PORTMEIRION GROUP PLC

Report and Accounts
for the year ended 31 December 2012

Stock code: PMP

Welcome to

Portmeirion Group PLC

Portmeirion Group PLC is a British company, based in Stoke-on-Trent. We are a significant force in the homewares industry, a market leader in high quality and innovatively designed tableware, cookware, giftware and tabletop accessories. Portmeirion Group encompasses four world leading brands.

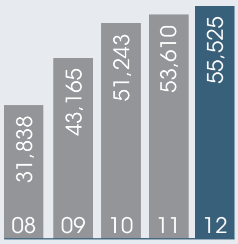
Investment Themes

- Four exceptional British Brands – Portmeirion, Spode, Royal Worcester and Pimpernel.
- Strong Balance Sheet – no outstanding debt and substantial cash reserves.
- Highly profitable – record Group profit achieved in 2012.
- Progressive dividend policy – supported by strong cash generation.
- Efficient, competitive UK manufacturing base – significant improvement in production processes during the year.
- Track record of growth – organic sales increases supplemented by successful acquisitions.
- Diverse strategy for growth worldwide – customer focused product design and marketing.

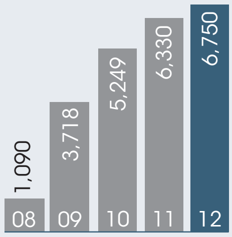
Pictured on front cover: Sophie Conran for Portmeirion
Pictured below: Portmeirion Exotic Botanic Garden

Financial Highlights

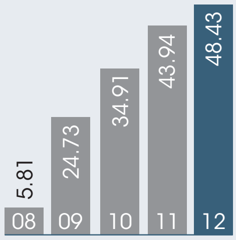
Revenue (£'000)
£55,525
+3.6%



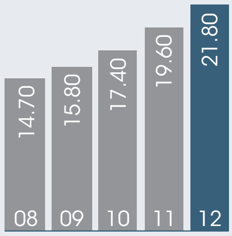
Pre-tax profit (£'000)
£6,750
+6.6%



Basic EPS (p)
48.43p
+10.2%



Dividends paid and proposed (p)
21.80p
+11.2%



- Record Group revenue of £55.5 million, up by 3.6%.
- Profit before tax increased 6.6% to £6.8 million.
- Total dividend paid and proposed for 2012 increased by 11.2% to a record 21.80p.
- Balance sheet remains very strong: cash balance up to £7.5 million (2011: £6.8 million).

Operational Highlights

- Revenue growth across all four brands.
- Launched over 360 new products in 2013, including Sophie Conran for Portmeirion metal cookware, Water Garden, and a 60th anniversary of the Queen's Coronation collection.
- UK website re-launched in 2013 to drive further sales growth.
- Appointment of Phil Atherton as Group Sales and Marketing Director.

What's in our Report

Read about Our Brands on **pages** 4 and 5.

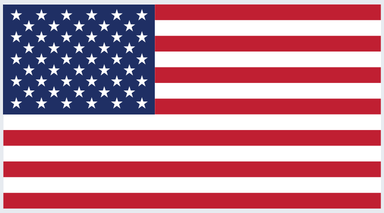
Read the Business Review on **pages** 6 to 10.

Where we Operate

Portmeirion Group sells its products directly to retailers in the US and the UK and through exclusive distributors and agents in over 60 other countries around the world. Its major markets are the US, the UK and South Korea.

Core Markets

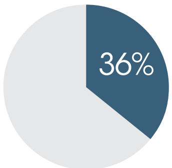
United States



Revenue

£20.2m

Share of Group Revenue



Distribution Channels

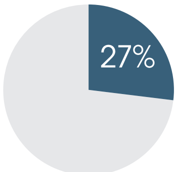
- Major US department stores.
- Over 1,200 independent US retailers.
- Major US internet retailers of both general and home goods merchandise.
- National chains of US "big box" retailers and warehouse club merchandisers.

United Kingdom

Revenue

£14.9m

Share of Group Revenue



Distribution Channels

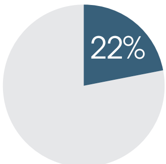
- Major UK department stores.
- Over 500 independent UK retailers.
- 10 retail outlets and nationwide mail order service.
- UK based website recently re-launched after significant sales growth in 2012.

South Korea

Revenue

£12.1m

Share of Group Revenue



Distribution Channels

- Exclusive distributor who supplies the following sectors:
  - Wholesale outlets.
  - 100 retail outlets.
  - Major department stores.
  - TV home shopping channels.
- Distributor and third party internet websites.

Our Strategy

Our strategy is to improve the return to shareholders by:

- **Growing sales volumes**
  2012 was the fourth consecutive record year for revenue for the Portmeirion Group, with revenues up by 3.6% to £55,525k (2011: £53,610k).

- **Focusing on increasing profit margins**
  Operating and net profit margins were increased to 12.0% (2011: 11.7%) and 12.2% (2011: 11.8%) in the year.

- **Customer targeted product launches**
  Strong growth in the UK and South Korea reflect commitment to key customers.

- **Concentrating on design and quality**
  Launch of over 360 new products in 2013 demonstrates the Group's commitment to innovation and originality.

- **Maintaining a progressive dividend policy**
  Dividends paid and proposed increased by 11.2% to 21.80p (2011: 19.60p), improving the return to shareholders.

- **Making suitable acquisitions**
  The Group makes acquisitions where appropriate opportunities arise.

Read more information in the Business Review on **pages** 6 to 10.

Pictured: Portmeirion Water Garden

Pictured: Vintage Kellogg's range from Portmeirion

Our Brands

PORTMEIRION®

Portmeirion is committed to producing innovative designs that sit comfortably with everyday life as epitomised by the iconic Botanic Garden range. The diverse and unique high quality products within the Portmeirion brand deliver not only beautiful designs but practicality for modern day living.

A new direction for the brand, in 2013 Portmeirion launched Sophie Conran for Portmeirion Cookware – a collection of beautiful and functional ceramic coated cast aluminium cookware products, utilising the latest non-stick technology. Botanic Garden Birds builds on Botanic Garden's worldwide popularity and Water Garden brings vibrantly painted flowers to the table.

Visit **www.portmeirion.com**

Portmeirion Ranges

Arthur Goodfellow and Friends, Botanic Blue, Botanic Garden, Exotic Botanic Garden, Botanic Garden Birds, Christmas Wish, Crazy Daisy, Dawn Chorus, Pomona, Sanderson for Portmeirion: Fifi and Porcelain Garden, Secret Garden, Sophie Conran for Portmeirion, The Holly and The Ivy, The Very Hungry Caterpillar™, Vintage Kellogg's™ and Water Garden.

Pictured: Sanderson for Portmeirion: Porcelain Garden

Spode®

Renowned for its rich heritage and timeless designs, Spode's product portfolio appeals across the generations and includes celebrated British designs such as Blue Italian, Blue Room and Christmas Tree.

In 2013, Spode celebrates the 75th anniversary of Christmas Tree; arguably the most popular festive dinnerware collection in the world today.

Honouring the 60th anniversary of the Coronation of H.M. Queen Elizabeth II, Spode has also launched a distinctive Blue Room mug and plate featuring an intricate border taken from the Spode design archives.

Visit **www.spode.com**

Spode Ranges

Blue Italian, Blue Room, Christmas Tree, Paddington Bear™ and Woodland.

Pictured: Spode Christmas Tree

Founded in 1751, Royal Worcester has a rich and diverse design heritage. The brand offers a wide spectrum of products from fashionable, gift-boxed, fine bone china mugs to the unique and opulent Painted Fruit collection.

Celebrating the 60th anniversary of the Coronation of H.M. Queen Elizabeth II in 2013, Royal Worcester has introduced a stunning commemorative collection of fine bone china gilded in 22 carat gold. Other new launches include Serendipity Platinum – a simple and elegant collection of tableware; RHS Roses – a licensed collection featuring designs from the Royal Horticultural Society's design archive; and a champagne coupe for Cirrus, the hand-cut crystal glassware collection from Sophie Conran for Royal Worcester.

Visit **www.royalworcester.com**

Royal Worcester Ranges

60th Anniversary of the Coronation of H.M. Queen Elizabeth II, Evesham Gold, Painted Fruit and RHS Roses.

Bone China: Gift-boxed mug collection, Serendipity and Serendipity Platinum.

Crystal Glassware: Cirrus by Sophie Conran for Royal Worcester.

Pictured: Royal Worcester Coronation Vase

Pimpernel, a premier brand for placemats and coasters, continues to build on its complete tabletop accessory ranges through the introduction of a wealth of new products, including trays and textiles, and exclusive designs.

Building on the success of 2012 launches, Pimpernel has introduced more Sanderson designs to its placemat and coaster offering as well as designs from another influential design house, Morris & Co. Other launches include the Arthur Goodfellow and Friends collection as well as additions to the very popular Christmas Wish, RHS Roses and Vintage Kellogg's™ collections.

Pimpernel Products

Placemats, coasters, trays, textiles, mugs, children's dinnerware, cutlery and accessories in an array of designs.

Pictured: Sanderson for Pimpernel

Business Review

Richard J. Steele, Non-executive Chairman and **Lawrence F. Bryan**, Chief Executive

> "Our global brands are respected and valuable, our product ranges are excellent, our people are best in class and our balance sheet is strong. We remain confident for the future."
>
> **Richard J. Steele,** Non-executive Chairman

Pictured: Portmeirion Botanic Garden Birds

Portmeirion Group worldwide revenues and earnings were once again driven to new highs in 2012. This has enabled us to increase our dividends for the fourth successive year to their highest level ever. The UK and South Korea performed strongly. Unfortunately, we experienced challenging conditions in the United States, our largest market, where a number of factors, including Superstorm Sandy, the Presidential elections and the government budget uncertainty combined to depress trading. However, we are cautiously optimistic on the outlook in the US for 2013.

Our global brands are respected and valuable, our product ranges are excellent, our people are best in class and our balance sheet is strong. The Portmeirion Group is strong.

Dividend

The Board is recommending a final dividend of 17.30 pence per share bringing the total paid and proposed for the year to 21.80 pence per share, an increase of 11.2% over the amount paid in respect of 2011.

The final dividend will be paid, subject to shareholders' approval, on 24 May 2013 to shareholders on the register on 26 April 2013.

The full year dividends paid and proposed are covered 2.2 times by earnings (2011: 2.2 times). The Board considers that such a level of cover is appropriate.

For the last four years – 2009 to 2012 – we have increased the total dividends paid by an average of 10.4% per annum compound. Our dividend is now 48.3% higher than it was in 2008.

We became a publicly listed company 25 years ago in 1988, the issue price of the shares at that time was £1.80 each, since our flotation we have paid out total dividends of over £2.90 per share and our share price has increased threefold; we have never cut or withheld our dividend in our time as a listed company.

The Board is committed to a progressive dividend policy, our aim is to maintain a sustainable level of dividend cover and to try to increase dividends whenever our prudent forecasts of future trading conditions and business cash needs allow us so to do. We plan to increase interim dividends by the same percentage as the final dividend of the previous year where conditions permit.

Long term, dividends are the overriding goal at Portmeirion Group.

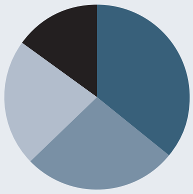
Revenues

Revenues were £55.5 million for the year, an increase of 3.6% over the previous year (2011: £53.6 million), within this increase there were some significant geographical variances.

Our largest market is the USA and this accounted for 36% of revenues in the year (2011: 40%), our sales here declined by 6.4% in US dollars (the currency in which we sell there) and by 5.3% in sterling (the currency which we translate our sales into to report). Our UK sales grew by 7.9% to represent 27% of our revenues (2011: 26%) and our sales to South Korea, driven by new products, were 13.1% higher providing 22% of our revenues (2011: 20%). Sales in the rest of the world, apart from these three key markets, were 7.2% higher with notable inroads being made in India, Hungary and Norway. Online sales were 75% higher than in 2011 at over £0.5 million. Having launched a much improved website in 2013, we expect this figure to continue to grow significantly.

The diversity of our markets, customers and products are complementary planks in our strategy for the business; this strategy enables our aggregated results to mitigate seasonality, climate and austerity.

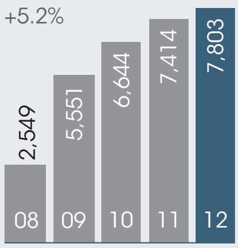
Revenue by market



Pre-exceptional EBITDA (£'000)

£7,803

+5.2%



Profits

The profit before taxation was £6.8 million, an increase of 6.6% over the previous year (2011: £6.3 million) and EBITDA was £7.8 million, an increase of 5.2% over the previous year (2011: £7.4 million).

Profit growth outstripped revenue growth as we continued to drive efficiencies through our business. Our UK factory has become even more efficient and the management pressure on overheads is relentless.

Our sales of UK manufactured product were some 3.4% below the levels of 2011; set against this the demand for sourced product increased significantly. These movements reflect the demand for the different ranges which we produce or source rather than a deliberate policy and vindicate our strategy of producing and sourcing as appropriate, in particular with regard to the chosen method of manufacture or market segment.

Despite 2012 being a record year for Portmeirion it was not exceptional enough to maximise annual bonuses for the executive team and so there have been savings here. Design, marketing and selling expenses continue to represent significant costs for the company and, as in previous years, the benefits of such expenditure continue to accrue for many years after the cost is incurred.

Pictured: Product being sponged in the cup-making department of our UK manufacturing plant.

Reduction of factory 'seconds'

In 2012, Portmeirion Group embarked on a project to reduce the number of 'second' quality products manufactured in its Stoke-on-Trent production facility.

Since the project commenced, the Group has drastically reduced the rate of 'seconds' by 45% without lowering the high quality standards for which it is renowned. Previously 'seconds' accounted for 10.8% of all products made at its factory. This figure was reduced to 6.5% for 2012 and continues to be driven down.

The increase in production efficiency allows Portmeirion Group to sell more products at 'best' quality prices and therefore achieve the maximum profit margin available for each of its UK made lines.

Balance Sheet

Group net assets increased by £2.5 million to £26.8 million as at 31 December 2012, and year end cash balances were £7.5 million compared to £6.8 million for 31 December 2011.

Inventories were reduced by £0.8 million during the year; as at 31 December 2012 they stood at £11.6 million representing the most significant asset on our balance sheet. Our obsolescence and provisioning policies in respect of inventory are rigorous and prudent. At peak levels in 2012 inventories stood at £15.4 million before we started shipping for our important Christmas sales period.

Business Review
continued

The pension scheme deficit stands at £5.0 million, a small increase on 2011 despite £0.8 million of cash contributions. The deficit is carefully monitored and under control.

We have used treasury shares with a book value of £164,000 to satisfy share option grants during the year; we continue to hold treasury shares with a book value of £767,000 as at 31 December 2012. These were purchased at an average cost of £1.87 each. We plan to continue to use these to satisfy share options where appropriate.

Products and Brands

Our four brand names – Portmeirion, Spode, Royal Worcester and Pimpernel – have a long and illustrious history spanning some 250 years. The longest established pattern which we still sell – Spode Blue Italian – was first marketed in 1816; this still generates over £1 million of sales per annum. Our biggest selling pattern representing just over 40% of our sales – Portmeirion Botanic Garden – was launched in 1972. By continuing to invest in product design, marketing and sales channels we are building our product and brand assets for future commercial gain and shareholder benefit.

We invest in existing product ranges and new ranges. The Vintage Kellogg's range which we launched in 2012 is an outstanding example of the success of a new range; the continuing growth of Sophie Conran, launched in 2006 and grown by 6% last year, is a good example of investment in an existing range. Combining product development with customer attentiveness is the essence of brand value and lies at the core of our beliefs here at Portmeirion.

Our stands at the Frankfurt Ambiente Trade Show and at the Birmingham Spring Fair confirmed our position at the forefront of English homewares and design. We launched over 360 new products at these shows across all four brands. These include a new Sophie Conran collection of ceramic coated metal cookware, a new tableware range called Water Garden and a Royal Worcester Coronation 60th Anniversary Collection.

A list of our current patterns can be found within the "Our Brands" section of this report on pages 4 and 5, and also at www.portmeirion.com, www.spode.com and www.royalworcester.com. Online purchasing is also available from these websites.

Production and Sourcing

Irrespective of whether the items we sell have been produced in our Stoke-on-Trent factory, or other factories in the area or abroad, all our products carry our reputation with them in our backstamps and thus the inherent quality guarantee.

Our Stoke-on-Trent factory continues to operate at a level of efficient capacity. We only produce earthenware in our own factory, whereas bone china, porcelain, glassware, fabrics, tablemats etc. are all

Pictured: The Portmeirion Group stand at the Birmingham Spring Fair 2013.

externally sourced to our demanding requirements. We are bearing Anti-Dumping Duty imposed by the European Commission on ceramics we source from China, but we are confident that we are dealing with this matter as well as possible.

We continue to seek improvements in production and our Business Improvement Teams are generating valuable gains in production and distribution.

Distribution

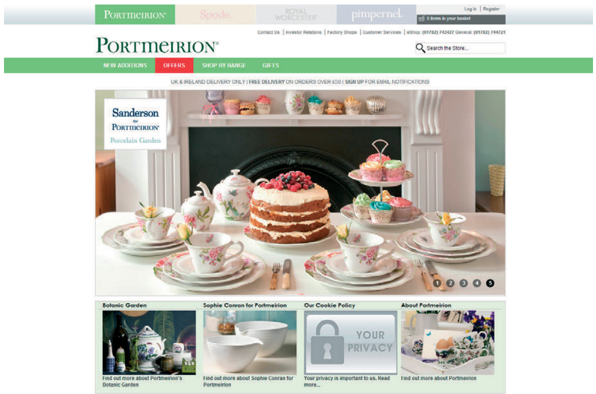
We now operate three distribution facilities at Trentham Lakes in Stoke-on-Trent, at Waterbury in Connecticut and Guang-Dong in China. We will be selling into China from the new Chinese warehouse.

People

The average number of people we employ increased slightly in 2012 to 587 from 579 in 2011. The average sales per employee increased to £94,591, a 2% increase on the 2011 average of £92,591. This is a key performance measurement for any business, furthermore value added per employee increased.

Health and safety, employee training and the views of our people remain high on our agenda. Our recently completed Employee Questionnaire confirmed that we continue to make progress as an employer of choice. Employee welfare is important to us.

Michael Haynes, Group Sales and Marketing Director, has retired from the Board since the year end. Michael joined the Group in 2004 and was appointed to the Group Board in 2007 but had been an independent sales agent for the business for many years prior to that. His contribution to the success of Portmeirion has been significant and he will be missed at a commercial and personal level. Michael's retirement is well earned and he leaves with our best wishes for the future and our thanks for the past. To replace Michael we have been very fortunate in recruiting Phil Atherton who is already making a valuable contribution. Phil has a distinguished background in Sales and Marketing, most recently at the John Cotton Group where he was the Sales and Marketing Director of the Home Textiles Division and oversaw major sales and profits growth as well as UK and European acquisitions. Further details of Phil's background are given on page 12 of this report. Whilst change can be unsettling, to a well established company such as Portmeirion it is a force for good.



Launch of new and improved website

After a successful year of trading in 2012, Portmeirion Group launched a new and improved website in February 2013.

Designed to secure future sales growth, the new online shop incorporates all four of Portmeirion Group's iconic brands. Allowing the end-customer to buy across the Group's full product spectrum, the new website also clearly communicates each of the brand's unique identities.

Being extremely customer focused, the online shop now offers customers a clearer route to purchase and allows customers to buy single items as well as take full advantage of seasonal discounts and special offers.

Regular email campaigns and online advertising will ensure consistent traffic to the site.

"Our stands at the Frankfurt Ambiente Trade Show and at the Birmingham Spring Fair confirmed our position at the forefront of English homewares and design."

Lawrence F. Bryan, Chief Executive

Business Review
continued

All employees, excluding the Non-executive Directors, participate in various annual incentive schemes. Whilst 2012 was another record year for Portmeirion our annual schemes did not pay out the maximum amounts achievable because performance was not sufficient to self finance the awards. Our schemes are demanding.

All three Non-executive Directors are seeking re-election this year, this is in line with our previously implemented policy of annual re-election for Non-executive Directors as this gives shareholders the opportunity to express their views on the governance of the company.

The Environment
During 2012 Portmeirion continued with its successful energy efficiency drive. Compared to 2011 we reduced our gas consumption by 3.2% and our electricity consumption by 15.6%. In total these reductions enabled us to reduce our carbon dioxide emissions by 6.9% over the previous year. Compared to 2001, we now emit 35% less carbon dioxide per annum. This is a significant achievement over an eleven year period when our production volumes have also increased.

Risks
The Report of the Directors on pages 14 and 15 lists the principal risks to which we consider the business is subject. We keep these risks under constant review; four merit a little more explanation here.

Our currency risks are broadly matched in that our US dollar receivables are largely offset by our US dollar payables, any expected net exposure and our other currency risks are covered by forward contracts where appropriate.

Our production dependency is split between our own UK factory and outsourced Far East production, this enables us to reduce our risks in the medium to long term.

Energy costs remain a significant group cost at some £1.2 million per annum on our own production and a comparable figure on outsourced production. We continue to push ourselves to the forefront of energy efficiency in production.

Our long closed defined benefit pension scheme is discussed above; we remain exposed in this area although we have undertaken as much mitigation as possible.

Pictured: Spode Blue Room

Corporate Governance
We are an AIM listed company and as such we are not subject to the full range of corporate governance requirements which apply to larger companies. Nevertheless we recognise the value of many corporate governance processes and seek to implement those where we can see benefit for shareholders. We will continue to be flexible in achieving effective and efficient governance relative to our size, markets and business structure. The guidance provided by the Quoted Companies Alliance provides a useful yardstick for businesses of our size.

Outlook
We remain confident for the future. Given our seasonal bias in revenue and even more so in profits it is always difficult to predict our full year outcomes at this early stage. However we know that we have taken the appropriate steps to build the business for the future – people, product, finance.

Trading in the first two months of the year has been broadly level with last year.

We are a widely based homewares business. Our brands and ranges have longevity and value, our markets are worldwide and our sourcing is diversified.

We are resolute in our core values of attentive design, assured quality, a professional sales approach, nurtured brands and conservative financing.

We continue to measure acquisition opportunities against our demanding criteria.

Richard J. Steele
Non-executive Chairman

Lawrence F. Bryan
Chief Executive

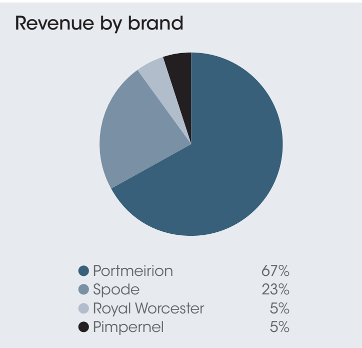
Group Chief Executive's Q & A

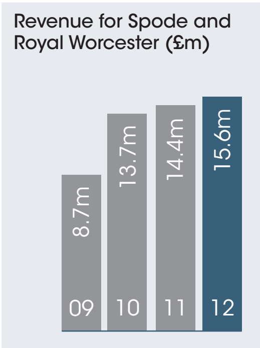
Lawrence F. Bryan answers questions on the Group's achievements in 2012 and the challenges ahead.

Question: Is the Group satisfied with its performance following the Spode and Royal Worcester acquisition in 2009?

I'm pleased with what we have achieved. Immediately prior to the acquisition in 2008 the Group had reported revenue figures of £31.8m and profits of £1.4m. Since the acquisition the Group has reported four consecutive years of revenue growth and in 2012 has beaten the previous record profit level of £6.4m set by the Group in 1996.

Spode and Royal Worcester sales in 2012 accounted for some £15.6m, 28% of total group sales. We plan to introduce more products under these iconic brands, see pages 4 and 5 for more details.





Question: What do you see as the biggest challenges for the Group?

Driving future sales growth will always remain the key for Portmeirion. This growth is underpinned by strong design and innovative products. There are key markets throughout the world in which Portmeirion has yet to generate significant sales. For example, India and China are potentially large markets where the Group has experienced some success already but where there is much more volume to be had. We are focused on these opportunities.

The impact of Anti-Dumping Duty may cause some short-term cost increases and have a detrimental impact on our sourced product margins. However, we are a versatile company and we are adapting to resolve this problem in the near future.

Pictured: Product being fired at our UK manufacturing plant.

Question: What developments has the Group made to become greener?

As a manufacturing business, the Group does require energy to produce our products. However, we strive to improve our efficiency and reduce waste wherever possible. Our carbon use against government targets is consistently below required levels.

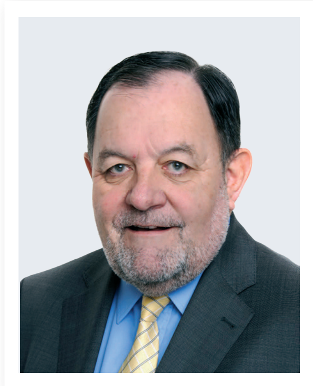
In 2012 the company invested some £80,000 in heat recovery technology, which allowed waste energy from one of our tunnel kilns to be recycled back into the kiln at the beginning of the process to save energy costs and reduce emissions. We continue to strive to make these kinds of efficiencies in our production process.

Question: What are your plans to enhance shareholder value?

Portmeirion has always maintained its dividend, and since 2008 the dividend has been increased each year, supported by strong growth in revenue and profits and a strong balance sheet. Our dividend cover remains above 2 despite an 11% increase in the dividend in 2012.

The future of the company is driven by the introduction of new product and the reinforcement of our core values. By concentrating on and investing in new product design and quality, we embed these company values and demonstrate our commitment to innovation and originality.

Board of Directors



Lawrence F. Bryan
Chief Executive

Lawrence Bryan has been a Director since 2000 and Chief Executive since 2001. As the Chief Executive he oversees all the Group's business and is responsible for formulating the Group's objectives and strategy. In addition, all operations in the United States report directly to him as President of Portmeirion Group USA, Inc.

Lawrence has extensive experience in the glass, ceramics and gift industry. He was previously the Vice President, Sales of Waterford Wedgwood USA, President, Waterford Wedgwood USA Retail and President of International China Company. He is a Fellow of the Royal Society of Arts.

Brett W.J. Phillips
Group Finance Director and Company Secretary

Brett Phillips was appointed to the Board in 1988 and is responsible for all aspects of financial control, information systems, human resources, legal and company secretarial matters, production and logistics. He is Managing Director of Portmeirion Group UK Limited, the Group's main operating company, and sits on all subsidiary Boards.

Brett is a Chartered Accountant. He is Chairman of the Board of Furlong Mills Limited, an associated undertaking of the Group, and is also a Non-executive Director of Stafford Railway Building Society.

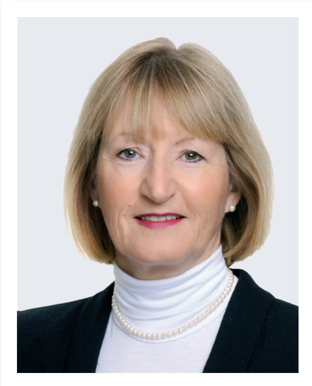
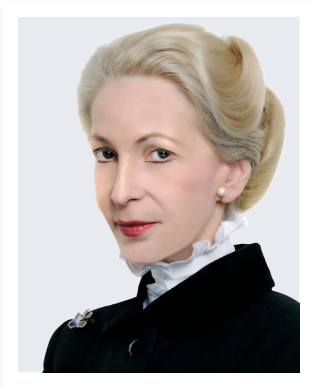
Philip E. Atherton
Group Sales and Marketing Director (appointed 12 February 2013)

Philip Atherton was appointed to the Board on 12 February 2013 and is responsible for the Group's sales, marketing, design and sourcing.

Before joining the Group, Philip spent 12 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. From 1999 until February 2013, Philip was the Sales and Marketing Director of the Home Textiles Division of the John Cotton Group Limited, a family-owned business with 800 people, annual sales of £120 million and Europe's leading manufacturer of pillows and duvets.

Michael Haynes
Group Sales and Marketing Director (resigned 12 February 2013)

Michael Haynes was appointed to the Board in 2007 and was responsible for the Group's sales and marketing, design, production, quality control and logistics and was also Managing Director of Portmeirion Group UK Limited, the Group's main operating company, before retiring from the Group in March 2013.

Richard J. Steele
Non-executive Chairman

Dick Steele is responsible for leading the Board and ensuring that it operates in an effective manner whilst 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. He is a Lay Member of Council at Keele University, a Non-executive Director of the Quoted Companies Alliance and Non-executive Chairman of four private equity backed businesses — ASL, Racoon International, Springfield Healthcare and Country Baskets.

Janis Kong
Non-executive Director

Janis Kong OBE is a Non-executive Director of Kingfisher PLC, Copenhagen Airports A/S, Network Rail, Tui Travel PLC and VisitBritain. Formerly, she held positions as Non-executive Director of the Royal Bank of Scotland Group PLC, Executive Chairman of Heathrow Airport Limited, Chairman of Heathrow Express Limited and as a member of the BAA plc Board. She holds an honorary Doctorate with the Open University.

Lady Judge
Non-executive Director

Lady Judge CBE is a lawyer, international banker and entrepreneur. She is Chairman of the Pension Protection Fund and a Non-executive Director of NV Bekaert S.A. Formerly she was Chairman of the UK Atomic Energy Authority, a Commissioner of the United States Securities and Exchange Commission and an Executive Director of News International and Samuel Montagu plc.

Board Committees

Audit Committee
R.J. Steele (Chairman)
J. Kong
Lady Judge

Remuneration Committee
R.J. Steele (Chairman)
J. Kong
Lady Judge

Nomination Committee
R.J. Steele (Chairman)
J. Kong
Lady Judge
L.F. Bryan

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 2012. The Corporate Governance Statement set out on pages 27 to 30 forms part of this report.

Principal activities

The Group markets ceramic tableware, cookware and giftware, glassware, candles, placemats, coasters and other associated products, and manufactures ceramics. There have been no changes in activities during the year.

The subsidiary and associated undertakings of the Group are listed in note c of the notes to the Company Financial Statements on pages 67 and 68.

Business review

A full review of the performance of the Group for the year is given in the Business Review on pages 6 to 10. Current trading and the future are commented on in the "Outlook" section of the Business Review, on page 10. That information is incorporated into this report by reference and together with the paragraphs that follow, comprise the business review required by the Companies Act 2006.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 28 on pages 61 to 63.

Results and dividends

The results for the year are set out on page 34. The movements on reserves are shown in the Consolidated Statement of Changes in Equity on page 37.

On 1 October 2012 an interim dividend of 4.50p (2011: 3.90p) per share was paid on the ordinary share capital. The Directors recommend that a final dividend of 17.30p per share be paid (2011: 15.70p), making a total for the year of 21.80p (2011: 19.60p) per share. The final dividend will be paid, subject to shareholders' approval, on 24 May 2013, to shareholders on the register at the close of business on 26 April 2013.

The Group Board uses a range of performance measures to monitor and manage the business. The Board regards measures relating to the delivery of shareholder value as particularly important. These measures, together with their comparatives, are shown in the Financial Highlights on page 1 and discussed further in the Business Review on pages 6 to 10.

Research and development

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

Principal risks and uncertainties

The Group Board considers the risks to the business at every Board meeting. It formally reviews and documents the principal risks to the business at least annually.

Principal risks identified in addition to those discussed in the Business Review on page 10 include:

- Economic downturn – the Group monitors and maintains close relationships with its key customers and suppliers to be able to identify signs of financial difficulties early. Sales trends in its major markets are constantly reviewed to enable early action to be taken in the event of sales declining.
- Competitor pressure – competitor pressure could result in losing sales to key competitors. The Group manages this risk by providing quality products and maintaining strong relationships with its key customers.
- Reliance on key suppliers – the Group's purchasing activities could expose it to over reliance on certain suppliers and inflationary pricing pressure. To mitigate this, the Group seeks to ensure there is enough breadth in its supplier base such that this risk remains manageable.
- Loss of key personnel – this would present significant operational difficulties for the Group. Management seek to ensure that key personnel are appropriately remunerated to ensure that good performance is recognised.

Details of the Group's financial risk management policies are included in note 28 on pages 61 and 62.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to 10. In addition, note 28 on pages 61 to 63 includes the Group's financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

At 31 December 2012, the Group had a cash balance of £7.5 million and an unused bank facility with available funding of £4 million. It manufactures approximately 40% of its products and sources the remainder from third party suppliers. The Group sells into a number of different markets worldwide and has a spread of customers within its major UK and US markets. Consequently, the Directors believe that the Group is well placed to manage its business risks successfully despite the continuing uncertain economic outlook.

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.

Directors and their interests

The Directors of the Company are listed on pages 12 and 13 together with biographical and committee membership details. P.E. Atherton joined the Board on 12 February 2013, following the resignation of M. Haynes as a Director on 12 February 2013. All Directors other than P. E. Atherton served throughout the year.

In accordance with the Company's Articles of Association and good corporate governance practice, B.W.J. Phillips, Lady Judge, J. Kong and R.J. Steele will retire at the Annual General Meeting to be held on 14 May 2013. These Directors, being eligible, are offering themselves for re-election. The Board has formally reviewed the performance of each Director concerned and concluded that they remain effective and are committed to their roles at Portmeirion Group PLC. In addition, P. E. Atherton is being proposed for election, as he has joined the Board since the last Annual General Meeting.

Further details on the composition of the Board and appointment of Directors are given in the Corporate Governance Statement on pages 27 to 30.

Report of the Directors
continued

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 27 to 30.

The Directors who held office at 31 December 2012 had the following beneficial interests in the share capital of the Company:

	At 31 December 2012 5p ordinary shares Beneficial	At 31 December 2011 5p ordinary shares Beneficial
L.F. Bryan	**326,523**	256,523
M. Haynes	**45,000**	41,300
Lady Judge	**5,000**	5,000
J. Kong	**5,000**	5,000
B.W.J. Phillips	**53,880**	47,955
R.J. Steele	**22,000**	22,000

Directors' share interests include the interests of their spouses, civil partners and infant children or stepchildren as required by Section 822 of the Companies Act 2006. There were no changes in the beneficial interests of the Directors in the Company's shares between 31 December 2012 and 20 March 2013.

Details of Directors' share options are provided in the Directors' Remuneration Report on pages 25 and 26.

Details of transactions with Directors and other related parties are to be found in note 26 on page 57.

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 23 on page 55. 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 23 and 29 on pages 55, 63 and 64.

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

Substantial shareholdings

On 31 December 2012 the Company had been notified, in accordance with chapter 5 of the Disclosure 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	Number of ordinary shares
Investec Wealth & Investment Limited∆	26.07%	2,717,449
New Fortress Finance Holdings Ltd. BVI*	15.88%	1,655,500
Euan Cooper-Willis	8.50%	886,150
Shahrzad Farhadi	6.07%	632,333
Kamrouz Farhadi	5.40%	562,917
Henderson UK Equity Income Fund*	3.57%	372,500
L.F. Bryan, Chief Executive	3.13%	326,523

Notes:
(1) The percentages are of the total shares in issue, excluding treasury shares (10,423,636).
(2) All holdings are direct holdings unless otherwise indicated.
(3) * Shareholding held indirectly through a nominee.
(4) ∆ Client holdings registered in the name of nominee companies 100% owned by Investec Wealth & Investment Limited. This holding includes 1,436,195 (13.78%) shares held by Trustees of Caroline Fulbright Settlement and 356,077 (3.42%) shares held by Trustees of Second Caroline Fulbright Settlement.

During the period between 31 December 2012 and 20 March 2013, the Company was advised that in accordance with notifications under chapter 5 of the Disclosure and Transparency Rules, New Fortress Finance Holdings Ltd. BVI had reduced its holding to 1,558,000 ordinary shares representing 14.95% of voting rights and issued share capital.

Annual General Meeting

The Annual General Meeting will be held at the registered office of the Company at London Road, Stoke-on-Trent, on 14 May 2013 at 12.00 noon (the "2013 AGM"). All ordinary and special resolutions to be proposed at that meeting are detailed in the Notice of Annual General Meeting. As special business at the 2013 AGM, the following resolutions will be proposed together with the resolution described below regarding market purchases of the Company's shares:

- Authority to allot shares – under section 551 of the Companies Act 2006, the Directors of a Company may only allot unissued shares or any rights to subscribe for or to convert any security into shares in the Company if authorised to do so. The resolution giving authority to allot shares, if passed, will continue to provide flexibility for the Directors to act in the best interests of shareholders, when opportunities arise, by issuing new shares, and replaces the authority given at the Annual General Meeting of the Company held on 16 May 2012. The authority will allow the Directors to allot new shares up to a nominal value of £173,727, approximately equal to a third of the present issued share capital excluding treasury shares as at 20 March 2013. The Directors have no current intention of exercising this authority except in relation to the allotment of shares under the share option schemes.

Report of the Directors
continued

- Disapplication of pre-emption rights – if equity securities are to be allotted for cash, section 561(1) of the Companies Act 2006 requires that those equity securities are offered first to existing shareholders in proportion to the number held by them at the time of the offer and otherwise in compliance with the technical requirements of that Act. Those pre-emption provisions also apply to the sale of treasury shares by the Company. However, it may be in the interests of the Company for the Directors to allot shares and/or sell treasury shares other than to shareholders in proportion to their existing holdings or otherwise than strictly in compliance with those requirements. This resolution would allow the Directors, pursuant to section 570 and section 573 of the Companies Act 2006, to allot shares and to sell treasury shares for cash without first offering them to shareholders in accordance with that Act. The authority is limited to the issue of equity securities and/or sale of treasury shares for cash up to a maximum nominal amount of £52,118, which is approximately equal to 10% of the present issued share capital excluding treasury shares as at 20 March 2013, and allotments of equity securities and/or sale of treasury shares in connection with a rights issue or other offer to shareholders.

Acquisition of the Company's own shares

The Company did not purchase any of its own shares during the year. The Company holds 410,518 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 2012, to purchase through the market 1,022,995 of the Company's ordinary shares. This authority expires on 30 June 2013.

The Directors believe that it is in the interests of the Company and its members to continue to have the flexibility to purchase its own shares and resolution 12 of the 2013 AGM seeks authority from members to allow the Company to make market purchases, subject to the restrictions set out in the Notice of Annual General Meeting, and in particular to the maximum number of ordinary shares that may be purchased being 1,042,363, approximately equal to 10% of the present issued share capital of the Company excluding treasury shares as at 20 March 2013. The Directors intend to renew this authority annually but only to exercise the authority where, after considering market conditions prevailing at the time, the investment needs of the Company, its opportunities for expansion and its overall financial position, they believe the effect of such exercise would be to increase the earnings per share and be in the best interests of shareholders generally.

Environment

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce damage that might be caused by the Group's activities. Initiatives designed to reduce the Group's impact on the environment include safe disposal of manufactured waste, recycling and reducing energy consumption.

During 2012, the Group continued with its successful energy efficiency drive reducing carbon dioxide emissions by 6.9% compared to 2011. Further details are set out in "The Environment" section of the Business Review on page 10.

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 or disability. It is the Group's policy to give disabled people full and fair consideration for all job vacancies for which they offer themselves as suitable candidates, having regard to their particular aptitudes and abilities, including the consideration of any reasonable adjustments to the job or workplace. Training and career development opportunities are available to all employees and, if necessary, all efforts are made to retrain any member of staff who develops a disability during employment with the Group.

The Group recognises the importance of good communications with its employees and considers that the most effective form of communication regarding its activities, performance and plans is by way of informal daily discussions between management and other employees. During 2012, to complement these discussions, the Group has continued communicating information from Board level to all employees on a regular basis via a programme of team briefings and by use of the Company's intranet and notice boards.

Share option and profit related incentive schemes are operated to encourage the involvement of employees in the Group's performance. Portmeirion Group UK Limited, the employer of the Group's UK based employees, is an Investor in People. 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 page 48.

Supplier payment policy

Payment terms are agreed with each of the Group's major suppliers. The Group abides by these terms provided that the supplier also complies with the agreed terms and conditions. The policy for other suppliers is generally to make payment by the end of the month following receipt of a valid invoice. All payment terms are stated at the time orders are placed. The number of days purchases represented by trade payables at 31 December 2012 was 24 (2011: 40). The Company has no trade payables.

Financial position

The Group's cash balance at 31 December 2012 was £7.5 million (2011: £6.8 million).

Charitable and political contributions

Contributions to various charities in the form of goods to be used for charitable raffles amounted to £2,400 (2011: £1,644) at cost during the year. In addition cash donations of £245 (2011: £1,200) were made to registered charities. There were no political contributions during the year.

Auditors

Each of the persons who is a Director 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 s418 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.

B.W.J. Phillips
Company Secretary
20 March 2013

Directors' Remuneration Report

Introduction

As a company listed on the Alternative Investment Market (AIM), the Company is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (accounts and reports) Regulations 2008 (the "Regulations") under the Companies Act 2006 (the "Act"). Whilst the Company is not required to comply with the Regulations, it has used the Regulations as best practice guidance and voluntarily presented disclosures that reflect the extent of the Company's application of the Regulations. This report also describes how the Board has applied the principles relating to directors' remuneration in the UK Corporate Governance Code. This report has not been audited. A resolution to approve this report will be proposed at the Annual General Meeting of the Company at which approval of the financial statements will be sought.

Remuneration Committee

The members of the Remuneration Committee during 2012 are set out on page 13. The terms of reference of the Remuneration Committee are available at www.portmeiriongroup.com/investors.

R.J. Steele is Chairman of the Remuneration Committee. The Board considers it appropriate that R.J. Steele with his experience in this area chairs this committee. There have been no changes in the composition or Chairmanship of the Remuneration Committee during the year. None of the Committee has any personal financial interest (other than as shareholders), conflicts of interest arising from cross-directorships or day to day involvement in running the business. No Director plays a part in any discussion about his or her own remuneration.

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

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

During 2012, the Committee held two scheduled meetings. In addition, the Committee held meetings at other times throughout the year to deal with share option awards and exercises.

During 2012, Pinsent Masons LLP provided advice on the administration of the Company's share option plans and the Committee appointed KPMG LLP to provide advice on the market competitiveness of the remuneration policy and arrangements for the Executive Directors. No changes were made to policy or arrangements as a result of this report. KPMG LLP did not provide any other services to the Company or the Group. In determining the Directors' remuneration for the year, the Committee consulted L.F. Bryan, Chief Executive, about its proposals.

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 maximising 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 has reviewed the policy for the year ahead and has concluded that the key features of the remuneration policy remain appropriate.

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. B.W.J. Phillips holds directorships outside the Group which are detailed on page 12. B.W.J. Phillips retains earnings in respect of his directorship at Stafford Railway Building Society.

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

	Purpose	Operation
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.
Annual incentive	Recognises achievement of annual objectives which support the short to medium term strategy of the Group.	Based on achievement of a demanding profit before tax and exceptional items target.
Share Option Scheme	Setting value creation through share price growth as a major objective to 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.
Deferred Incentive Share Option Plan	Incentivising and retaining Executive Directors whilst aligning their interests with those of shareholders through delivery and retention of shares.	Discretionary award over shares not exceeding a market value of 20% of the gross annual incentive payment earned by the Executive Director in respect of the previous financial year.
Pension	Providing post retirement benefits.	The Group operates defined contribution pension schemes.

Basic salary and benefits

Salary is normally reviewed annually, on 1 January, 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 health care benefits. The Chief Executive and Group Sales and Marketing Director are provided with a car.

Directors' Remuneration Report

continued

Annual incentive payments

Each Executive Director's remuneration package includes an annual incentive payment. If the profit before tax and exceptional items exceeds an annual target, then an incentive will be paid. The incentive is a percentage of the Executive Director's basic pay 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 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 ending 2012, the profit target was met and the Executive Directors' achieved an incentive payment of a proportion of basic salary.

Share options

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

The Company has three share option schemes: The Portmeirion 2002 Share Option Scheme (the "2002 Share Option Scheme"), 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 all discretionary schemes, enabling the grant of options over ordinary shares in the Company to selected employees of the Portmeirion Group, with flexibility for the grant of tax-favoured options.

In respect of the 2002 Share Option Scheme, earnings per share has been selected as a measure of performance as it directly reflects operational performance and is also a significant factor in determining the market's view of the Group's value. The following performance criteria are applicable to outstanding options under the 2002 Share Option Scheme:

- Options granted on 28 May 2009 can normally only be exercised if the average of the pre-tax, pre-exceptional earnings per share of the Group for each of the three years ending 31 December 2009, 31 December 2010 and 31 December 2011 exceeds 16.06p, being 113% of the pre-tax, pre-exceptional earnings per share for the year ended 31 December 2008. This performance criterion has now been met;
- Options granted on 29 March 2010 can normally only be exercised if the average of the pre-tax, pre-exceptional earnings per share of the Group for each of the three years ending 31 December 2010, 31 December 2011 and 31 December 2012 exceeds 44.71p, being 113% of the pre-tax, pre-exceptional earnings per share for the year ended 31 December 2009. This performance criterion has now been met;
- Options granted on 28 April 2011 can normally only be exercised if the average of the pre-tax, pre-exceptional earnings per share of the Group for each of the three years ending 31 December 2011, 31 December 2012 and 31 December 2013 exceeds 61.83p, being 113% of the pre-tax, pre-exceptional earnings per share for the year ended 31 December 2010;
- Options granted on 20 April 2012 can normally only be exercised if the average of the pre-tax, pre-exceptional earnings per share of the Group for each of the three years ending 31 December 2012, 31 December 2013 and 31 December 2014 exceeds 70.33p being 113% of the pre-tax, pre-exceptional earnings per share for the year ended 31 December 2011.

As of 20 May 2012, no further options may be granted under the 2002 Share Option Scheme. Options have yet to be granted under the 2012 Approved Plan and 2012 Unapproved Plan.

Long-term incentive schemes

The Portmeirion Group 2010 Deferred Incentive Share Option Plan (the "2010 Deferred Incentive Plan") was established to incentivise and retain Executive Directors and encourage them to acquire and retain shares in the Company. The Plan operates in conjunction with the Group's existing annual incentive arrangements.

The 2010 Deferred Incentive Plan permits the grant of an option to a participant in any year over shares with a market value not exceeding 20% 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 2010 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).

Options under the 2010 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 2010 Deferred Incentive Plan, are not, therefore, subject to the satisfaction of performance targets.

No options vested under the 2010 Deferred Incentive Plan during 2012.

Pensions

B.W.J. Phillips is a member of the Portmeirion Group UK Limited Group Stakeholder Pension Plan, a money purchase pension scheme. M. Haynes received contributions for a personal pension plan. L.F. Bryan receives pension contributions for a money purchase pension operated by the Group in the United States. Annual performance related incentives are not subject to contributions by the Group to the money purchase pension arrangements maintained for the Directors. Details of contributions paid by the Group for the benefit of the Directors are shown in the Directors' emoluments table that follows.

On 31 October 2002 the Portmeirion Potteries Pension Plan, a contracted-in money purchase occupational pension plan, closed. B.W.J. Phillips was a member of the plan at that time and holds preserved benefits. On 5 April 1999, the defined benefit UK pension scheme was frozen, i.e. closed to new entrants and to future accrual. B.W.J. Phillips was a member of the scheme at that time and holds preserved benefits.

Directors' contracts

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 (appointed 12 February 2013)	22.11.2012	6 months
L.F. Bryan	08.11.2002	12 months
M. Haynes (resigned 12 February 2013)	01.01.2007	12 months
B.W.J. Phillips	15.03.2000	12 months

Note
The notice period for P. E. Atherton will be 12 months following the completion of 6 months' employment with the Group.

In the event of early termination, the 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.

Directors' Remuneration Report

continued

B.W.J Phillips, Lady Judge, J. Kong and R.J. Steele are proposed for re-election at the next Annual General Meeting on 14 May 2013. P.E. Atherton is also proposed for election at that meeting, having been appointed as a Director since the last Annual General Meeting.

Non-executive Directors

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 Non-executive Directors do not participate in the Company's annual incentive, share option or long-term incentive schemes and no pension contributions are made in respect of them.

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2012 £	2011 £
Emoluments	**978,418**	1,217,059
Gains made on exercise of share options	**369,516**	360,766
Money purchase pension contributions	**63,057**	56,111
	1,410,991	1,633,936

Directors' emoluments

	Salary & fees £	Benefits £	Incentive £	Gains made on exercise of share options £	Subtotal £	Pension contri- butions £	**2012 Total £**	2011 Total £
Executive								
L.F. Bryan[(1)]	315,477	20,584	56,786	190,750	583,597	16,435	**600,032**	699,935
M. Haynes	179,315	18,045	21,207	116,366	334,933	23,311	**358,244**	419,966
B.W.J. Phillips	179,315	7,312	42,277	62,400	291,304	23,311	**314,615**	380,685
Non-executive								
Lady Judge[(2)]	28,300	–	–	–	28,300	–	**28,300**	27,300
J. Kong	28,300	–	–	–	28,300	–	**28,300**	27,300
R.J. Steele[(3)]	81,500	–	–	–	81,500	–	**81,500**	78,750
	812,207	45,941	120,270	369,516	1,347,934	63,057	**1,410,991**	1,633,936

Notes

(1) L.F. Bryan is remunerated in US dollars and his remuneration is translated into sterling at the average exchange rate for the year in 2012. This was $1.5849/£ (2011: $1.6037/£).

(2) The remuneration for Lady Judge was made to TigerRock Advisors Limited in respect of her services.

(3) The remuneration for R.J. Steele was made to Adsum Limited in respect of his services.

The benefits shown above arise from the provision of a company car, life assurance, permanent disability insurance and private medical insurance.

Directors' pension entitlements

B.W.J. Phillips is a member of the Group's defined benefit pension scheme which was frozen on 5 April 1999. He has accrued entitlements under the scheme as follows:

	Accrued pension at 01.01.12 £	Increase in accrued pension in the year £	**Accrued pension at 31.12.12 £**
B.W.J. Phillips	24,257	1,277	**25,534**

Notes
(1) Inflation has been taken to be 5.2% for the purposes of adjusting last year's accrued pension.
(2) The pension accrued to 31 December 2012 allows for the cessation of benefit accrual on 5 April 1999. Only statutory revaluation has been allowed from that date.

His accrued benefits under the scheme were as follows:

	Transfer value at 01.01.12 £	Increase in transfer value in the year £	**Transfer value at 31.12.12 £**
B.W.J. Phillips	548,167	23,364	**571,531**

Note
The transfer values were calculated in accordance with advice provided to the trustees by the scheme actuary using methods and assumptions that are consistent with all operative legislation and professional guidance requirements.

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.

There were no options granted under the 2012 Approved Plan or under the 2012 Unapproved Plan.

Details of options held under the 2002 Share Option Scheme by Directors who served during the year are as follows:

		Number of Options				Exercise	Dates on which exercisable	
Director	At 01.01.12	Granted	Exercised	Surrendered	**At 31.12.12**	price (pence)	Earliest	Latest
L.F. Bryan	70,000	–	(70,000)	–	**-**	197.5	29.05.2012	27.05.2019
L.F. Bryan	70,000	–	–	–	**70,000**	374.5	30.03.2013	28.03.2020
L.F. Bryan	–	15,000	–	–	**15,000**	487.5	21.04.2015	19.04.2022
M. Haynes	45,000	–	(45,000)	–	**-**	197.5	29.05.2012	27.05.2019
B.W.J. Phillips	24,000	–	(24,000)	–	**-**	260.0	16.04.2011	14.04.2012
B.W.J. Phillips	45,000	–	–	–	**45,000**	197.5	29.05.2012	27.05.2019
B.W.J. Phillips	45,000	–	–	–	**45,000**	374.5	30.03.2013	28.03.2020
B.W.J. Phillips	–	10,000	–	–	**10,000**	487.5	21.04.2015	19.04.2022

Notes
(1) The performance criteria attaching to share options are detailed on page 22.
(2) The Company's share price reached a high of 547.5p and a low of 415.0p during 2012. The average share price during 2012 was 481.4p. The share price on 31 December 2012 was 547.5p.
(3) There have been no changes to the Directors' interests in the shares or options over shares of the Company between 31 December 2012 and 20 March 2013.

Directors' Remuneration Report
continued

Details of the options exercised under the 2002 Share Option Scheme during the year are as follows:

Director	Date of exercise	Number of options exercised	Exercise price (pence)	Market price on exercise (pence)	Gains on exercise £	**Gains on exercise 2012 £**	Gains on exercise 2011 £
L.F. Bryan	29.05.2012	70,000	197.5	470.0	190,750	**190,750**	173,866
M. Haynes	29.05.2012	13,700	197.5	470.0	37,333		
M. Haynes	14.08.2012	31,300	197.5	450.0	79,033	**116,366**	122,550
B.W.J. Phillips	04.04.2012	24,000	260.0	520.0	62,400	**62,400**	64,350

Details of options held under the 2010 Deferred Incentive Plan by Directors who served during the year are as follows:

Director	At 01.01.12	Number of Options Granted	Exercised	Surrendered	**At 31.12.12**	Dates on which exercisable Earliest	Latest
L.F. Bryan	13,654	–	–	–	**13,654**	28.05.2013	25.08.2013
L.F. Bryan	11,730	–	–	–	**11,730**	15.04.2014	13.07.2014
L.F. Bryan	–	7,369	–	–	**7,369**	21.04.2015	19.07.2015
M. Haynes	6,948	–	–	–	**6,948**	28.05.2013	25.08.2013
M. Haynes	5,911	–	–	–	**5,911**	15.04.2014	13.07.2014
B.W.J. Phillips	7,750	–	–	–	**7,750**	28.05.2013	25.08.2013
B.W.J. Phillips	6,502	–	–	–	**6,502**	15.04.2014	13.07.2014
B.W.J. Phillips	–	4,239	–	–	**4,239**	21.04.2015	19.07.2015

Notes
(1) The exercise price payable by the option holder to acquire shares upon the exercise of a 2010 Deferred Incentive Plan option is £1 in respect of all of the shares under option for that particular award.
(2) There were no options exercised under the 2010 Deferred Incentive Plan during the year.

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

B.W.J. Phillips
Company Secretary
20 March 2013

Corporate Governance Statement

As a company listed on the Alternative Investment Market (AIM) the Company is not required to adhere to the UK Corporate Governance Code June 2010 ("the Code"). Whilst the Company is not required to comply with the Code, it has used the Code as best practice guidance and voluntarily presented disclosures that reflect the extent of the Company's application of the Code.

The Board

The Company is controlled by the Board of Directors. The Board comprises three Executive and three Non-executive Directors. The Board considers, after careful review, that the Non-executive Directors bring an independent judgement 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 Annual General Meeting. All Directors retire no later than at the third Annual General Meeting of the Company after the general meeting at which he/she was appointed or last reappointed in accordance with the Company's Articles of Association and the principles of the Code. All Non-executive Directors of the Company who have served for more than nine years offer themselves for re-election annually. All Directors undergo a performance evaluation before being proposed for re-election to ensure their performance continues to be effective, that where appropriate they maintain their independence and that they are demonstrating continued commitment to the role.

R.J. Steele, the Non-executive Chairman, is responsible for the running of the Board and L.F. Bryan, the Chief Executive, has executive responsibility for running the Group's business and implementing Group strategy. 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, Chief Executive, Group Finance Director or the other two Non-executive Directors. The Board meets at least five times each year and has a formal schedule of matters reserved to it. It is responsible for overall Group strategy, approval of major capital expenditure projects, approval of the annual and interim results, annual budgets, dividend policy, and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of all trading subsidiaries, their annual budgets, their performance in relation to those budgets and their capital expenditure.

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 UK subsidiary are circulated to the Group Board 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 following table shows the attendance of the Directors at meetings of the Board and its principal committees during 2012:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Total meetings held	**5**	**3**	**2**	**1**
Meetings attended				
R.J. Steele (Non-executive Chairman)	5	3	2	1
L.F. Bryan (Chief Executive)	5	3*	2*	1
M. Haynes (Group Sales and Marketing Director)	5	2*	n/a	n/a
Lady Judge (Non-executive)	5	3	2	1
J. Kong (Non-executive)	5	3	2	1
B.W.J. Phillips (Group Finance Director and Company Secretary)	5	3*	n/a	n/a

Notes
(1) During the year additional Board and Remuneration Committee meetings were held and attended by a duly authorised committee of members of the Board principally to discuss share option matters.
(2) * Meetings which the Director attended, in whole or in part, by invitation.

Corporate Governance Statement
continued

During the year the Board carried out an evaluation of its own performance, taking into account guidance included in Suggestions for Good Practice from the Higgs Report and the Financial Reporting Council's Guidance on Board Effectiveness. The Board concluded that it had performed effectively. During the year appraisals were carried out with the Directors. The Group Finance Director and Group Sales and Marketing Director were appraised by the Chief Executive who, in turn, was appraised by the Chairman. Additionally, the Chairman appraised the Non-executive Directors. The Non-executive Directors appraised the Chairman's performance without the Chairman being present.

Nomination Committee

The Nomination Committee is chaired by R.J. Steele and comprises all the Non-executive Directors and the Chief Executive. It overviews the process and makes recommendations to the Board on all new Board appointments. Where new Board appointments are considered, the search for candidates shall be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The Nomination Committee meets at least once a year and also considers the re-election of Directors retiring by rotation and succession planning. The Company's Articles of Association require that each Director, including Executive Directors shall submit himself/herself for re-election every three years. In addition, the Board has taken the decision that Non-executive Directors who have served on the Board for more than nine years will be subject to annual re-election.

Remuneration Committee

The Remuneration Committee is chaired by R.J. Steele and comprises all the Non-executive Directors. The Board considers it appropriate that R.J. Steele with his experience in this area chairs this committee. The Remuneration Committee is responsible for making recommendations to the Board in relation to all aspects of remuneration for Executive Directors. 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. In framing its policy the Remuneration Committee takes into account any factors which it deems necessary, including industry standard executive remuneration, differentials between executive and employee remuneration and differentials between executives. When designing schemes of performance related remuneration the Remuneration Committee considers the provisions in Schedule A to the Code. The remuneration of the Non-executive Directors is determined by the Executive Directors.

Audit Committee

The Audit Committee is chaired by R.J. Steele and comprises all the Non-executive Directors. The Board considers it appropriate that R.J. Steele with his experience and expertise in this area chairs this committee. The Audit Committee meets at least three times each year. It considers any matter relating to the financial affairs of the Group and to the Group's external audit that it determines to be desirable. In particular the Committee overviews the monitoring of the adequacy of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the Group's external auditors report to the Non-executive Directors.

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.

Internal control

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the financial year and has remained in place up to the approval date of the report and accounts. That process is regularly reviewed by the Board and accords with the Financial Reporting Council's Internal Control: Revised Guidance for Directors (formerly known as the "Turnbull Guidance") published in October 2005.

The Board intends to keep its risk control procedures under constant review particularly with regard to the need to embed internal control and risk management procedures further into the operations of business, both in the UK and overseas, and to deal with areas of improvement which come to management's and the Board's attention.

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. All significant capital expenditure decisions are approved by the Board as a whole.

The Group's significant risks, together with the relevant control and monitoring procedures, are subject to regular review to enable the Board to assess the effectiveness of the system of internal control. The adequacy of internal controls with regard to the risks identified are reviewed at every Board meeting. The Board has also specifically reviewed the effectiveness of the Group's internal financial controls. During the course of its reviews the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

The Board 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 Board will review this on a regular basis.

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 can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee is responsible for keeping under review the nature and extent of non-audit services provided by the external auditors in order to ensure that objectivity and independence are maintained. For non-audit work, the policy is that the Group does not use the external auditors unless they have the necessary skills and experience to make them the most suitable supplier. There are appropriate safeguards in place to eliminate or reduce to an acceptable level any threat to the objectivity and independence of the external auditor in the provision of non-audit services. Fees paid to the auditors for non-audit services are disclosed in note 8 on page 48.

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 Audit Committee confirming that, in their opinion, they are independent.

Conflicts of Interest

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 the potential for these interests to conflict with their duties as a Director of the Company. All such notifications are regularly reviewed by the Board.

Corporate Governance Statement
continued

Relations with shareholders

The Group encourages two way communications with both its institutional and private investors and responds quickly to all queries received. The Chairman talks regularly with the Group's major shareholders and ensures that their views are communicated fully to the Board. The Non-executive Directors are offered the opportunity to attend meetings with major shareholders. All shareholders receive notice of the Annual General Meeting ("AGM") at which the chairmen of all Committees will be available for questions.

The Board recognises the AGM as an important opportunity to meet private shareholders. At its AGM, which is chaired by the Chairman, the Company complies with the provisions of the Code relating to the notice period required, disclosure of proxy votes, the separation of resolutions and the attendance of committee chairmen. The Directors are available to listen to the views of shareholders informally immediately following the AGM.

Financial Reporting

The Board seeks to present a balanced and understandable assessment of the Group's position and prospects. Details are given in the Business Review on pages 6 to 10 and the Group Chief Executive's Q&A on page 11.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Corporate Governance Statement, the Directors' Remuneration Report 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 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's 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;
- 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 applicable UK Accounting Standards 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 Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of 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 Auditors' Report

Independent auditors' report to the members of Portmeirion Group PLC

We have audited the financial statements of Portmeirion Group PLC for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Reconciliation of Movements in Shareholders' Equity and the related notes. The financial reporting framework that has been applied in the preparation of the Group's financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org. uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Paul Lucas (Senior Statutory Auditor)
for and on behalf of Mazars LLP,
Chartered Accountants and Statutory Auditors
45 Church Street
Birmingham
20 March 2013

Consolidated Income Statement

for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Revenue	4, 5	**55,525**	53,610
Operating costs	6	**(48,870)**	(47,326)
Operating profit		**6,655**	6,284
Investment revenue	4, 9	**39**	42
Finance costs	10	**(106)**	(65)
Share of profit of associated undertakings		**162**	69
Profit before tax		**6,750**	6,330
Tax	11	**(1,745)**	(1,861)
Profit for the year attributable to equity holders		**5,005**	4,469
Earnings per share	13	**48.43p**	43.94p
Diluted earnings per share	13	**47.73p**	43.12p
Dividends paid and proposed per share	12	**21.80p**	19.60p

All the above figures relate to continuing operations.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Profit for the year		**5,005**	4,469
Exchange differences on translation of foreign operations		**(304)**	81
Actuarial loss on defined benefit pension scheme	27	**(832)**	(1,642)
Deferred tax on other comprehensive income	22	**(7)**	281
Other comprehensive income for the year		**(1,143)**	(1,280)
Total comprehensive income for the year attributable to equity holders		**3,862**	3,189

Consolidated Balance Sheet

31 December 2012

	Notes	2012 £'000	2011 £'000
Non-current assets			
Intangible assets	14	**1,609**	1,819
Property, plant and equipment	15	**5,662**	5,975
Interests in associates	16	**1,687**	1,534
Deferred tax asset	22	**816**	861
Total non-current assets		**9,774**	10,189
Current assets			
Inventories	17	**11,622**	12,470
Trade and other receivables	18	**9,611**	7,515
Cash and cash equivalents	19	**7,450**	6,777
Total current assets		**28,683**	26,762
Total assets		**38,457**	36,951
Current liabilities			
Trade and other payables	21	**(5,697)**	(6,822)
Current income tax liabilities		**(940)**	(825)
Total current liabilities		**(6,637)**	(7,647)
Non-current liabilities			
Pension scheme deficit	27	**(4,955)**	(4,868)
Grant received		**(18)**	(39)
Total non-current liabilities		**(4,973)**	(4,907)
Total liabilities		**(11,610)**	(12,554)
Net assets		**26,847**	24,397
Equity			
Called up share capital	23	**541**	536
Share premium account		**5,802**	5,542
Treasury shares	23	**(767)**	(931)
Share-based payment reserve		**601**	429
Translation reserve		**783**	1,122
Retained earnings		**19,887**	17,699
Total equity		**26,847**	24,397

These financial statements were approved by the Board of Directors and authorised for issue on 20 March 2013.

They were signed on its behalf by:

L.F. Bryan
B.W.J. Phillips } Directors

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Share capital £'000	Share premium account £'000	Treasury shares £'000	Share-based payment reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2011	528	4,951	(1,047)	267	1,040	16,383	22,122
Profit for the year	–	–	–	–	–	4,469	4,469
Other comprehensive income for the year	–	–	–	–	82	(1,362)	(1,280)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**82**	**3,107**	**3,189**
Dividends paid	–	–	–	–	–	(1,780)	(1,780)
Increase in share-based payment reserve	–	–	–	162	–	–	162
Shares issued under employee share schemes	8	591	116	–	–	–	715
Deferred tax on share-based payment	–	–	–	–	–	(11)	(11)
At 1 January 2012	**536**	**5,542**	**(931)**	**429**	**1,122**	**17,699**	**24,397**
Profit for the year	–	–	–	–	–	5,005	5,005
Other comprehensive income for the year	–	–	–	–	(339)	(804)	(1,143)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(339)**	**4,201**	**3,862**
Dividends paid	–	–	–	–	–	(2,078)	(2,078)
Increase in share-based payment reserve	–	–	–	172	–	–	172
Shares issued under employee share schemes	5	260	164	–	–	–	429
Deferred tax on share-based payment	–	–	–	–	–	65	65
At 31 December 2012	**541**	**5,802**	**(767)**	**601**	**783**	**19,887**	**26,847**

Consolidated Statement of Cash Flows

for the year ended 31 December 2012

	2012 £'000	2011 £'000
Operating profit	**6,655**	6,284
Adjustments for:		
Depreciation of property, plant and equipment	**881**	784
Amortisation of intangible assets	**267**	346
Contributions to defined benefit pension scheme	**(800)**	(1,054)
Charge for share-based payments	**172**	162
Exchange loss	**(53)**	(10)
(Profit)/loss on sale of tangible fixed assets	**(36)**	1
Operating cash flows before movements in working capital	**7,086**	6,513
Decrease/(increase) in inventories	**692**	(2,729)
(Increase)/decrease in receivables	**(2,165)**	202
Decrease in payables	**(1,086)**	(410)
Cash generated from operations	**4,527**	3,576
Interest paid	**(52)**	(59)
Income taxes paid	**(1,527)**	(1,217)
Net cash from operating activities	**2,948**	2,300
Investing activities		
Interest received	**15**	20
Proceeds on disposal of property, plant and equipment	**56**	1
Purchase of property, plant and equipment	**(626)**	(597)
Purchase of intangible assets	**(57)**	(127)
Net cash outflow from investing activities	**(612)**	(703)
Financing activities		
Equity dividends paid	**(2,078)**	(1,780)
Shares issued under employee share schemes	**429**	715
Net cash outflow from financing activities	**(1,649)**	(1,065)
Net increase in cash and cash equivalents	**687**	532
Cash and cash equivalents at beginning of year	**6,777**	6,249
Effect of foreign exchange rate changes	**(14)**	(4)
Cash and cash equivalents at end of year	**7,450**	6,777

Notes to the Consolidated 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 71. The nature of the Group's operations and its principal activities are set out in the Report of the Directors on pages 14 to 19.

These accounts have been prepared in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards (IFRS)).

The going concern basis has been considered in the Report of the Directors on page 15.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.5.

In the current year, the following new and revised Standards and Interpretations have been adopted but have not made any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements:

IFRS 7 (amended)	*Financial Instruments: Disclosures*
IAS 12 (amended)	*Income Taxes*

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 1 (amended)	*Government Loans*
IFRS 7 (amended)	*Disclosures – Offsetting Financial Assets and Financial Liabilities*
IFRS 9	*Financial Instruments*
IFRS 10	*Consolidated Financial Statements*
IFRS 10, IFRS 12 and IAS 27 (amended)	*Investment Entities*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurement*
IAS 1 (amended)	*Presentation of financial statements (amended June 2011)*
IAS 19 (revised)	*Employee Benefits (revised June 2011)*
IAS 27 (revised)	*Separate Financial Statements*
IAS 28 (revised)	*Investments in Associates and Joint Ventures*
IAS 32 (amended)	*Offsetting Financial Assets and Financial Liabilities*
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements to IFRSs (2009 – 2011) Cycle	

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, except as follows:

– IAS 19 (revised) will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the Group's total obligation. It is likely that following the replacement of expected returns on plan assets with a net finance cost in the income statement, the profit for the year will be reduced and accordingly other comprehensive income increased.

Notes to the Consolidated Financial Statements
continued

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 2012.

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

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

Subsidiary undertakings are consolidated on the basis of the acquisition method of accounting. 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 2012 except for the accounts of Portmeirion Finance Limited which have been prepared for the year ended 7 January 2013 and the accounts of Portmeirion Canada Inc. which have a year end of 30 June 2012. The Group accounts include interim financial information to 31 December 2012 for Portmeirion Finance Limited and Portmeirion Canada Inc.

2.2 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 and 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 as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

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.

2.3 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.

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

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. Significant accounting policies continued

2.4 Operating leases

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

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

2.5 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 below 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.

2.6 Operating profit

Operating profit is stated before investment revenue, finance costs and share of profit of associated undertakings.

2.7 Group pension schemes

Payments to defined contribution retirement schemes are charged as an expense as they fall due.

For defined benefit schemes, the cost of providing benefits is determined using the defined accrued benefit 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 immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets.

Notes to the Consolidated Financial Statements
continued

2. Significant accounting policies continued

2.8 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.

2.9 Property, plant and equipment

Freehold land is not depreciated.

Property, plant and equipment are held at cost less accumulated depreciation and any recognised impairment losses.

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

Freehold buildings	– 2% per annum
Leasehold improvements	– over the life of the lease
Plant and vehicles	– 6% to 33% per annum

2. Significant accounting policies continued

2.10 Intangible assets

Purchases of intellectual property are included at cost and written off in equal annual instalments over their estimated useful economic life of 5-10 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.

2.11 Impairment of tangible and intangible assets

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.

2.12 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.

2.13 Research and development

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

An internally generated intangible asset arising from the Group's development activities is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

2.14 Purchase of own shares

Investment in own shares has been classified as treasury shares. These shares are valued at the weighted average cost of purchase. Treasury shares are a deduction from equity.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies continued

2.15 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 are designated and are effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. Amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

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.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs.

Receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are categorised as loans and receivables. These are measured at amortised cost using the effective interest method, less any impairment.

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. Cash and cash equivalents are categorised as loans and receivables.

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 28.

2. Significant accounting policies continued

2.16 Share-based payments

Equity-settled share-based payments to employees 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 29.

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.

2.17 Grant income

Grant income relating to a commitment to employ individuals is treated as deferred income and released to the income statement once the contractual period has elapsed.

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.

Impairment of inventory

Provision is made for the impairment of slow-moving and obsolete inventory based on historical and forecast sales and estimates of net realisable value. The carrying value of inventory at the year end was £11,622,000 (2011: £12,470,000).

Defined benefit pension scheme

The valuation of the Group's defined benefit pension scheme assets and liabilities under IAS 19 *Employee Benefits* requires assumptions to be made regarding returns on assets, inflation, discount rates, salary, mortality and pension increases. The carrying value of the scheme liability at the year end was £4,955,000 (2011: £4,868,000).

Notes to the Consolidated Financial Statements

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4. Revenue

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

	2012 £'000	2011 £'000
Continuing operations		
Sale of goods	**55,301**	52,987
Royalties	**224**	623
	55,525	53,610
Investment income	**39**	42
	55,564	53,652

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 two reportable segments under IFRS 8, namely the UK and US operations. The Directors are of the opinion that only one class of business is being undertaken, that of the manufacture and sale of ceramics and associated homeware.

Revenue by origin	2012 Total sales £'000	2012 Inter-segment sales £'000	2012 Sales to third parties £'000	2011 Total sales £'000	2011 Inter-segment sales £'000	2011 Sales to third parties £'000
United Kingdom	**38,163**	**(2,671)**	**35,492**	38,147	(5,709)	32,438
United States	**20,033**	**–**	**20,033**	21,172	–	21,172
	58,196	**(2,671)**	**55,525**	59,319	(5,709)	53,610

Included in revenues arising from the United Kingdom are revenues of £12,135,000 (2011: £10,729,000) which arose from sales to the Group's largest customer in South Korea.

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

Revenue	2012 £'000	2011 £'000
United Kingdom	**14,915**	13,825
United States	**20,215**	21,351
South Korea	**12,135**	10,729
Rest of the World	**8,260**	7,705
	55,525	53,610

Operating profit by origin	2012 £'000	2011 £'000
United Kingdom	**5,527**	3,814
United States	**1,128**	2,470
Operating profit	**6,655**	6,284
Unallocated items:		
Share of profit of associated undertakings	**162**	69
Investment revenue	**39**	42
Finance costs	**(106)**	(65)
Profit before tax	**6,750**	6,330
Tax	**(1,745)**	(1,861)
Profit after tax	**5,005**	4,469

5. **Segmental analysis** continued

Other information	2012 United Kingdom £'000	2012 United States £'000	2012 Con-solidated £'000	2011 United Kingdom £'000	2011 United States £'000	2011 Con-solidated £'000
Capital additions	**606**	**77**	**683**	662	62	724
Depreciation and amortisation	**990**	**158**	**1,148**	962	168	1,130
Balance sheet						
Assets						
Segment assets	**29,379**	**7,091**	**36,470**	26,447	8,970	35,417
Interests in associates			**1,687**			1,534
Other assets			**300**			–
Consolidated total assets			**38,457**			36,951
Liabilities						
Segment liabilities	**10,495**	**1,115**	**11,610**	10,977	1,577	12,554

There are no unallocated corporate liabilities in 2012 and 2011.

Reconciliation of earnings before interest, tax, depreciation and amortisation (EBITDA)	**2012 £'000**	2011 £'000
Operating profit	**6,655**	6,284
Add back:		
Depreciation	**881**	784
Amortisation	**267**	346
Earnings before interest, tax, depreciation and amortisation	**7,803**	7,414

6. **Operating costs**

	2012 £'000	2011 £'000
Cost of inventories recognised as an expense	**22,885**	19,666
Movement on inventory impairment provision	**(434)**	707
Other external charges	**10,037**	9,453
Staff costs (note 7)	**15,102**	16,059
Depreciation of property, plant and equipment	**881**	784
Amortisation of intangible assets	**267**	346
Impairment of trade receivables	**(81)**	176
Cost of research and development	**232**	219
Net foreign exchange gains	**-**	(65)
Government grants	**(19)**	(19)
	48,870	47,326

Notes to the Consolidated Financial Statements

continued

7. Staff numbers and costs

	2012 Number	2011 Number
The average number of persons employed during the year, including Directors:		
Operatives	**351**	352
Salaried employees	**236**	227
	587	579

	£'000	£'000
Staff costs:		
Wages and salaries	**12,678**	13,707
Social security costs	**1,081**	1,194
Defined contribution pension costs	**971**	804
Non-monetary benefits	**372**	354
	15,102	16,059

The Company had no employees throughout 2012 or 2011.

Details of individual Directors' remuneration, pension contributions and pension entitlements required by the Companies Act 2006 are shown in the Directors' Remuneration Report on pages 20 to 26, together with details of Directors' current share options.

8. Auditors' remuneration

	2012 £'000	2011 £'000
Fees payable to the Group's auditors for the audit of the Group's annual accounts	**45**	43
Other audit related services - interim review	**6**	6
Total audit related fees	**51**	49
Fees payable to the Group's auditors and their associates for other services to the Group		
Tax compliance services	**8**	8
Other taxation advisory services*	**24**	7
All other services	**6**	2
Total non-audit fees	**38**	17
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	**4**	4
	4	4

The audit fee for the Company was £1,500 (2011: £1,500).

*Other taxation advisory services include fees related to the establishment of the Hong Kong and China operations.

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. Investment revenue

	2012 £'000	2011 £'000
Bank deposits	**14**	8
Defined benefit pension scheme – other income	**–**	22
Unrealised gains on financial derivatives	**24**	–
Other interest receivable	**1**	12
	39	42

10. Finance costs

	2012 £'000	2011 £'000
Interest paid	**26**	37
Realised losses on financial derivatives	**25**	28
Defined benefit pension scheme – other finance costs	**55**	–
	106	65

11. Taxation on profit on ordinary activities

	2012 £'000	2011 £'000
Current taxation		
United Kingdom corporation tax at 24.5% (2011: 26.5%)	**1,263**	759
Adjustment of corporation tax in respect of prior years	**–**	(10)
Overseas taxation	**379**	993
	1,642	1,742
Deferred taxation		
Origination and reversal of temporary differences	**(2)**	(106)
Pension scheme	**105**	225
	103	119
	1,745	1,861

UK Corporation tax is calculated at 24.5% (2011: 26.5%) 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:

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	**6,750**	6,330
Tax on profit on ordinary activities at standard rate of 24.5% (2011: 26.5%)	**1,654**	1,677
Factors affecting charge for the year:		
Expenses not deductible for tax purposes and other adjustments	**19**	(122)
Small companies tax relief	**(3)**	(4)
Foreign tax charged at higher rates than UK standard rate	**103**	336
Adjustments to tax charge in respect of prior years	**–**	(10)
Difference relating to associates tax charge	**(28)**	(16)
Total tax on profit on ordinary activities	**1,745**	1,861

Notes to the Consolidated Financial Statements

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12. Dividends paid

	2012 £'000	2011 £'000
Final dividend of 15.70p per share paid in respect of the year ended 31 December 2011 (2011: final dividend of 13.50p per share paid in respect of the year ended 31 December 2010)	**1,610**	1,381
Interim dividend of 4.50p per share paid in respect of the year ended 31 December 2012 (2011: interim dividend of 3.90p per share paid in respect of the year ended 31 December 2011)	**468**	399
Total dividends paid in the year	**2,078**	1,780

The Directors recommend that a final dividend for 2012 of 17.30p (2011: 15.70p) per ordinary share be paid, making a total for the year of 21.80p (2011: 19.60p) per share. The final dividend will be paid, subject to shareholders' approval, on 24 May 2013, to shareholders on the register at the close of business on 26 April 2013. This dividend has not been included as a liability in these financial statements.

13. Earnings per share

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

	2012 Earnings £	**2012** Weighted average number of shares	**2012** Earnings per share (pence)	2011 Earnings £	2011 Weighted average number of shares	2011 Earnings per share (pence)
Basic earnings per share	**5,005,000**	**10,334,605**	**48.43**	4,469,000	10,170,222	43.94
Effect of dilutive securities:						
employee share options	**-**	**151,083**	**-**	–	192,786	–
Diluted earnings per share	**5,005,000**	**10,485,688**	**47.73**	4,469,000	10,363,008	43.12

14. Intangible assets

	Computer software £'000	Intellectual property £'000	Total £'000
Cost			
At 1 January 2011	379	2,693	3,072
Additions	127	–	127
At 1 January 2012	506	2,693	3,199
Additions	57	–	57
At 31 December 2012	**563**	**2,693**	**3,256**
Amortisation			
At 1 January 2011	232	802	1,034
Charge for the year	46	300	346
At 1 January 2012	278	1,102	1,380
Charge for the year	50	217	267
At 31 December 2012	**328**	**1,319**	**1,647**
Net book value			
At 31 December 2012	**235**	**1,374**	**1,609**
At 31 December 2011	228	1,591	1,819

Included within intellectual property are the rights to certain intellectual property and the trade names of Spode and Royal Worcester, purchased in April 2009. At the year end this had a carrying value of £1,374,000 (2011: £1,591,000). The remaining amortisation period is 6 years and 4 months.

At 31 December 2012, the Group had entered into contractual commitments for the acquisition of intangible assets amounting to £15,000 (2011: £78,000).

15. Property, plant and equipment

	Land and buildings Freehold £'000	Leasehold improve-ments £'000	Plant and vehicles £'000	Total £'000
Cost				
At 1 January 2011	3,857	1,252	12,367	17,476
Additions	–	16	581	597
Disposals	–	–	(47)	(47)
Exchange rate adjustments	–	5	8	13
At 1 January 2012	3,857	1,273	12,909	18,039
Additions	–	32	594	626
Disposals	–	–	(152)	(152)
Exchange rate adjustments	–	(24)	(44)	(68)
At 31 December 2012	**3,857**	**1,281**	**13,307**	**18,445**
Depreciation				
At 1 January 2011	1,542	483	9,292	11,317
Charge for the year	70	84	630	784
On disposals	–	–	(45)	(45)
Exchange rate adjustments	–	2	6	8
At 1 January 2012	1,612	569	9,883	12,064
Charge for the year	70	82	729	881
On disposals	–	–	(132)	(132)
Exchange rate adjustments	–	(5)	(25)	(30)
At 31 December 2012	**1,682**	**646**	**10,455**	**12,783**
Net book value				
At 31 December 2012	**2,175**	**635**	**2,852**	**5,662**
At 31 December 2011	2,245	704	3,026	5,975

At 31 December 2012, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £nil (2011: £35,000).

16. Interests in associates

Associated undertakings	**2012 £'000**	2011 £'000
Furlong Mills Limited		
2,080 ordinary shares of £1 each representing 27.58% of the issued share capital		
Share of net assets	**1,065**	961
Discount on acquisition	**(13)**	(13)
Impairment of investment in Furlong Mills Limited	**(309)**	(309)
	743	639
Portmeirion Canada Inc.		
100 common shares representing 50% of the issued share capital		
Share of net assets	**944**	895
	1,687	1,534

Notes to the Consolidated Financial Statements
continued

16. Interests in associates continued

Aggregated amounts relating to associates	2012 £'000	2011 £'000
Total assets	**7,544**	7,313
Total liabilities	**(1,585)**	(1,697)
Revenues	**11,038**	10,444
Profit before tax	**492**	352

A list of the significant investments in subsidiaries and associates, including the name, country of incorporation and proportion of ownership interest is given in note c to the Company's separate financial statements on pages 67 and 68.

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.

17. Inventories

	2012 £'000	2011 £'000
Raw materials and other consumables	**1,733**	1,763
Work in progress	**420**	477
Finished goods	**9,469**	10,230
	11,622	12,470

18. Trade and other receivables

	2012 £'000	2011 £'000
Amounts receivable for the sale of goods	**8,761**	6,097
Allowance for doubtful debts	**(249)**	(326)
Trade receivables	**8,512**	5,771
Amounts owed by associated undertakings	**221**	833
Other receivables	**78**	43
Prepayments and accrued income	**800**	868
	9,611	7,515

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 debtors with a carrying amount of £1,486,000 (2011: £1,524,000) 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 52 days (2011: 54 days).

Ageing of past due but not impaired receivables	2012 £'000	2011 £'000
31–60 days	**1,195**	1,137
61–90 days	**209**	261
91+ days	**82**	126
Total	**1,486**	1,524

18. Trade and other receivables continued

Movement in the allowance for doubtful debts	2012 £'000	2011 £'000
Balance at the beginning of the year	**326**	237
Impairment losses (reversed)/recognised	**(81)**	176
Amounts recovered/(written off as uncollectable)	**4**	(87)
Balance at the end of the year	**249**	326

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

Ageing of individually impaired trade receivables	2012 £'000	2011 £'000
120+ days	**76**	108

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £17,000 (2011: £14,000) 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.

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

19. Cash and cash equivalents

	2012 £'000	2011 £'000
Cash and cash equivalents	**7,450**	6,777

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

20. Borrowings

The Group has two facilities:

(a) A £2,000,000 overdraft facility available until 31 May 2013. Interest is payable at 2.25% on the net pooled fund balance, plus bank base rate on net sterling borrowings.
(b) A £2,000,000 revolving credit facility available until 31 May 2013. Interest is payable at 1.9% above three month LIBOR.

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

Neither of these facilities were being utilised at 31 December 2012.

Notes to the Consolidated Financial Statements
continued

21. Trade and other payables

	2012 £'000	2011 £'000
Trade payables and accruals	**4,645**	5,785
Amounts owed to associated undertakings	**72**	44
Other taxation and social security	**334**	413
Other payables	**646**	580
	5,697	6,822

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 35 days (2011: 34 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.

22. Deferred tax

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 held over £'000	Other temporary differences £'000	Total £'000
At 1 January 2011	(684)	1,162	266	(373)	339	710
Credit/(charge) to income	47	(225)	(119)	27	151	(119)
Charge to equity	–	–	(11)	–	–	(11)
Credit to other comprehensive income	–	280	–	–	1	281
At 1 January 2012	(637)	1,217	136	(346)	491	861
Credit/(charge) to income	63	(105)	(47)	28	(42)	(103)
Credit to equity	–	–	65	–	–	65
Credit/(charge) to other comprehensive income	–	28	–	–	(35)	(7)
At 31 December 2012	**(574)**	**1,140**	**154**	**(318)**	**414**	**816**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2012 £'000	2011 £'000
Deferred tax liabilities	**(892)**	(983)
Deferred tax assets	**1,708**	1,844
	816	861

At the balance sheet date, the Group had no unused tax trading or capital losses (2011: £nil) available for offset against future profits.

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

23. Share capital and treasury shares

	2012 Number '000	2012 £'000	2011 Number '000	2011 £'000
Allotted, called up and fully paid share capital: ordinary shares of 5p each	**10,834**	**541**	10,728	536

The market price of the Company's shares at 31 December 2012 was 547.5p per share. During the year the price ranged between 415.0p and 547.5p per share.

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

During the year the Company issued 105,980 new ordinary shares of 5p each for a total of £256,000 in order to satisfy the exercise of share options.

The Group currently holds 410,518 (2011: 498,218) ordinary shares of 5p each in treasury.

Options granted to Directors and employees (note 29) to acquire ordinary shares of 5p in the Company and still outstanding at 31 December 2012 were as follows:

	Number of shares	Exercise price per share (p)	Dates on which exercisable Earliest	Dates on which exercisable Latest
2002 Share Option Scheme	45,000	197.5	29.05.2012	27.05.2019
2002 Share Option Scheme	171,000	374.5	30.03.2013	28.03.2020
2002 Share Option Scheme	26,000	489.0	29.04.2014	27.04.2021
2002 Share Option Scheme	50,500	487.5	21.04.2015	19.04.2022
2010 Deferred Incentive Plan	28,352	–	28.05.2013	25.08.2013
2010 Deferred Incentive Plan	24,143	–	15.04.2014	13.07.2014
2010 Deferred Incentive Plan	11,608	–	21.04.2015	19.07.2015

Options held by the Directors are shown in the Directors' Remuneration Report on pages 25 and 26.

Notes to the Consolidated Financial Statements
continued

24. Commitments

Operating lease arrangements

Operating lease payments represent rentals payable by the Group for certain of its UK retail outlets, its UK and US warehouses, certain UK motor vehicles and its New York offices and showroom. Leases are negotiated on an individual basis.

The Group as lessee

	2012 £'000	2011 £'000
Minimum lease payments under operating leases recognised as an expense in the year	**1,428**	1,464

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

	2012 £'000	2011 £'000
Within one year	**1,517**	1,512
In the second to fifth years inclusive	**5,128**	4,468
After five years	**2,281**	2,719
	8,926	8,699

The Group as lessor

At the balance sheet date, the Group had contracted with a tenant for the following future minimum lease receipts:

	2012 £'000	2011 £'000
Within one year	**117**	117
In the second to fifth years inclusive	**205**	322
After five years	**–**	–
	322	439

25. Contingent liabilities

The Group has given a guarantee of up to $900,000 to the landlord of the premises of Portmeirion Group USA, Inc. located in Connecticut, USA.

26. 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 are disclosed below. Transactions between the Company and its subsidiaries and associates are disclosed in note g of the Company's financial statements on page 69.

The transactions during the year with associated undertakings were:

	Purchases 2012 £'000	Purchases 2011 £'000	**Sales 2012 £'000**	Sales 2011 £'000
Portmeirion Canada Inc.	**–**	–	**2,405**	2,346
Furlong Mills Limited	**751**	614	**–**	–

The outstanding balances at 31 December 2012, with associated undertakings were:

	Debtor 2012 £'000	Debtor 2011 £'000	**Creditor 2012 £'000**	Creditor 2011 £'000
Portmeirion Canada Inc.	**221**	833	**–**	–
Furlong Mills Limited	**–**	–	**72**	44

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

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

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

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

The key management personnel of the Group are considered to be the Directors, the remuneration of whom is set out in the Directors' Remuneration Report on page 24.

Notes to the Consolidated Financial Statements
continued

27. Pensions

The Group operates a Group stakeholder pension plan in the UK and a discretionary money purchase scheme in the US.

The total cost charged to income of £971,000 (2011: £804,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes, as well as payments to a personal pension plan for M. Haynes as shown in the Directors' Remuneration Report on page 24.

The UK defined benefit scheme was frozen, i.e. closed to new entrants and for future accrual of benefits, at 5 April 1999.

For the defined benefit scheme, the most recent triennial valuation was at 5 April 2011. The main actuarial assumptions used in the valuation were:

- RPI of 3.65% per annum and CPI of 3.15% per annum.
- Pre-retirement valuation rate of interest of 6.55% per annum.
- Post-retirement valuation rate of interest of 5.05% per annum.
- Increases to pensions in payment of 5.00% per annum on benefits in excess of the guaranteed minimum pension (GMP) earned prior to 6 April 1997 and 3.50% per annum on pensions earned after 6 April 1997.
- Mortality experience based upon PCA00 tables with improvements based on year of birth with medium cohort improvements, subject to a minimum level of improvement of 1% per annum.

At the date of the last valuation on 5 April 2011 the market value of the scheme assets was £21,760,000 and the scheme had a deficiency of £3,028,000.

The actuarial valuation of the scheme was updated at 31 December 2012 by qualified actuaries.

The major assumptions used by the actuaries were:

	2012	2011	2010
Rate of increase in pensions in payment:			
Post 06.04.88 GMP	**3.00%**	3.00%	3.00%
Pre 06.04.97 excess over GMP	**5.00%**	5.00%	5.00%
Post 06.04.97 pension	**2.90%**	2.95%	3.40%
Rate of revaluation of pensions in deferment	**2.10%**	2.20%	3.50%
Rate used to discount scheme liabilities	**4.30%**	4.70%	5.40%
Inflation assumption			
RPI	**2.90%**	3.00%	3.50%
CPI	**2.10%**	2.20%	n/a

27. Pensions continued

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

	2012 Expected rate of return	**2012** Fair value £'000	2011 Expected rate of return	2011 Fair value £'000
Scheme assets				
Equities	**6.80%**	**12,670**	6.10%	11,416
Bonds	**4.10%**	**4,133**	4.70%	3,516
Insured annuities	**4.30%**	**6,358**	4.70%	6,389
Cash	**0.50%**	**497**	0.50%	97
Total fair value of assets		**23,658**		21,418
Present value of defined benefit obligations		**(28,613)**		(26,286)
Deficit in the scheme		**(4,955)**		(4,868)

Analysis of the amount charged to operating profit:

	2012 £'000	2011 £'000
Current service cost	**–**	–
Past service cost	**–**	–
	–	–

Analysis of the amount included in the income statement:

	2012 £'000	2011 £'000
Expected return on pension scheme assets	**1,158**	1,376
Interest on pension scheme liabilities	**(1,213)**	(1,354)
Amount (charged to other finance costs)/credited to investment revenue	**(55)**	22

The cumulative amount of actuarial gains and losses recognised in the Consolidated Statement of Comprehensive Income since adoption of IFRS is a loss of £4,609,000 (2011: loss of £3,777,000).

Analysis of the actuarial loss recognised in the Consolidated Statement of Comprehensive Income:

	2012 £'000	2011 £'000
Actuarial return less expected return on pension scheme assets	**1,260**	(1,384)
Changes in assumptions underlying the present value of the scheme liabilities	**(2,092)**	(258)
Actuarial loss recognised in the Consolidated Statement of Comprehensive Income	**(832)**	(1,642)

The basis used to determine the return on scheme assets is as follows:

Equities: 4.00% premium on the 20 year fixed-interest gilt rate of 2.80%.
Bonds: 15 year average redemption yield on AA-rated sterling corporate bonds of 4.10%.
Insured annuities: valued at the scheme discount rate of 4.30%.
Cash: UK base rate at 31 December 2012 of 0.5%.

Notes to the Consolidated Financial Statements

continued

27. Pensions continued

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

	2012 £'000	2011 £'000
At 1 January	**26,286**	25,464
Service cost	**–**	–
Interest cost	**1,213**	1,354
Actuarial gains and losses	**2,092**	258
Benefits paid	**(978)**	(790)
At 31 December	**28,613**	26,286

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

	2012 £'000	2011 £'000
At 1 January	**21,418**	21,162
Expected return on scheme assets	**1,158**	1,376
Actuarial gains and losses	**1,260**	(1,384)
Contributions by the employer	**800**	1,054
Benefits paid	**(978)**	(790)
At 31 December	**23,658**	21,418

The history of experience adjustments is as follows:

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of defined benefits	**(28,613)**	(26,286)	(25,464)	(23,272)	(20,681)
Fair value of scheme assets	**23,658**	21,418	21,162	19,635	16,459
Deficit in the scheme	**(4,955)**	(4,868)	(4,302)	(3,637)	(4,222)
Experience adjustment on scheme liabilities					
Amount	**(326)**	427	–	–	1,861
Percentage of scheme liabilities (%)	**1%**	2%	–	–	9%
Experience adjustment on scheme assets					
Amount	**1,260**	(1,384)	40	2,211	(4,696)
Percentage of scheme assets (%)	**5%**	6%	0%	11%	29%

The estimated amount of contributions expected to be paid to the scheme during the current financial year is £800,000 (2012: £800,000).

Following the decision for the scheme to be frozen, i.e. closed to new entrants and to future accrual with effect from 5 April 1999, 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.

At 31 December 2012, contributions of £76,000 (2011: £69,000) 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 £80,000 (2011: £133,000) at 31 December 2012.

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

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 bad and doubtful debts 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 18.

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's maximum exposure to credit risk.

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 the UK subsidiary to the US subsidiary. 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 forward contracts for US Dollars, and subsequent to the year end the Group placed additional forward contracts for US Dollars, and an average rate option in US Dollars to manage the risk arising from the retranslation of profit made in the USA.

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.

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

	Liabilities		Assets	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Euro	**13**	317	**346**	243
US Dollar	**1,698**	2,894	**4,011**	4,660
Canadian Dollar	**–**	–	**22**	250
Swedish Krona	**6**	1	**55**	66
Norwegian Krone	**8**	–	**58**	55

Notes to the Consolidated Financial Statements
continued

28. Financial instruments continued

Foreign currency sensitivity analysis

The Group is mainly exposed to the currencies of Euro, US Dollar, Canadian Dollar, Swedish Krona and Norwegian Krone.

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		Canadian Dollar impact		Swedish Krona impact		Norwegian Krone impact	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Profit or loss	**(31)**	7	**(11)**	(71)	**(2)**	(23)	**(4)**	(6)	**(5)**	(5)

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, by 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 2012	**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	**-**	**5,297**	**3,436**	**-**	**-**	**8,733**
Other assets	**-**	**-**	**-**	**-**	**22,274**	**22,274**
Cash and cash equivalents	**0.5%**	**7,450**	**-**	**-**	**-**	**7,450**
Total assets		**12,747**	**3,436**	**-**	**22,274**	**38,457**
Shareholders' funds	**-**	**-**	**-**	**-**	**(26,847)**	**(26,847)**
Financial liabilities	**-**	**(4,669)**	**(489)**	**(539)**	**-**	**(5,697)**
Other liabilities	**-**	**(294)**	**-**	**(664)**	**-**	**(958)**
Pension scheme deficit	**-**	**-**	**-**	**-**	**(4,955)**	**(4,955)**
Total liabilities and shareholders' funds		**(4,963)**	**(489)**	**(1,203)**	**(31,802)**	**(38,457)**
Cumulative gap		**7,784**	**10,731**	**9,528**	**-**	**-**

28. Financial instruments continued

At 31 December 2011	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	–	4,717	1,887	–	–	6,604
Other assets	–	–	–	–	23,570	23,570
Cash and cash equivalents	0.5%	6,777	–	–	–	6,777
Total assets		11,494	1,887	–	23,570	36,951
Shareholders' funds	–	–	-	–	(24,397)	(24,397)
Financial liabilities	–	(5,486)	(884)	(452)	–	(6,822)
Other liabilities	–	(181)	–	(683)	–	(864)
Pension scheme deficit	–	–	–	–	(4,868)	(4,868)
Total liabilities and shareholders' funds		(5,667)	(884)	(1,135)	(29,265)	(36,951)
Cumulative gap		5,827	6,830	5,695	–	–

29. Share-based payments

Equity-settled share option schemes

The Group operates two share option schemes for senior managers and Directors.

The Group recognised total expenses of £172,000 and £162,000 related to equity share-based payment transactions in 2012 and 2011 respectively.

a) The Portmeirion 2002 Share Option Scheme

Options are exercisable at a price equal to the average quoted market price of the Company's shares on the three trading days 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:

	2012		2011	
	Number of share options	**Weighted average exercise price £**	Number of share options	Weighted average exercise price £
Outstanding at 1 January	**458,000**	**3.016**	645,144	2.947
Granted during the year	**55,500**	**4.875**	40,000	4.890
Lapsed during the year	**(27,320)**	**4.409**	–	–
Surrendered during the year	**-**	**-**	–	–
Exercised during the year	**(193,680)**	**2.214**	(227,144)	3.151
Outstanding at 31 December	**292,500**	**3.770**	458,000	3.016
Exercisable at 31 December	**45,000**	**1.975**	24,000	2.600

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 7.6 years (2011: 7.6 years). In 2012, options were granted on 20 April. The aggregate of the estimated fair value of those options is £62,292. In 2011, options were granted on 28 April. The aggregate of the estimated fair value of those options is £53,639.

The range of exercise prices for the options outstanding at 31 December is from £1.975 to £4.890.

Notes to the Consolidated Financial Statements
continued

29. Share-based payments continued

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

	2012	2011
Weighted average share price at date of grant	£4.750	£4.850
Weighted average exercise price	£4.875	£4.890
Expected volatility	38%	37%
Expected life	6.5 years	6.5 years
Risk-free rate	1.37%	3.05%
Expected dividend rate	4.13%	3.59%

Expected volatility was determined by calculating the historical volatility over the previous 6.5 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.

b) The Portmeirion Group 2010 Deferred Incentive Share Option Plan

Options are granted to Executive Directors in a year over shares with a market value not exceeding 20% of the gross incentive earned by the relevant employee 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:

	2012		2011	
	Number of share options	Total exercise price £	Number of share options	Total exercise price £
Outstanding at 1 January	52,495	£6	28,352	£3
Granted during the year	11,608	£2	24,143	£3
Lapsed during the year	–	–	–	–
Surrendered during the year	–	–	–	–
Exercised during the year	–	–	–	–
Outstanding at 31 December	64,103	£8	52,495	£6
Exercisable at 31 December	–	–	–	–

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 1.3 years (2011: 2.1 years). In 2012, options were granted on 20 April. The aggregate of the estimated fair value of those options is £48,467. In 2011, options were granted on 14 April. The aggregate of the estimated fair value of those options is £105,875.

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

	2012	2011
Weighted average share price at date of grant	£4.750	£4.900
Weighted average exercise price	Nil	Nil
Expected volatility	44%	50%
Expected life	3.125 years	3.125 years
Risk-free rate	0.77%	1.75%
Expected dividend rate	4.13%	3.55%

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.

Company Balance Sheet

31 December 2012

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Fixed assets					
Investment in subsidiary undertakings	c		**1,455**		1,455
Current assets					
Debtors: all of which fall due after more than one year	d	**10,911**		10,911	
Creditors: amounts falling due within one year	e	**(1,152)**		(2,587)	
Net current assets			**9,759**		8,324
Net assets			**11,214**		9,779
Capital and reserves					
Called up share capital	f		**541**		536
Share premium account	f		**5,802**		5,542
Other reserves	f		**197**		197
Treasury shares	f		**(767)**		(931)
Share-based payment reserve	f		**601**		429
Retained earnings	f		**4,840**		4,006
Shareholders' funds			**11,214**		9,779

The financial statements of Portmeirion Group PLC, company registration number 124842, were approved by the Board of Directors and authorised for issue on 20 March 2013. They were signed on its behalf by:

L.F. Bryan
B.W.J. Phillips } Directors

Company Reconciliation of Movements in Shareholders' Equity

for the year ended 31 December 2012

	2012 **£'000**	2011 £'000
Opening balance	**9,779**	9,732
Profit for the year	**2,912**	950
Dividends paid	**(2,078)**	(1,780)
Shares issued under employee share schemes	**429**	715
Increase in share-based payment reserve	**172**	162
Closing balance	**11,214**	9,779

Equity comprises share capital, share premium, equity reserves, treasury shares and retained earnings.

Notes to the Company Financial Statements

a. Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Investments

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

b. Profit for the year

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. The Company reported a profit for the financial year of £2,912,000 (2011: £950,000). The auditors' remuneration for audit and other services is disclosed in note 8 to the consolidated financial statements.

c. Fixed asset investment

Subsidiary undertaking:

	2012 **£'000**	2011 £'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

Notes to the Company Financial Statements
continued

c. Fixed asset investment continued

At 31 December 2012 the Company had the following subsidiary and associated undertakings:

	Country of operation and incorporation	Nature of business
Subsidiary undertakings		
Portmeirion Group UK Limited	England and Wales	Ceramic manufacturer, marketing and distribution of homeware
Portmeirion Finance Limited	England and Wales	Dormant
Portmeirion Enterprises Limited*	England and Wales	Intermediate holding company
Portmeirion Distribution Limited*	England and Wales	Dormant
Portmeirion Services Limited*	England and Wales	Dormant
Portmeirion Group USA, Inc.†	USA	Marketing and distribution of homeware
Portmeirion Group Designs, LLC^	USA	Dormant
Portmeirion Group Hong Kong Limited*	Hong Kong	Intermediate holding company
Portmeirion (Shenzhen) Trading Company Limited~	China	Dormant
Associated undertakings		
Portmeirion Canada Inc.	Canada	Marketing and distribution of homeware
Furlong Mills Limited	England and Wales	Suppliers and millers of clay

The companies are incorporated in England and Wales and registered in England and Wales except where stated. The share capital of all subsidiary undertakings consists solely of ordinary shares. The Company holds 100% of the share capital of all subsidiaries, 50% of the ordinary share capital of Portmeirion Canada Inc. and 27.58% of the ordinary share capital of Furlong Mills Limited. Furlong Mills Limited supplies Portmeirion Group UK Limited with all of its clay raw materials.

* Wholly owned by Portmeirion Group UK Limited.
† Wholly owned by Portmeirion Enterprises Limited.
^ Wholly owned by Portmeirion Group USA, Inc.
~ Wholly owned by Portmeirion Group Hong Kong Limited.

d. Debtors

	2012 £'000	2011 £'000
Loans owed by subsidiary undertakings falling due after more than one year:		
Portmeirion Group UK Limited	**10,146**	10,146
Portmeirion Enterprises Limited	**705**	705
Portmeirion Distribution Limited	**60**	60
	10,911	10,911

e. Creditors

	2012 £'000	2011 £'000
Amounts falling due within one year:		
Amounts owed to subsidiary undertaking, Portmeirion Group UK Limited	**1,088**	2,514
Other taxation and social security	**6**	6
Other creditors	**43**	43
Corporation tax	**15**	24
	1,152	2,587

f. Share capital, share premium account and reserves

Details of share capital are disclosed in note 23 to the consolidated financial statements.

The movements on the share premium account and other reserves are shown below.

	Share premium account £'000	Other reserves £'000	Treasury shares £'000	Share-based payment reserve £'000	Retained earnings £'000
At 1 January 2011	4,951	197	(1,047)	267	4,836
Profit for the financial year	–	–	–	–	950
Dividends paid	–	–	–	–	(1,780)
Increase in share-based payment reserve	–	–	–	162	–
Shares issued under employee share schemes	591	–	116	–	–
At 1 January 2012	5,542	197	(931)	429	4,006
Profit for the financial year	–	–	–	–	2,912
Dividends paid	–	–	–	–	(2,078)
Increase in share-based payment reserve	–	–	–	172	–
Shares issued under employee share schemes	260	–	164	–	–
At 31 December 2012	**5,802**	**197**	**(767)**	**601**	**4,840**

g. Related party transactions

During 2012 net transactions totalling £1,426,000 were debited (2011: £49,000 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.

The outstanding balances with subsidiary undertakings at 31 December 2012 and 31 December 2011 are shown in notes d and e above. The loans owed by subsidiary undertakings are not considered to be repayable within one year.

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

h. Contingent liabilities

The Company is a party to the landlord guarantee referred to in note 25, and the finance liability disclosed in note 20 to the consolidated financial statements.

Five Year Summary

CONSOLIDATED INCOME STATEMENT INFORMATION

Years ended 31 December

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Revenue	**55,525**	53,610	51,243	43,165	31,838
Profit before tax	**6,750**	6,330	5,249	3,718	1,090
Tax	**(1,745)**	(1,861)	(1,774)	(1,265)	(515)
Profit attributable to equity holders	**5,005**	4,469	3,475	2,453	575
Earnings per share	**48.43p**	43.94p	34.91p	24.73p	5.81p
Diluted earnings per share	**47.73p**	43.12p	34.39p	24.66p	5.80p
Dividends paid and proposed per share	**21.80p**	19.60p	17.40p	15.80p	14.70p

CONSOLIDATED BALANCE SHEET INFORMATION

At 31 December

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Assets employed					
Non-current assets	**9,774**	10,189	10,379	9,622	8,041
Current assets	**28,683**	26,762	23,606	21,258	20,651
Current liabilities	**(6,637)**	(7,647)	(7,504)	(5,920)	(4,318)
Non-current liabilities	**(4,973)**	(4,907)	(4,359)	(4,474)	(4,326)
	26,847	24,397	22,122	20,486	20,048
Financed by					
Called up share capital	**541**	536	528	528	528
Share premium account and reserves	**26,306**	23,861	21,594	19,958	19,520
	26,847	24,397	22,122	20,486	20,048

Company Information

Board of Directors

Richard J. Steele BCOM FCA CTA	Non-executive Chairman
Lawrence F. Bryan BA	Chief Executive
Brett W.J. Phillips BSc ACA	Group Finance Director
Michael Haynes MCIM (retired 12 February 2013)	Group Sales and Marketing Director
Philip E. Atherton (appointed 12 February 2013)	Group Sales and Marketing Director
Barbara Thomas Judge CBE BA JD	Non-executive Director
Janis Kong OBE BSc	Non-executive Director

Company Secretary

Brett W.J. Phillips BSc ACA

Registered Office and Number

London Road
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ST4 7QQ
Tel: +44 (0) 1782 744721
Fax: +44 (0) 1782 744061
www.portmeiriongroup.com
Registered number: 124842

Auditors

Mazars LLP
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Birmingham
B3 2RT

Nominated Adviser and Stockbroker

Panmure Gordon (UK) Limited
One New Change
London
EC4M 9AF

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
Tel: 0871 664 0300* (UK)
+44 (0) 208 639 3399 (Outside UK)
Fax: +44 (0) 208 639 2220
Email: ssd@capitaregistrars.com
www.capitaregistrars.com

* Calls cost 10p per minute plus network extras. Lines open between 9:00 am and 5:30 pm, Monday–Friday excl. bank holidays

Solicitors

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B4 6BH

Freeth Cartwright LLP
Churchill House
Regent Road
Stoke-on-Trent
ST1 3RQ

Financial PR Advisers

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6th Floor, Holborn Gate
330 High Holborn
London
WC1V 7QD
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Fax: +44 (0) 20 7861 3233
Email: pr@pelhambellpottinger.co.uk

Financial Calendar

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

Portmeirion Group Patterns

Details of Portmeirion Group patterns are shown on pages 4 to 5. Fifi and Porcelain Garden Sanderson for Portmeirion and the Sanderson for Pimpernel ranges are produced under licence from Abaris Holdings Limited. Portmeirion Vintage Kellogg's range is produced under licence from Kellogg Company. Spode's Paddington Bear™ range is produced under licence from The Copyrights Group Ltd. Paddington Bear™, Paddington™ and PB™ are trade marks of Paddington and Company Ltd. The Royal Worcester RHS Roses range is produced under licence from RHS Enterprises Limited. A number of Pimpernel and Royal Worcester designs are licensed from third parties, details of which can be obtained from the Company's registered office.

Retail Outlets

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

Cheshire Oaks Shop
Unit 72, Cheshire Oaks Designer Outlet
Kinsey Road
Ellesmere Port
South Wirral
CH65 9JJ
Tel: +44 (0)151 355 1538

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

Longton Shop
473 King Street
Longton
Stoke-on-Trent
Staffordshire
ST3 1EU
Tel: +44 (0)1782 326661

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

Stoke Shop
London Road
Stoke-on-Trent
Staffordshire
ST4 7QQ
Tel: +44 (0)1782 411756

Street Shop
Clarks Village
Farm Road
Street
Somerset
BA16 0BB
Tel: +44 (0)1458 446703

Swindon Shop 'Style Your Home'
Swindon Designer Outlet
Kemble Drive
Swindon
Wiltshire
SN2 2DY
Tel: +44 (0)1793 422910

Trentham Shop
Unit 230, Trentham Shopping Village
Trentham
Stoke-on-Trent
Staffordshire
ST4 8AX
Tel: +44 (0)1782 657828

Walsall Shop 'Boundary Mill'
Boundary Mill Stores
Junction 10 Retail Park
Bentley Mill Way
Walsall
West Midlands
WS2 0LE
Tel: +44 (0)1922 618200

Details of opening times and directions to the outlets can be found on our website at
www.portmeiriongroupfactoryshops.co.uk

Portmeirion®

Spode®

ROYAL WORCESTER®
ESTABLISHED 1751

pimpernel®

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