(13,336)**	**(916)**	**(18,492)**	**(49,598)**	**(82,342)**
Cumulative gap		**4,204**	**4,416**	**(14,076)**	**—**	**—**

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	—	—

33. Financial instruments continued

Liquidity and interest risk tables continued

Categories of financial instruments	2019 £'000	2018 £'000
Financial assets:		
Cash and cash equivalents	**1,151**	7,214
Loans and receivables	**17,517**	13,992
	18,668	21,206
Financial liabilities:		
Amortised cost	**11,925**	11,225

34. 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 income/(expenditure) of £39,000 and (£143,000) in relation to share-based payment transactions in 2019 and 2018 respectively. The Company recharged this income/ expenditure 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:

	2019		2018	
	Number of share options	Total exercise price £	Number of share options	Total exercise price £
Outstanding at 1 January	**18,624**	**6**	7,361	4
Granted during the year	**21,153**	**4**	14,399	4
Lapsed during the year	**(11,894)**	**—**	—	—
Surrendered during the year	**—**	**—**	—	—
Exercised during the year	**(4,225)**	**(2)**	(3,136)	(2)
Outstanding at 31 December	**23,658**	**8**	18,624	6
Exercisable at 31 December	**—**	**—**	—	—

The options outstanding at 31 December 2019 had a weighted average remaining contractual life of 2.3 years (2018: 2.2 years). In 2019, options were granted on 8 August. The aggregate of the estimated fair value of those options is £106,516.

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

	2019	2018
Weighted average share price at date of grant	**£9.600**	£11.600
Weighted average exercise price	**£nil**	£nil
Expected volatility	**21%**	18%
Expected life	**3.125 years**	3.125 years
Risk-free rate	**0.88%**	0.88%
Expected dividend rate	**3.91%**	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

34. 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:

	2019		2018	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at 1 January	**391,500**	**10.689**	342,379	9.361
Granted during the year	**77,300**	**9.800**	195,000	11.800
Lapsed during the year	**(41,667)**	**10.993**	(7,500)	9.600
Surrendered during the year	**—**	**—**	—	—
Exercised during the year	**(11,000)**	**9.350**	(138,379)	9.029
Outstanding at 31 December	**416,133**	**10.529**	391,500	10.689
Exercisable at 31 December	**—**	**—**	11,000	9.350

The options outstanding at 31 December 2019 had a weighted average remaining contractual life of 8.3 years (2018: 8.9 years).

In 2019, options were granted on 8 August. The aggregate of the estimated fair value of those options is £71,614.

The range of exercise prices for the options outstanding at 31 December is from £9.600 to £11.800.

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

	2019	2018
Weighted average share price at date of grant	**£9.600**	£11.600
Weighted average exercise price	**£9.800**	£11.800
Expected volatility	**21%**	17%
Expected life	**4 years**	4 years
Risk-free rate	**0.88%**	0.88%
Expected dividend rate	**3.91%**	2.99%

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.

35. Acquisition of subsidiary

On 16 July 2019, the Group acquired 100% of the members' interests of Nambé LLC for a net consideration of $11.9 million (including cash acquired of $0.1m) before acquisition costs. Nambé designs, sources, markets, and retails Nambé branded products in homewares.

The acquisition provides the Group with additional scale in its key US market and strategically complements its existing US subsidiary while continuing to diversify the Group into new homeware product categories.

35. Acquisition of subsidiary continued

The acquisition terms do not include any contingent or deferred consideration arrangements. Details of the total consideration and the provisional fair values of the assets and liabilities acquired are as follows:

	Net assets acquired $'000	Fair value adjustment $'000	Initial fair value of assets/ (liabilities) acquired $'000	Initial fair value of assets/ (liabilities) acquired £'000
Cash and cash equivalents	86	—	86	68
Trade and other receivables	1,856	—	1,856	1,484
Inventory	6,565	(1,253)	5,312	4,245
Property, plant and equipment	2,324	(280)	2,044	1,633
Trade and other payables	(3,233)	—	(3,233)	(2,583)
Right of use asset	2,852	—	2,852	2,279
Lease liabilities	(2,852)	—	(2,852)	(2,279)
Identifiable intangible assets	—	2,902	2,902	2,319
Deferred tax asset	—	607	607	485
Total identifiable assets	7,598	1,976	9,574	7,651
Goodwill	—	2,316	2,316	1,851
Total consideration	**7,598**	**4,292**	**11,890**	**9,502**

	$'000
Satisfied by:	
Borrowings	11,890
Total consideration transferred	**11,890**

The GBP/USD exchange rate at acquisition was 1.2513.

	£'000
Net cash outflow arising on acquisition:	
Cash consideration	9,502
Less: cash and cash equivalent balances acquired	(68)
	9,434

The goodwill of £1.9 million arising from the acquisition consists of the anticipated synergies of combining the existing Group operations with those of Nambé LLC. This will include shared product development, distribution channels, access to new customers in the US, UK and export markets and other operational synergies. None of the goodwill is expected to be deductible for income tax purposes. The recent intangible assets value of £2.3 million represents intellectual property recognised at fair value, which are being amortised over their estimated useful lives of fifteen years. $0.3 million has been placed in ESCROW by the previous owners of Nambé LLC, to cover any potential indemnification claims. An indemnification asset of $0.3 million has not been recognised on the basis this is only payable to the Group on the identification and recognition of an associated liability.

Acquisition-related costs (included in exceptional items) amount to £574,000.

Nambé LLC contributed £7,769,000 revenue and £31,000 profit after tax for the period between the date of acquisition and the balance sheet date. The net assets of the company at 31 December 2019 were £9,500,000.

36. Post balance sheet event

We operate a 50% owned associated company for our distribution operation in our Canadian sales market, Portmeirion Canada Inc. Subsequent to the year end, the Group has been notified by the other 50% partner in Portmeirion Canada that they wish to terminate the current shareholder agreement. We are currently working with the associate to review and agree the best future approach to serve the Canadian sales market including continuing to operate Portmeirion Canada as a 100% owned distribution company.

Our sales to the Canadian associate in 2019 were £1.1 million and we expect to finalise our future approach to this market in 2020.

Five-year Summary

Consolidated income statement information

Years ended 31 December

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Revenue	**92,816**	89,594	84,769	76,677	68,669
Profit before tax	**7,100**	9,714	8,822	7,806	8,649
Tax	**(1,286)**	(2,023)	(1,944)	(1,581)	(1,752)
Profit attributable to equity holders	**5,814**	7,691	6,878	6,225	6,897
Earnings per share	**54.66p**	72.12p	65.07p	59.60p	66.02p
Diluted earnings per share	**54.58p**	71.90p	64.79p	59.10p	65.48p
Dividends paid and proposed per share	**8.00p**	37.50p	34.66p	32.25p	30.00p

Consolidated balance sheet information

At 31 December

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Assets employed					
Non-current assets	**35,051**	25,142	26,301	28,200	13,281
Current assets	**47,291**	42,031	38,992	35,292	33,142
Current liabilities	**(18,731)**	(14,552)	(13,012)	(11,704)	(6,816)
Non-current liabilities	**(15,513)**	(3,971)	(7,509)	(15,000)	(3,085)
	48,098	48,650	44,772	36,788	36,522
Financed by					
Called up share capital	**555**	555	554	550	550
Share premium account and reserves	**47,543**	48,095	44,218	36,238	35,972
	48,098	48,650	44,772	36,788	36,522

Company Information

Board of Directors

Non-executive Chairman
Dick Steele BCOM FCA CTA

Chief Executive
Mike Raybould BSc ACA

Group Finance Director
David Sproston BSc ACA

Group Sales and Marketing Director
Phil Atherton

Operations Director
Mick Knapper

Non-executive Director
Andrew Andrea BA MA ACA

Non-executive Director
Lawrence Bryan BA

Non-executive Director
Janis Kong OBE BSc

Non-executive Director
Angela Luger BSc

Company Secretary
Moira MacDonald FCIS

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* Calls are charged at the standard geographic rate and will vary by provider. Lines open between 9:00 am and 5:30 pm GMT, Monday–Friday excluding public holidays in England and Wales.

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Financial Calendar

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

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Pictured on back cover (clockwise from top): Portmeirion Botanic Garden Harmony, Spode Christmas Tree and Wax Lyrical Sunflower Fields.


WAX LYRICAL
SUNFLOWER FIELDS
SUNFLOWER FIELDS
SUNFLOWER FIELDS