PORTMEIRION GROUP PLC

Report and Accounts for the
year ended 31 December 2017

Stock code: PMP

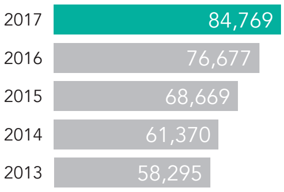
Heritage and innovation

Highlights

Revenue (£'000)

£84,769

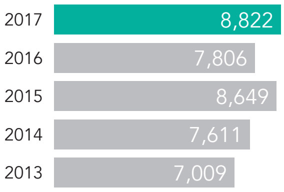
+10.6%



Pre-tax profit (£'000)

£8,822

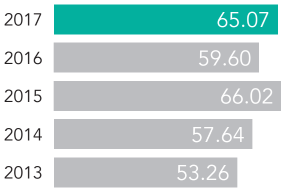
+13.0%



Basic EPS (p)

65.07p

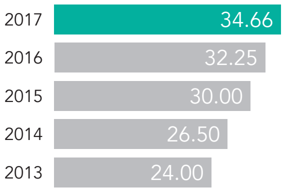
+9.2%



Dividends paid and proposed per share (p)

34.66p

+7.5%



Financial Highlights

- Ninth consecutive year of record Group revenue which increased by 10.6% to £84.8 million (2016: £76.7 million).
- Profit before tax increased by 13.0% to £8.8 million (2016: £7.8 million).
- EBITDA increased by 12.9% to £11.0 million (2016: £9.7 million).
- Earnings per share increased by 9.2% to 65.07p (2016: 59.60p).
- Total dividends paid and proposed for 2017 increased by 7.5% to 34.66p per share (2016: 32.25p).
- Strong cash generation with a £3.9 million improvement in net cash resulting in a positive balance of £1.6 million (2016: net borrowings of £2.3 million).
- Operating margin increased to 10.7% (2016: 10.4%).

Operational Highlights

- Strong progress on growth and diversification in export markets.
- Completed integration of Wax Lyrical business, including the launch of over 200 home fragrance products under the existing Portmeirion Group brands.
- Senior management team strengthened with the appointments of Mike Raybould as Group Finance Director, Mick Knapper as Operations Director, Moira MacDonald as Company Secretary and Andrew Andrea as a Non-executive Director.

Pictured on front cover (clockwise from top left): Sophie Conran for Portmeirion home fragrance, Spode Woodland and Royal Worcester Destiny.

Pictured above: Sophie Conran for Portmeirion.

Strategic Report

Corporate Governance

Financial Statements

At a Glance

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

Who we are

Portmeirion Group encompasses five high quality brands: Portmeirion, Spode, Wax Lyrical, Royal Worcester and Pimpernel, and has a long track record of creating value for our shareholders.

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

We have 786 valued employees and sell into over 60 countries around the world where our brands and products are enjoyed by millions of consumers.

→ Business Model 07

→ Our Strategy 08

Product design and development

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

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

Our Brands

PORTMEIRION

Fashionable yet timeless collections of tableware and gifts

Spode

Tableware and cookware rich in history and heritage

WAX LYRICAL ENGLAND

The UK's largest manufacturer of home fragrance

ROYAL WORCESTER ESTABLISHED 1751

Established in 1751 and celebrated for prestigious tableware and cookware

pimpernel

The premier brand for placemats and coasters

Production and sourcing

We manufacture finest English earthenware from our factory in Stoke-on-Trent and home fragrances at our factory in Ulverston, as well as sourcing bone china, porcelain products and other associated homeware. All are produced to the same exacting quality standards. The mix between own manufactured and sourced product was 49:51 for 2017. Our manufacturing plant in Stoke-on-Trent is well placed to produce in line with anticipated demand and our facility in Ulverston has sufficient capacity to grow as more home fragrance collections are launched through Portmeirion Group's existing distribution channels.

Routes to market

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

We serve our customers from our warehouses in the UK, the US and China.

Where we operate

United Kingdom

Portmeirion: Stoke-on-Trent incorporating head office, manufacturing operation, warehouse and retail outlets.

Wax Lyrical: Lindal-in-Furness, Cumbria, incorporating head office, manufacturing operation, warehouse and retail outlet.

Our routes to market include major department stores, over 500 independent retailers, twelve retail outlets, nationwide mail order companies and UK-based websites dedicated to each of the five Portmeirion Group brands.

Sales of £28.8m

34% of Group revenue.

United States

Connecticut warehouse and logistics centre, New York showrooms and New Jersey office.

We sell to major department stores, over 1,200 independent retailers, major internet retailers of both general and home goods merchandise, national chains of "big box" retailers and warehouse club merchandisers and via a website.

Sales of £25.2m

30% of Group revenue.

South Korea

Exclusive distributor

We sell through an exclusive distributor, with routes to market via wholesale outlets, over 100 retail stores, major department stores, TV home shopping channels and third-party websites.

Sales of £6.6m

8% of Group revenue.

Other markets

Other markets around the world are serviced either via a distributor or agent, directly to retail stores or from our international e-shop stores.

Sales of £24.2m

28% of Group revenue.

Chairman and Chief Executive's Review

Ninth successive year of record revenue

Lawrence Bryan
Chief Executive

Dick Steele
Non-executive Chairman

Summary

- Ninth consecutive year of record revenue and earnings driven to their highest ever levels.
- Total dividends paid and proposed for 2017 of 34.66p per share, an increase of 7.5% over 2016.
- Senior management team strengthened by new appointments to Group Board.
- Strong performance of new product introductions including Sara Miller London Portmeirion.
- Wax Lyrical business now integrated into Group operations, with over £1 million of home fragrance sales through Portmeirion UK and Portmeirion USA.

Portmeirion Group is pleased to report a strong trading performance in the year under review, which culminated in a ninth consecutive year of record sales and earnings being driven to their highest ever levels. This outcome, combined with our confidence in future trading performance, has enabled us to increase our dividend for the ninth successive year. We have reported revenue growth in our core UK and USA markets, but also a decrease in South Korea which is going through a period of rebuilding. However, the Group's other export markets showed excellent growth with sales to "rest of the world" up 54.4% over 2016. The growth across the Group has benefited from diversification into new products and new markets, including the integration of our Wax Lyrical home fragrance business.

Financial highlights

Revenue was £84.8 million for the year, an increase of 10.6% over the previous year (2016: £76.7 million). At a constant US dollar exchange rate our revenue increased by 8.4%. We enjoyed a full year of Wax Lyrical Limited ("Wax Lyrical") sales consolidated within the total revenue of £84.8 million compared to eight months of the previous financial year; on a like-for-like basis this reduces the revenue growth to 5.6%.

Profit before taxation was £8.8 million, an increase of £1.0 million or 13.0% on the previous year. Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 12.9% to £11.0 million in the year (2016: £9.7 million). Both of these figures represent all-time records for Portmeirion Group.

Basic earnings per share increased by 9.2% to 65.07p per share (2016: 59.60p), while dividends have increased by 7.5%, with dividend cover of 1.85 times maintained just below our long-term target of two times.

Dividend

The Board is committed to a progressive dividend policy and aims to maintain a sustainable and appropriate level of dividend cover. Our policy is to increase the interim dividend each year by the same percentage as the final dividend of the preceding year, subject of course to prevailing conditions. The Group will look to increase our dividends whenever appropriate driven by our results, cash balances, future prospects and other investment requirements.

The Board is recommending a final dividend of 27.26p (2016: 25.25p) per share bringing the total paid and proposed for the year to 34.66p (2016: 32.25p) per share, an increase of 7.5% over the total amounts paid in respect of 2016. This is an 8.0% increase over the final dividend for 2016.

The dividends paid and proposed for 2017 are projected to be covered 1.85 times by earnings (2016: 1.85 times). The Board continues to consider that a level of dividend at or close to two times covered is an appropriate and sustainable level for the business.

Corporate governance

As an AIM-listed company we recognise and welcome the benefits of corporate governance requirements over and above those required by AIM and we implement them when we can see tangible shareholder and stakeholder benefits. We are members of the Quoted Companies Alliance and believe good corporate governance provides incremental shareholder value.

We consider our approach to be proactive in a number of areas, in particular in seeking re-election of all continuing Directors each year and in our shareholder engagement.

Senior management

The management team has been significantly strengthened during the year. Mike Raybould joined the Board on 26 May 2017 as Group Finance Director, and also has management responsibility for Wax Lyrical. Mick Knapper was promoted to the Group Board as Operations Director on 1 March 2017; he is responsible for production, sourcing, logistics, information systems and human resources and has been with the Group since 1998. Andrew Andrea was appointed as a Non-executive Director on 20 June 2017, bringing wide-ranging experience in finance and consumer brands. Moira MacDonald, who joined the Group in 2007, was promoted to Company Secretary on 1 March 2017.

We are delighted with these promotions and appointments, the business is now benefiting from the fresh perspective that such changes bring.

> "We are delighted to be reporting a ninth consecutive year of record revenue and a record profit before taxation. Our core values of innovation, targeted product development and operational excellence remain unchanged, and we are pleased to report on the successful integration of the Wax Lyrical home fragrance business into the Group."

Operational overview

Overall revenue increased by 10.6% to £84.8 million (2016: £76.7 million). The Group benefited from a full twelve months' ownership of Wax Lyrical in 2017, together with good underlying growth in our core ceramics business.

Geographical performance

From a geographical perspective, the United Kingdom has become our largest market following the acquisition of Wax Lyrical, due to the majority of their sales being in that market. Total UK sales were £28.8 million (2016: £27.1 million). The domestic retail sector continues to be challenging and uncertain; despite this we remain cautiously optimistic in this market. Our expanded product offering and encouraging performance of some of our ranges such as the growing Royal Worcester Wrendale Designs collection and the new Sara Miller London Portmeirion line provide this optimism.

The United States, our second largest market, reported an increase in revenue of 3.9% in translated figures, which is equivalent to a decrease of 1.2% in local currency. We remain confident about the prospects in the USA, with the Group's sales seeing double digit growth in the second half of the year, including the important Thanksgiving and Christmas period, recovering from a disappointing first half.

Sales into South Korea fell by 32.1% in 2017 to £6.6 million (2016: £9.7 million). This market continues to prove challenging and we are working closely with our exclusive distributor in South Korea to diversify our product portfolio and target new customers in order to rebuild sales.

Sales to the rest of the world showed the most significant growth during the year, increasing by 54.4% to £24.2 million (2016: £15.7 million). Growing sales into Europe and some Asian markets such as Hong Kong and Taiwan has reduced our reliance on sales in our three major markets and has been aided by sales of home fragrance product into our existing distribution channels.

Online sales continued to grow during the year, with a strong second half sales growth of over 13% particularly pleasing. This channel remains an area of focus for 2018.

Segmental performance

Following the acquisition of Wax Lyrical in 2016, the Group will now report under three business segments: home fragrance, Portmeirion Group UK Limited ("Portmeirion UK") and Portmeirion Group USA, Inc. ("Portmeirion USA"). The home fragrance segment performance will include all home fragrance sales made within the Group. Portmeirion UK and Portmeirion USA performance will refer to ceramic sales only.

Portmeirion UK

Portmeirion UK, the main trading entity of the Group, had a strong performance during the year, driven by new product launches and diversification into new export markets. Sales grew by 9.1% to £46.1 million (2016: £42.3 million).

Production in our UK factory reduced slightly during the year compared to 2016, but demand steadily grew throughout 2017 and we are now back at a level that will improve efficiency going forward. This is essential in order for the business to achieve its long-term strategic goals as manufacturing efficiency translates to cost competitiveness.

Chairman and Chief Executive's Review *continued*

Operational overview *continued*

Segmental performance *continued*

Portmeirion USA

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

Sales at Portmeirion USA have grown by 3.7% in the year to £24.7 million (2016: £23.8 million). This growth has largely been driven by the lower US dollar exchange rate compared to sterling, as underlying US dollar sales are marginally below prior year. This performance was pleasing given a weak first half and meant that second half sales were 12.9% higher than 2016. The H2 performance demonstrates that this market is starting to show signs of growth.

Home fragrance

The Group acquired Wax Lyrical on 4 May 2016 and therefore revenue benefited from a full year of sales in 2017. Home fragrance sales were £13.9 million, showing growth of 32.0% over the prior year and includes over £1 million of home fragrance sales through existing Portmeirion UK and Portmeirion USA distribution channels.

The Wax Lyrical business responded well to the increased production demands during the year and has the capacity to grow in line with the Group's targets.

We are pleased with the integration benefits obtained so far and are optimistic about the potential for further revenue synergies and ongoing cross-product development.

Products and brands

We have five major brand names – Portmeirion, Spode, Wax Lyrical, Royal Worcester and Pimpernel. Supporting our brands is central to our business strategy and we continue investing in both our historical patterns and key new launches.

Portmeirion Botanic Garden, launched in 1972, is a major pattern with worldwide recognition; it is hard to identify any other tableware pattern with such a level of sales. On an ongoing basis Botanic Garden generates over £30 million of sales per annum and there are over 50 million pieces of Botanic Garden in use worldwide today. We are ever vigilant of imitators to Botanic Garden, or indeed any of our other patterns, and hardnosed in legal protection.

Product development is a vital component of brand value. We continue to develop, extend, refresh and refine our existing patterns and products so as to retain and build customer appeal. During 2017 we launched a number of new ranges including Sara Miller London Portmeirion, which received a strong reception and is already generating a positive sales return. We also launched over 200 new home fragrance products under the existing Portmeirion Group brands. Royal Worcester Wrendale Designs continues to perform strongly following its launch in 2013.

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

We continue to be well served by our strategy of diversifying products, customers, geographic markets and routes to market. This strategy enables us to exploit opportunities when they appear.

Ongoing strategy

The Group's long term strategy is focused around five key areas: profitable sales growth, introducing new products, investing in our brands, enhancing our operational capabilities and supporting this with complementary strategic acquisitions.

Profitable sales growth underpins all of the Group's objectives and will be achieved by targeted product development within our key markets. 2017 saw the Group achieve its ninth consecutive year of record sales and 10.6% revenue growth over the prior year, with an improvement in operating margin from 10.4% to 10.7%. Our focus will be on export market growth and continuing to build on the home fragrance acquisition within our key markets.

New product introduction includes both new ranges and extension of our biggest patterns to fit the needs of the modern consumer. During the year we launched successful additions to ranges such as Royal Worcester Wrendale Designs and Portmeirion Botanic Garden, our biggest selling pattern. New collections included working with talented artists such as Sara Miller London to allow us to reach new consumers, as well as developing over 200 new home fragrance products under the existing Portmeirion Group brands.

Supporting our brands means that we continue to invest to ensure we are maintaining our market position.

Our operational capabilities are constantly reviewed in order to position the Group to meet the requirements of our customers. We continue to drive operational effectiveness to ensure manufacturing and distribution competitiveness.

The Group remains committed to acquiring businesses where there is a strategic fit and the combination would be earnings enhancing. We have successfully integrated the Wax Lyrical business and will continue to drive our sales synergies.

Dick Steele
Non-executive Chairman

Lawrence Bryan

Lawrence Bryan
Chief Executive
14 March 2018

Nurturing our brands

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

Our strengths

A diverse portfolio of brands

Much of the value of the Group lies within our five brands and the patterns which underpin these brands; our brands are described in detail on pages 11 to 15.

Portmeirion Spode

Wax Lyrical England Royal Worcester Established 1751 pimpernel

A varied and diverse market

The Group sells into over 60 countries around the world and continues to aim for diversification in product, market and customer.

A strong leadership team

Experienced leadership team strengthened during the year with additions to the Group Board of Mike Raybould as Group Finance Director, Mick Knapper as Operations Director, Moira MacDonald as Company Secretary and Andrew Andrea as a Non-executive Director.

Good financial backing

Portmeirion Group PLC is listed on the AIM, which gives us access to equity capital should we require it. Funding for the business is provided by our own cash resources and a £2 million overdraft, a £10 million revolving credit facility and a £10 million term loan provided by Lloyds Bank plc.

↓

Our business

Nurturing our brands

The Group continues to invest in our five brands in order to refresh and renew our product offering.

Continued product development

The Group launched 1,175 new products during the year, including over 200 new home fragrance products under the existing Portmeirion Group brands.

Operating across the globe

The Group's revenue is generated from a variety of channels, markets and currencies. Products are sold directly to consumers from our own UK shops and via the internet in the UK, the USA and elsewhere, and are sold to consumers via third parties from a network of agents, distributors and retailers throughout the world. We enjoy some royalty income from the valuable intellectual property embedded in our brands, patterns and designs. Our continued concentration on customer-attentive product development and brands is reflected in the longevity of our patterns.

↓

How we create value

For shareholders

Progressive dividend policy and capital appreciation. Portmeirion Group has a strong track record of increasing dividends and enhancing shareholder returns.

For customers

Working closely with customers and targeted product development ensure that we launch innovative products that reflect current consumer requirements and are priced competitively to appeal across multiple sales channels.

For employees

The Group has nearly 800 employees across the world. We provide employment opportunities in our local communities and opportunities for long-term career development.

Our Strategy

Driving consistent shareholder value growth

Our strategy is focused around five key areas: profitable sales growth, introducing new products, investing in our brands, enhancing our operational capabilities and supporting this with complementary strategic acquisitions.

1. Profitable sales growth

The Portmeirion Group aims to drive profitable sales growth by targeted product development within our key markets.

Achievements

- Double digit sales growth over the prior year.
- Ninth consecutive year of record sales.
- 2017 sales increase driven by expanding export markets.
- New products contributing strongly.
- Successful introduction of home fragrance to new markets.

Strategy

- Focus on export market growth.
- Leverage home fragrance acquisition using key Portmeirion Group markets.
- Invest behind online sales channels and operational fulfilment for our direct customers.
- Continue to grow core UK and US markets through targeted product development.

Link to KPIs

Revenue
Return on sales
New products launched
Basic EPS
Dividends paid and proposed
Dividend cover

2. New product introduction

We continue to introduce new ranges and extend our biggest patterns to fit the needs of the modern consumer.

Achievements

- Highly successful additions to Royal Worcester Wrendale Designs range.
- New line extensions to Portmeirion Botanic Garden, our biggest selling pattern.
- New development with talented artists such as Sara Miller London allows us to reach new consumers.
- Development of over 200 new home fragrance products under existing Portmeirion Group brands.

Strategy

- Continually advance and refresh key heritage patterns including Portmeirion Botanic Garden and Spode Blue Italian.
- Develop new contemporary patterns for today's consumer.
- Continuing to develop our home fragrance ranges for UK, USA and export markets.
- Develop extended gifting appeal.

Link to KPIs

Revenue
Return on sales
New products launched

3. Supporting our brands

The Portmeirion Group encompasses five high quality brands: Portmeirion, Spode, Wax Lyrical, Royal Worcester and Pimpernel.

We continue to develop these brands and invest in sustaining their market positioning.

Achievements

- Continued investment behind historical patterns both in core and export markets, including international trade shows.
- Supported key new lines such as Sara Miller London Portmeirion with PR launch events.
- Launch of home fragrance collections under our key Portmeirion brand such as Portmeirion Botanic Garden and Sophie Conran for Portmeirion.

Strategy

- Use of websites and social media to drive brand awareness.
- Targeted investment behind key product launches.

Link to KPIs

Revenue
Return on sales
New products launched

4. Operational capabilities

The Portmeirion Group manufactures ceramics and home fragrance in the UK and distributes worldwide.

Our operational effectiveness continues to drive our ability to maximise sales opportunities.

Achievements

- Supported significant revenue growth in 2017 over prior year.
- Successfully fulfilled double digit increase in demand in next day drop ship deliveries during key seasonal period.
- Wax Lyrical factory produced over 200 new skus for Portmeirion Group ranges.

Strategy

- Build warehousing capabilities to cope with future growth in online single parcel fulfilment.
- Invest behind our key factories to ensure future cost competitiveness.
- Ensure we maximise operational efficiency and working capital performance.

Link to KPIs

Revenue
Return on sales
Basic EPS

5. Mergers and acquisitions

We remain committed to acquiring businesses where there is strategic fit and the combination would be earnings enhancing.

We will continue to seek out acquisition opportunities to match our demanding criteria.

Achievements

- Successful integration of newly acquired Wax Lyrical business, driving our sales synergies.
- Successfully launched over 200 new home fragrance skus under Portmeirion Group brands.
- Return to net positive cash position 20 months after Wax Lyrical acquisition.

Strategy

- Look to identify value adding acquisitions in global homewares market that complement our strategy for profitable sales growth.

Link to KPIs

Revenue
Return on sales
Basic EPS
Dividends paid and proposed

Find out more:

→ Key Performance Indicators (KPIs) 10

→ Risk and Risk Management 16 – 17

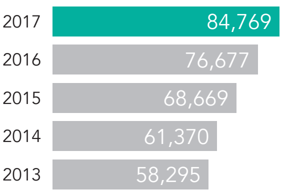
Key Performance Indicators

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

Revenue (£'000)

£84,769

+10.6%

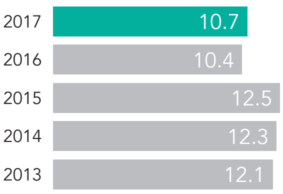


Revenue growth is the key driver of profit growth. 2017 was our ninth successive year of revenue growth, benefiting from a full year of ownership of Wax Lyrical and growth in export markets. Sales growth was delivered in both existing and new markets.

Return on sales (%)

10.7%

+2.9%

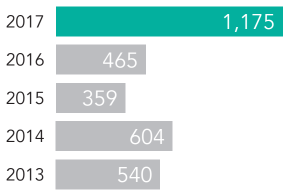


Return on sales expresses operating profit as a percentage of revenue. Due to the Group's manufacturing fixed cost base, increases in revenue growth can have a significant impact on return on sales. Return on sales growth was positive in 2017 and we aim to continue to build the return in future years.

New products launched (number)

1,175

+153%

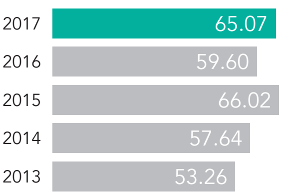


New products launched include new ranges and extensions to existing ranges; these are essential to help drive revenue growth in future years and so in many ways represent expenditure today for benefit tomorrow. The Group has a strong track record of launching new products and in 2017 launched over 200 new home fragrance products into our established ceramic ranges.

Basic EPS (p)

65.07p

+9.2%

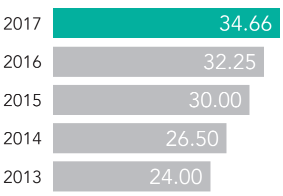


Earnings per share is a shorthand measure of profitability; it takes all of the revenue and costs from the year and divides the post-tax profit arising by the number of active shares in issue. It is a measure which helps determine the amount of dividend which can be declared and paid and, as such, together with dividend cover, summarises the annual output for shareholders.

Dividends paid and proposed per share (p)

34.66p

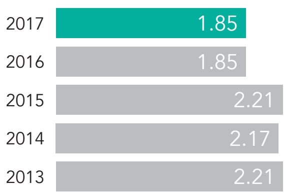
+7.5%



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

Dividend cover (x)

1.85x



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

Our Brands

PORTMEIRION®

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

www.portmeirion.co.uk

Pictured: licensed range, Sara Miller London Portmeirion

Our Brands *continued*

Spode®

Renowned for its rich heritage and timeless designs, Spode's product portfolio appeals across the generations and includes celebrated patterns such as Blue Italian, Blue Room and Christmas Tree. These classics have stood the test of time with Spode being widely regarded as one of the UK's great ceramic brands. New designs such as Maui and Delamere Rural keep Spode at the forefront of contemporary yet timeless Great British design.

www.spode.co.uk

Pictured: Spode Blue Italian

WAX LYRICAL

ENGLAND

Wax Lyrical is the UK's largest home fragrance company and its products are British made. An extensive range of candles, reed diffusers and room mists are manufactured and distributed from its base in the Lake District. As well as Wax Lyrical and Colony branded products, Wax Lyrical supplies private-label ranges to supermarkets and other retailers. Licensed ranges include Fired Earth, RHS, Collier Campbell and Yvonne Ellen.

www.wax-lyrical.com

Pictured: Wax Lyrical Scent with love

Our Brands *continued*

ROYAL WORCESTER®
ESTABLISHED 1751

Founded in 1751, Royal Worcester has a rich and diverse design heritage. The brand offers a wide spectrum of quality products including fashionable fine bone china mugs and sophisticated, competitively priced tableware sets. Quirky new characters have enhanced the popularity of the brand's Wrendale Designs licensed collection of mugs and giftware.

www.royalworcester.co.uk

Pictured: Royal Worcester Wrendale Designs

pimpernel.

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

www.pimpernelinternational.co.uk

Pictured: Pimpernel Botanic Garden

Risk Management

Managing risk in order to deliver our strategy

Risks to our strategy

The Group's principal risks and uncertainties are listed in the table opposite.

Risk management structure

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

1. Identify risk

The Group Board has overall responsibility for monitoring the Group's systems of internal control, for identification of risks and for taking appropriate action to prevent, mitigate or manage those risks.

2. Assess risk

A detailed schedule of risks is considered at each Board meeting under the following categories: macro-economic and political, continuity and disruption, trading and product, operational and supplier, accounting and internal controls, legal and regulatory and external investment and performance.

These risks are graded against a criteria of likelihood and potential impact in order to identify the key risks impacting the Group.

3. Mitigate risk

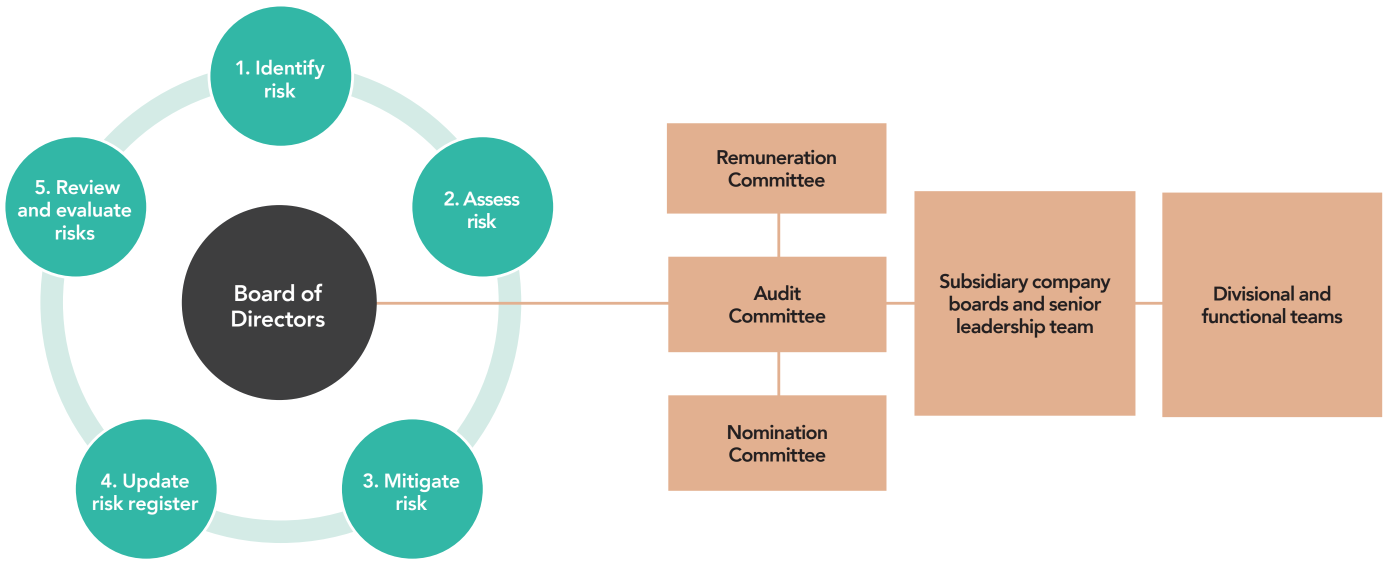
The Board seeks to ensure that the Group's activities do not expose it to significant risk. The Group's aim is to diversify the Group sufficiently to ensure we are not exposed to risk of concentration in product, market or channel.

4. Update risk register

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

5. Review and evaluate risks

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



Principal Risks and Uncertainties

Risk	Mitigation	Change
Economic environment Whilst there is renewed optimism regarding the general world economy and hope for an economic recovery, retail conditions remain challenging with uncertainty around Brexit. Further adverse conditions in the retail sector would have a detrimental impact on trading.	The Group monitors and maintains close relationships with its key customers and suppliers to be able to identify signs of financial difficulties early in order to prevent or limit any potential losses. Customer orders and sales trends in major markets are constantly reviewed to enable early action to be taken in the event of sales declining. The general economic factors affecting the Group during the period are discussed further in the Chairman and Chief Executive's Review on pages 4 to 6 and the Financial Review on pages 18 to 19.	↑ Increase
Competitors The Group faces strong competition in most of the major markets in which it operates. This presents a risk of losing market share, revenue and profit.	The risk is managed by ensuring that high quality and innovative products are brought to market, maintaining strong relationships with key customers and ensuring the Group is aware of local market conditions, trends and industry-specific issues and initiatives. This enables the Group to identify and address any specific matters within the overall business strategy.	↑ Increase
People Skilled senior managers and personnel are essential in order to achieve the strategic objectives of the Group. Failure to recruit and retain key staff would present significant operational difficulties for the Group.	Existing staff are provided with relevant training and career progression to improve motivation. The Group has a clearly defined recruitment policy which ensures that new employees meet the required standard and experience for each position. Management also seeks to ensure that key personnel are appropriately remunerated and ensure that good performance is recognised.	→ No change
Suppliers The Group's purchasing activities could expose it to overreliance on certain key suppliers or markets and, as a result, inflationary pricing pressure. Production is split between our UK factories and outsourced supply, which allows the Group to mitigate some of the risk presented by suppliers.	For the manufacturing process conducted in the UK, the Group ensures that key raw materials are available from more than one source to ensure continuity and competitive pricing of supplies. For the sourcing process, suppliers are carefully selected and the Group seeks to maintain a sufficient breadth in its supplier base such that the risk remains manageable. The Group also ensures that all intellectual property rights are retained and easily transferable should an alternative supplier be required.	→ No change
Financial risk Financial risk is wide-ranging and covers capital management, credit risk, currency risk and liquidity risk. The risks presented in these areas include the failure to achieve business goals, potential financial losses caused by default, reduction in profitability due to currency fluctuations, insufficient funds to complete daily business functions and consequent threat to the going concern basis of the organisation.	Details of the Group's approach to management of these risks and the systems in place to mitigate them are covered in the financial risk management objectives in note 32 on pages 82 to 84.	→ No change

Financial Review

Strong revenue and operating margin growth

Mike Raybould

Group Finance Director

Summary

- Revenue growth of 10.6% to £84.8 million, with like-for-like growth of 5.6%.
- Profit before tax of £8.8 million, an increase of £1.0 million over 2016.
- Operating profit margins increased to 10.7% (2016: 10.4%) representing strong operating cost control.
- Group returned to a net cash positive position of £1.6 million, a £3.9 million improvement over 2016.
- Pension scheme deficit reduced from £7.1 million to £1.7 million due to cash injection, asset performance and changes to market forward assumptions.

Revenue

Revenue totalled £84.8 million for the year. This represented an increase of 10.6% over the previous year (2016: £76.7 million). If we exclude the full year impact of the acquisition of Wax Lyrical, then like-for-like growth was 5.6%.

Sales in our US market benefited from a better exchange rate on consolidation in 2017. This accounted for a 1.7% benefit to total Group sales.

Our revenue grew in both our core markets – the UK and US – as well as through strong demand in our export markets for key patterns such as historic Portmeirion Botanic Garden. New product launches, including those in our licensed ranges of Royal Worcester Wrendale Designs and Sara Miller London Portmeirion contributed to sales growth in our two largest markets in the UK and US.

Profit

Profit before taxation was £8.8 million, an increase of £1.0 million on 2016. Operating profit margins increased to 10.7% (2016: 10.4%) representing strong control over our operating costs together with improved customer mix and sales from new product launches.

Earnings per share increased from 59.60p to 65.07p per share.

Interest and financing costs

Finance costs increased by £0.1 million over the prior year representing a higher interest expense on the defined benefit pension scheme deficit, together with the full year impact of interest on the borrowing taken out in 2016 to finance the acquisition of the Wax Lyrical business. Both these costs are expected to reduce in the next twelve months.

Taxation

The charge for taxation was £1.9 million (2016: £1.6 million), an effective rate of taxation of 22.0% (2016: 20.3%). The increase in the effective tax rate relates to the one-time adjustment in deferred tax assets in our US business that is impacted by the recently announced reduction in US federal tax rates.

Dividends

The Board proposes a final dividend of 27.26p per share (2016: 25.25p) giving a total dividend for the year of 34.66p, an increase of 7.5% on 2016 (32.25p). This final dividend is expected to be paid on 30 May 2018 to shareholders on the register on 27 April 2018 with an ex-dividend date of 26 April 2018. Our dividend cover has been maintained at 1.85 times and the Board considers this to be a prudent level of cover.

The Group remains committed to a progressive dividend policy.

Cash generation and net debt

At 31 December 2017 net cash was £1.6 million, a £3.9 million improvement on December 2016 (net debt of £2.3 million).

This was after capital investment of £1.0 million, pension deficit contributions of £1.2 million together with dividend payments of £3.4 million and tax of £2.2 million. As previously reported, the Company acquired the Wax Lyrical business in 2016 for a net cash outflow of £16.7 million. Following this acquisition we are pleased to have already returned to a position of net cash which is ahead of our forecasts.

We expect Portmeirion Group to remain a business that is cash generative.

Bank facilities

The Group has agreed debt facilities with Lloyds Bank, totalling £19 million at the balance sheet date. This consists of a £10 million revolving credit facility repayable in full in May 2019, a £2 million overdraft facility on an annual renewal cycle and a £10 million loan repayable equally over five years from May 2016, of which £7 million was outstanding at the year end.

Due to the seasonality of our sales, we experience a large working capital swing during the year. Our committed funding addresses this and we believe is conservative.

Assets and liabilities

Working capital remains an area of focus for us. Inventory increased in the year from £16.3 million to £18.1 million. This was driven by production of new home fragrance ranges for our Portmeirion Group brands and stock build for extensions to some of our licensed ranges. In both cases this stock is required to satisfy 2018 orders.

During the year we have paid £1.2 million into our defined benefit pension scheme, which was closed in 1999. Many companies carry defined benefit pension scheme deficits and our deficit is relatively modest. The accounting deficit reduced from £7.1 million at the end of 2016 to £1.7 million in 2017. The reduction represents the cash injection, asset performance over the period and changes to market forward assumptions. We continue to keep this under review.

Goodwill and intangibles are a major element of our balance sheet and represent the value of acquired brands such as Spode, Royal Worcester and Wax Lyrical. Net book value of intangibles has reduced in the year by £0.5 million being the amortisation charge. No new intangible assets have been added during 2017 other than small computer software expenditure.

Treasury and risk management

The impact of transactional currency flows on the Group's profit is limited due to natural matching across different regions. Where there is an anticipated material exposure to the Group, then our policy is to use appropriate hedging instruments to mitigate that risk.

Mike Raybould

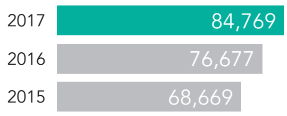
Group Finance Director

14 March 2018

Revenue (£'000)

£84,769

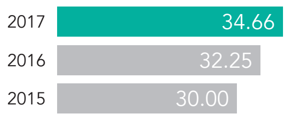
+10.6%



Dividends paid and proposed per share (p)

34.66p

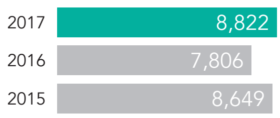
+7.5%



Pre-tax profit (£'000)

£8,822

+13.0%



Going Concern and Outlook

Going concern

The business activities of the Group, its current operations and factors likely to affect its future development, performance and position are set out in the Chairman and Chief Executive's Review on pages 4 to 6 and in the Financial Review on pages 18 to 19. In addition, note 32 to the accounts includes an analysis of the Group's financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit and liquidity risk.

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

At the year end the Group had net cash of £1.6 million and, as disclosed in note 23, had unutilised bank facilities with available funding of £12 million. Operating cash generation was strong during the year at £6.7 million (2016: £6.9 million).

The Group sells into over 60 countries worldwide and has a spread of customers within its major UK and US markets with adequate credit insurance cover in export markets where required. The Group manufactures approximately 49% of its products and sources the remainder from a range of third-party suppliers.

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

Outlook

Trading in the first two months of the current year is nearly 20% ahead of the comparative period in 2017. However, given the Group's second half weighting, the sales in these first two months of the year are low in comparison to the balance of the year.

Our strategy and core values remain unchanged; we believe in profitable sales growth, introducing new products, investing in our brands, enhancing our operational capabilities and supporting this with complementary strategic acquisitions. We remain confident in our ability to create shareholder value in the short, medium and long term.

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

Dick Steele
Non-executive Chairman

Lawrence Bryan

Lawrence Bryan
Chief Executive
14 March 2018

Sustainability

We are committed to sustainability progress in all aspects of our business – for the environment, our people, customers, suppliers and the communities we operate in. This is evidenced and underpinned by our vision and values.

Environmental

Production and operations:

The Group is dedicated to being environmentally responsible through our commitment to eliminate waste and wasteful practices.

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

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

Waste management

The Group will continue to recycle its main waste streams, scrap product, plaster of Paris moulds and cardboard, as appropriate. Approximately half of the energy used at Wax Lyrical's production site in Cumbria during 2017 was provided by wind turbine, which on average can supply 1,283,902 kWh of "green" electricity per year and saves up to 559 tonnes of carbon dioxide in emissions per year.

Greenhouse gas (GHG) emissions

Portmeirion UK's commitment to reducing its carbon emissions is evidenced by having been subject to a Climate Change Agreement since 2000. During 2017, the Company continued to beat the challenging targets on energy efficiency set as part of its ongoing membership of this agreement.

Social

Our people:

Growing our business generates opportunities for our employees and creates value for our shareholders. We focus on creating an environment where people want to work and are able to give their best. Working together with drive and enthusiasm creates a dynamic workplace that is exciting to work in and gives us the best chance of success in achieving our goals.

Our people are our greatest asset. The Group's performance and its success within our marketplace are directly related to the effectiveness of our people, who deliver the high quality products and exceptional service that we are renowned for. Developing talent and supporting diversity across our business help to ensure that we have the best teams motivated to deliver our goals.

The Group aims to attract, retain and motivate the highest calibre of employees. Portmeirion UK's apprentice recruitment day in July 2017 was a resounding success resulting in 10 new apprentices being recruited to the Group. As a result, Portmeirion UK has 12 apprentices and 8 trainees in the Home Grown Talent programme which is promoted by presenting at local schools and colleges on career days. Wax Lyrical has 2 apprentices who will complete their programme in 2018. Portmeirion UK has been accredited for its Investment in Young People, further demonstrating that we recognise the value young people can bring to building a dynamic and productive workforce.

The Group has established people-centred policies which are communicated and updated via our internal physical and electronic notice boards, employee briefings and newsletters to build the "one team" ethos which is embedded in our Group values.

Employee representatives meet in forums to discuss business related issues. We measure employee engagement by opinion surveys. In the 2017 surveys, 94% of Portmeirion UK's employees and 87% of Wax Lyrical's employees said that they were happy to be working for the Group.

We are delighted to report that Portmeirion UK has been shortlisted in the Employer category of the 2017 Performance Through People (PTP) Achievement Awards.

Long service awards and celebratory lunch at Wax Lyrical's head office in December 2017.

Sustainability *continued*

Social *continued*

Recognition

Our reward strategy aims to provide a package that offers competitive pay and distinctive benefits. Employees are offered membership of our Group personal pension plans which provide employer contributions for all members. Throughout the Group we operate employee recognition schemes including discretionary incentive schemes, length of service and good attendance awards, Christmas gifts, VIP "family and friends" Christmas shopping evenings and retirement afternoon teas.

Employee performance is measured against formal objectives set annually with line management and on which regular feedback is given. These objectives are aligned to Group strategy.

Having both been Employee of the Month, Melanie Raftery and Nathen Jones were joint winners of Portmeirion UK's employee-voted "Employee of the Year 2017" award for their commitment to the Group and dedication in their areas of retail and production. Following feedback from its employee survey, Wax Lyrical has launched an Employee of the Month and Team of the Quarter programme for 2018.

Training

The Group provides a number of training and development opportunities across all areas of the business to ensure that our employees have all of the necessary skills to competently perform their roles. These opportunities include National Vocational Qualifications, professional development, first aid training and other specific job related training courses. Management development is addressed through accredited qualifications in leadership and management. We were particularly pleased to congratulate eleven management development delegates who achieved their level 3, 4 or 5 Diploma in Management qualifications in Summer 2017.

Within our manufacturing and distribution centres we aim to train all of our employees to be multi-skilled so they can perform in a variety of roles to aid flexibility. We use training needs analysis to highlight any skills gaps within our ceramic manufacturing processes and to drive succession planning.

We recognise the benefits of coaching and mentoring and are particularly proud of our number of internal skills trainers. Our Stoke-on-Trent production and warehouse functions have 23 such trainers.

Portmeirion UK's Employees of the Year 2017.

Health and safety

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

All new employees receive in-house health and safety training with further training undertaken as the employee's role or need requires. 229 employees in Portmeirion UK and 159 in Wax Lyrical received in-house health and safety training in 2017.

In October 2017, Portmeirion UK's efforts were recognised at The British Ceramics Confederation Health and Safety Awards for achievements in worker involvement.

Investors in People

Both of the Group's UK trading subsidiaries are officially recognised as Investors in People (IiP), Portmeirion UK at silver level and Wax Lyrical at bronze level. This prestigious accreditation is recognised across the world as a mark of excellence and demonstrates our commitment to employee engagement, health and wellbeing and skills enhancement.

Diversity

We recognise and value all forms of diversity in our employees and endeavour to promote diversity in our workplace to enhance the success of our business.

Gender split

The Group will meet the requirement to publish gender pay statistics during 2018.

Wellbeing

Investment in our people stretches beyond their careers to their wellbeing generally. Portmeirion UK is accredited for the Workplace Wellbeing Charter. Its health and wellbeing calendar provides free advice on matters such as: healthy eating and exercise, smoking cessation, cancer awareness, further education, alcohol and drug awareness, mental health support and pension planning. We are pleased to report that, in December 2017, Wax Lyrical started work on adopting its own wellbeing calendar for the first time.

Product and design:

We design, create and supply high quality products whilst minimising environmental impact.

Our responsibilities

We are fully aware of our quality and safety responsibilities to our customers and to consumers who use our products. We also take environmental responsibilities seriously and, where possible, work with customers to reduce potential environmental impact.

Portmeirion UK's health and safety team receiving its British Ceramics Confederation awards.

Community and relationships

Community and society:

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

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

Portmeirion UK supported the Douglas Macmillan Hospice as its employee-chosen Charity of the Year for 2017. Fundraising included an Easter-themed cake sale, a quiz night and a show-stopping "Night at the Movies" of dinner, dancing and entertainment provided by our talented staff. A contribution of £29,000 was made to the Hospice during 2017. 250 volunteering hours were delivered by the Group supporting at least two employees per month with a paid day off to volunteer for the Hospice. Volunteers helped with activities such as gardening, coin counting, retail support and mobile lithography craft sessions for inpatients.

In 2017, St Mary's Hospice and North West Air Ambulance were Wax Lyrical's chosen charities. A total of nearly £2,000 was raised and split equally between the two charities through the dedicated support of Wax Lyrical's employees and their efforts including raffles and sample sales.

Both Portmeirion UK and Wax Lyrical have supported other fundraising initiatives throughout 2017, delivering well received support to other charities and fostering employee team work and community spirit including colourful Christmas jumper days and The Great Wax Lyrical Bake Sale. Wax Lyrical's commitment to its local community is further evidenced by its staff presentations at local schools, providing practical support on their science curriculum.

Ethics and human rights

The Group aims to conduct its business with honesty, integrity and openness, respecting human rights and the interests of its employees, customers and third parties. The Group advocates high ethical standards in carrying out its business activities and has policies for dealing with gifts, hospitality, bribery, corruption, modern slavery, whistle-blowing, conflicts of interest and inside information. The Group does not make political donations and charitable donations are made only where legal and ethical according to local law and practices.

Relations with customers

The Group is committed to putting our customers at the heart of everything we do by providing safe, value for money, high quality products and to developing and maintaining positive relationships. All employees are expected to behave respectfully and honestly in all their dealings with customers and the general public. The Group encourages feedback from its customers through trade account managers and engagement with individual customers through customer service teams and social media such as Facebook and Twitter.

Relations with suppliers, partners and contractors

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

The Group will continue to test all products for compliance with international standards in relation to quality and technical performance.

The Group aims to use contractors that are, as a minimum, appropriately qualified and ideally experienced in the ceramics and home fragrance industry. New contractors undergo health and safety inductions. Risk assessments are carried out on all major assignments and contractors are required to provide method statements for major works.

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

Portmeirion UK's volunteers at the 2017 Douglas Macmillan Hospice volunteer launch event.

Board of Directors

Chairman's introduction

"We believe that good corporate governance is a building block of a successful and sustainable business. Although compliance with the UK Corporate Governance Code 2016 is not mandatory for AIM companies, such as us, the Company continues to operate a framework of policies and procedures designed to comply with a number of the Code's provisions as far as is reasonably practicable and appropriate for a company of our size and complexity."

Dick Steele

Non-executive Chairman

Dick Steele

R A N

Non-executive Chairman

Skills and experience

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.

Other appointments

Dick is a Non-executive Director of the Quoted Companies Alliance and Non-executive Chairman of two private equity backed businesses: ASL and Country Baskets.

R Remuneration Committee

A Audit Committee

N Nomination Committee

Lawrence Bryan

N

Chief Executive

Skills and experience

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

Other appointments

None.

Phil Atherton

Group Sales and Marketing Director

Skills and experience

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

Other appointments

None.

Lady Judge CBE

R A N

Non-executive Director

Skills and experience

Lady Barbara Judge was previously an international corporate lawyer with significant experience as a senior executive and non-executive director and chairman in the private and public sectors. She will retire from the Board at the conclusion of the Annual General Meeting on 17 May 2018.

Other appointments

Lady Judge is Non-executive Chairman of CIFAS and LoopUp Group plc. Formerly she was Chairman of the UK Pension Protection Fund and the UK Atomic Energy Authority, Deputy Chairman of the UK Financial Reporting Council and a Commissioner of the United States Securities and Exchange Commission.

Janis Kong OBE

R A N

Non-executive Director

Skills and experience

Janis Kong has extensive experience in retail, consumer products and risk management.

Other appointments

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

Andrew Andrea

R A N

Non-executive Director

Skills and experience

Andrew Andrea was appointed on 20 June 2017 and is a qualified Chartered Accountant. He has a wealth of experience gained in financial and commercial roles across diverse businesses including brewing, hospitality and retailing.

Other appointments

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

Mick Knapper

Operations Director

Skills and experience

Mick Knapper was appointed to the Board on 1 March 2017 and is responsible for Portmeirion UK's sourcing, production, information systems, human resources and logistics functions. Mick has held several roles in IT and logistics since joining Portmeirion in 1998. He has been responsible for the Group's IT and logistics in the UK since 2009 and a member of the board of the Company's main operating subsidiary, Portmeirion Group UK Limited, since 2011.

Other appointments

None.

Mike Raybould

Group Finance Director

Skills and experience

Mike Raybould was appointed on 26 May 2017 and is responsible for all aspects of financial control and legal matters. He sits on all subsidiary boards. The Wax Lyrical home fragrance business reports into him. Mike is a qualified Chartered Accountant. He was previously the Chief Financial Officer of the Europe, Middle East and Africa (EMEA) Floorcare Division of Techtronic Industries Company Limited, a public company listed on The Stock Exchange of Hong Kong Limited.

Other appointments

None.

Moira MacDonald

Company Secretary

Skills and experience

Moira MacDonald was appointed on 1 March 2017 and is a Fellow of The Institute of Chartered Secretaries and Administrators. Moira held the position of Deputy Group Secretary since joining the Group in 2007, prior to which she was Assistant Company Secretary at Legal & General Group plc and at BPB plc.

Other appointments

None.

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 2016 (the "Code"). The Company has regard to the Code as best practice guidance; however, it has not sought to comply with the full Code.

The Board

The Company is controlled by the Board of Directors. The Board comprises four Executive and four 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. The Company's Articles of Association require that all Directors retire no later than at the third Annual General Meeting of the Company after the general meeting at which he/she was appointed or last reappointed.

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

Dick Steele, the Non-executive Chairman, is responsible for the running of the Board and Lawrence 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, the Chief Executive, the Group Finance Director, the other three Non-executive Directors or the Company Secretary. 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. The Board delegates day-to-day responsibility for managing the business to the Executive Directors and the senior management team.

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 2017:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Total meetings held[(1)]	**5**	**3**	**2**	**4**
Meetings attended				
R.J. Steele (Non-executive Chairman)	5	3	2	4
L. Bryan (Chief Executive)	5	3[(2)]	2[(2)]	4
A.A. Andrea (Non-executive) (appointed 20 June 2017)	2	2	—	—
P.E. Atherton (Group Sales and Marketing Director)	5	3[(2)]	n/a	n/a
Lady Judge (Non-executive)	5	3	2	4
M.J. Knapper (Operations Director) (appointed 1 March 2017)	4	3[(2)]	n/a	n/a
J. Kong (Non-executive)	4	3	1	4
M.T. Raybould (Group Finance Director) (appointed 26 May 2017)	2	2[(2)]	n/a	n/a
B.W.J. Phillips (Group Finance Director) (resigned 5 May 2017)	2	1[(2)]	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.

During the year the Board carried out an evaluation of its own performance, taking into account guidance included in 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, the Group Sales and Marketing Director and the Operations Director were appraised by the Chief Executive, who, in turn, was appraised by the Chairman.

The Company Secretary supports the Chairman in addressing the training and development needs of Directors.

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

The Board considers it appropriate that Dick Steele, with his experience and expertise in financial control and risk management, chairs the Audit Committee.

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.

Board of Directors

Audit Committee

The Audit Committee 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 oversees 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.

During 2017, the Committee considered the following significant issues, with management and the external auditors, in relation to the financial statements: internal controls, defined benefit pension scheme, goodwill and intangible assets, revenue and income recognition, stock valuation and inventory provisions.

Dick Steele (Chairman)
Andrew Andrea
Lady Barbara Judge
Janis Kong

Remuneration Committee

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

In framing its policy, the Remuneration Committee takes into account any factors which it deems necessary, including industry-standard executive remuneration, differentials between Executive Director and employee remuneration and differentials between Executive Directors.

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.

Dick Steele (Chairman)
Andrew Andrea
Lady Barbara Judge
Janis Kong

Nomination Committee

The Nomination Committee oversees the process and makes recommendations to the Board on all new Board appointments. Where new Board appointments are considered, the search for candidates is conducted, and appointments are made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender.

The Committee also considers the re-election of Directors retiring by rotation and succession planning.

Dick Steele (Chairman)
Andrew Andrea
Lady Barbara Judge
Janis Kong
Lawrence Bryan

Corporate Governance Statement *continued*

Risk management and internal control

The Board acknowledges that it is responsible for the Group's overall approach to risk management and internal control and for reviewing the effective application of risk management and internal control systems.

An ongoing process for identifying, evaluating and managing or mitigating the principal 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 principles in The Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, published in September 2014.

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

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 principal 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. These regular reviews allow the Board to re-evaluate the risks and adjust controls effectively in response to changes in attitude to risk, in our business or in the external environment. 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 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.

Auditors

Annually, the Audit Committee reviews the relationship the Company has with the external auditors including the scope of the audit work, the audit process, fees and audit independence. The last review, in November 2017, concluded that the Committee was satisfied with the effectiveness of the external audit. Mazars LLP have acted as the Company's auditors since 2009. The external auditors are required to rotate the audit partner responsible for the Company and subsidiary audits every five years and a new lead audit partner was appointed in 2014. Mazars LLP are recommended for reappointment as auditors at the AGM on 17 May 2018. Whilst the Code recommends that FTSE 350 companies should tender their external audit contract at least every ten years, this does not apply to the Company, which is AIM listed.

Non-audit services

The Audit Committee is responsible for keeping under review the nature and extent of non-audit services provided by the external auditors in order to ensure that objectivity and independence are maintained. For non-audit work, the policy is that the Group does not use the external auditors unless they have the necessary skills and experience to make them the most suitable supplier. There are appropriate safeguards in place to eliminate or reduce to an acceptable level any threat to the objectivity and independence of the external auditors in the provision of non-audit services. Fees paid to the auditors for non-audit services are disclosed in note 8 on page 65.

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.

Relations with shareholders

The Group encourages two-way communication 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 Chairman wrote to significant institutional shareholders in February 2018 offering a meeting to discuss corporate governance matters. 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, the 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 fair, balanced and understandable assessment of the Group's position and prospects. Details are given in the Strategic Report on pages 1 to 23.

Approval

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

Dick Steele

Non-executive Chairman

14 March 2018

Directors' Remuneration Report

This report is on the activities of the Remuneration Committee for the year ended 31 December 2017 and sets out the Remuneration Policy and remuneration details for the Executive and Non-executive Directors of the Company. As a company listed on the Alternative Investment Market (AIM), the Company is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the "Regulations"), nor is it required to comply with the principles relating to directors' remuneration in the UK Corporate Governance Code 2016 (the "Code"). This report has not been audited. This report, excluding the Remuneration Policy section, will be subject to an advisory shareholder vote at the Annual General Meeting (AGM) on 17 May 2018 at which approval of the financial statements will be sought.

Dear shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2017.

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

There have been no structural changes to the Remuneration Policy during 2017.

Performance of our Executive Directors is assessed against a range of financial and operational measures ensuring value is delivered to shareholders. Annual incentive payments are based on a demanding profit before tax and exceptional items target. The annual incentive paid to Executive Directors for the year ended 31 December 2017 is 30% of basic annual salary. Details of the Directors' shareholdings are given on page 39.

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

I welcome any comments from shareholders regarding Directors' remuneration.

Dick Steele

Chairman of the Remuneration Committee

14 March 2018

Remuneration Committee

The members of the Remuneration Committee during 2017 are set out on pages 24 and 25. The terms of reference of the Remuneration Committee are available at www.portmeiriongroup.com.

Dick Steele is Chairman of the Remuneration Committee and has been throughout 2017. The Board considers it appropriate that Dick Steele, with his experience in this area, chairs this Committee. Andrew Andrea joined the Committee on 20 June 2017 following his appointment to the Board. There have been no other changes in the composition of the Remuneration Committee during the year. None of the Committee have any personal financial interest (other than as shareholders), conflicts of interest arising from cross-directorships or day to day involvement in running the business. No Director plays a part in any discussion about his or her own remuneration.

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

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

During 2017, the Committee held two scheduled meetings. In addition, the Committee held meetings at other times throughout the year to deal with share option awards, exercises and other related matters.

Pinsent Masons LLP provided advice on the administration of the Company's share schemes in 2017. In determining the Directors' remuneration for the year, the Committee consulted Lawrence 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 improving business performance and shareholder returns. In determining the remuneration arrangements for Executive Directors the Committee is sensitive to pay and employment conditions elsewhere in the Group, especially when determining base salary increases.

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

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

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

Directors' Remuneration Report *continued*

Remuneration Policy *continued*

Key aspects of the Remuneration Policy for Executive Directors

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

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Base salary			
To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group.	Reviewed annually taking into account industry-standard executive remuneration and pay levels elsewhere within the Group.	Salaries for the year ended 31 December 2017 are set out on page 35. Changes in the scope or responsibilities of a Director's role may require an adjustment to salary levels above the normal level of increase.	None.
Benefits			
To provide market levels of benefits on a cost-effective basis.	Private health cover for the executive and their family, life insurance cover of four times salary, critical illness cover and a company car. Other benefits may be offered from time to time broadly in line with market practice.	Private healthcare benefits are provided through third party providers and therefore the cost to the Company and the value to the Director may vary from year to year. It is intended the maximum value of benefits offered will remain broadly in line with market practice.	None.
Pension			
Providing post-retirement benefits.	The Group operates defined contribution pension schemes.	Dependent on the value of the fund at retirement.	None.
Annual incentive			
Recognises achievement of annual objectives which support the short to medium-term strategy of the Group.	The performance targets are set by the Remuneration Committee at the start of the year with input, as appropriate, from the Chief Executive.	Maximum incentive potential is 100% of salary.	Based on achievement of a demanding profit before tax and exceptional items target.
Deferred Incentive Plan			
Incentivising and retaining Executive Directors whilst aligning their interests with those of shareholders through delivery and retention of shares.	Discretionary award over shares with a market value corresponding to a percentage of the gross annual incentive payment earned by the Executive Director in respect of the previous financial year.	Maximum award is 20% of the prior year's gross annual incentive payment. Shareholder approval is being sought at the AGM on 17 May 2018 to increase the maximum award to 50% of the prior year's gross annual incentive payment.	Options under the plan can only be granted to the extent performance targets relating to the annual incentive arrangements are met.
Executive Share Option Plans			
Setting value creation through share price growth as a major objective for Executive Directors and senior managers. Alignment of option holder interests with those of shareholders through delivery of shares.	Subject to earnings per share (EPS) performance measurement to reflect operational performance as EPS is a significant factor in determining the market's view of the Group's value.	The Portmeirion 2012 Approved Share Option Plan has a limit of £30,000 for any "approved" options in accordance with HMRC limits.	Growth in earnings per share targets as detailed on page 34.

Remuneration Policy *continued*

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

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

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Base fee			
To provide competitive fixed fees in order to procure and retain the appropriate skills required and expected time commitment.	Non-executive Director fees are reviewed on a periodic basis and are subject to the Articles of Association. The Board will exercise judgement in determining the extent to which Non-executive Director fees are altered in line with market practice and rates.	Fees for the year ended 31 December 2017 are set out on page 35. Increases above those awarded for the rest of the Group may be made to reflect the periodic nature of any review. Changes in the scope and responsibilities of a Director's role, or the time commitment required, may require an adjustment to the level of fees.	None.
Pension			
Providing post retirement benefits if the Non-executive Director does not opt out of the auto-enrolment process.	The Group operates defined contribution schemes.	Dependent on the value of the fund at retirement.	None.

Current service contracts and terms of engagement

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

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

	Date of contract	Notice period
P.E. Atherton	22.11.2012	12 months
L. Bryan	08.11.2002	12 months
M.J. Knapper (appointed 1 March 2017)	01.03.2017	12 months
M.T. Raybould (appointed 26 May 2017)	19.04.2017	12 months

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

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

The Directors proposed for election and re-election at the next Annual General Meeting on 17 May 2018 are set out in the Directors and their interests section of the Report of the Directors on pages 38 and 39.

Consideration of shareholders' views

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

Directors' Remuneration Report *continued*

Application of Remuneration Policy for the year ended 31 December 2017

Basic salary and benefits

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

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

Annual incentive payments

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

For the year ended 31 December 2017, the profit target was met and the Executive Directors achieved an incentive payment of 30% of basic annual salary.

Share options

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

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

Options granted in 2013, 2014 and 2017 can normally only be exercised if the increase in the average of the Group's basic adjusted (for changes in accounting standards and exceptional items) earnings per share for each of the three years beginning with the financial year in which the option was granted is at least 13% higher than that for the year before the option was granted.

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

There were no options granted during 2016.

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

Long-term incentive plan

The 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 2010 Deferred Incentive 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). As 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 Plan are not subject to the satisfaction of performance targets.

Following a review of the 2010 Deferred Incentive Plan, amendments are being proposed and shareholder approval sought, at the AGM on 17 May 2018, which include best practice provisions of malus and clawback as well as an increase in the award limit to a maximum of a market value not exceeding 50% of the gross incentive earned by the relevant employee in respect of the previous financial year.

Pensions

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

On 31 October 2002 the Portmeirion Potteries Pension Plan, a contracted-in money purchase occupational pension plan, closed. Brett Phillips was a member of the plan at that time and holds preserved benefits.

On 5 April 1999, the Group's defined benefit UK pension scheme was frozen, i.e. closed to new entrants and to future accrual. Brett Phillips was a member of the scheme at that time and holds preserved benefits. He became an active pensioner on 31 March 2014 and has received pension payments from that date. From 1 January 2017 until his resignation on 5 May 2017, Brett Phillips received a gross pension of £6,000.

Application of Remuneration Policy for the year ended 31 December 2017 *continued*

Non-executive Directors

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

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2017 £'000	2016 £'000
Emoluments	1,657	1,057
Long-term incentive plan (LTIP)	28	39
Gains made on exercise of share options	544	—
Money purchase pension contributions	84	59
	2,313	1,155

Directors' emoluments

	Salary and fees £'000	Taxable benefits[1] £'000	Incentive £'000	LTIP[2] £'000	Gains made on exercise of share options £'000	Pension contributions £'000	Total 2017 £'000	Total 2016 £'000
Executive								
P.E. Atherton	191	17	57	6	175	24	470	226
L. Bryan[3]	476	16	143	14	261	25	935	497
M.J. Knapper[4]	120	5	36	—	23	14	198	n/a
B.W.J. Phillips[5]	208	6	—	8	85	—	307	277
M.T. Raybould[6]	139	9	60	—	—	15	223	n/a
Non-executive								
A.A. Andrea[7]	17	—	—	—	—	—	17	n/a
Lady Judge	32	1	—	—	—	—	33	32
J. Kong	32	—	—	—	—	—	32	31
R.J. Steele	92	—	—	—	—	6	98	92
	1,307	54	296	28	544	84	2,313	1,155

Notes:

(1) The taxable benefits shown above for P.E. Atherton, M.J. Knapper, B.W.J. Phillips and M.T. Raybould arise from the provision of a company car, critical illness cover and private medical insurance. The taxable benefits for L. Bryan, who is resident in the US, arise from the provision of a company car and life assurance. A further £29,000 (2016: £26,000) in non-taxable benefits arise from the provision of disability, medical and dental insurance for L. Bryan. Non-executive taxable benefits relate to travel expenses.

(2) On 18 May 2017, L. Bryan, P.E. Atherton and B.W.J. Phillips exercised options granted in 2014 under the 2010 Deferred Incentive Plan. The mid-market closing price of the Company's shares on 18 May 2017 was 832.5p. The amounts in the table above include the value of the shares on exercise by reference to the mid-market closing price of the Company's shares on the day before exercise (832.5p) and the amount paid in accordance with the rules of the Plan such that after discharge of necessary taxes a net amount was left sufficient to pay the taxes due in respect of the exercise of the options. Further details on the exercises are shown under the long-term incentive schemes section of this report on page 37.

(3) L. Bryan is remunerated in US dollars and his remuneration is translated into sterling at the average exchange rate for the year. In 2017, this was $1.2885/£ (2016: $1.3548/£).

(4) M.J. Knapper was appointed to the Board on 1 March 2017. M.J. Knapper was an employee of Portmeirion Group UK Limited for all of 2017. Amounts disclosed above reflect salary, taxable benefits and pension contributions for all of 2017.

(5) B.W.J. Phillips resigned from the Board on 5 May 2017. Amounts disclosed above reflect salary, taxable benefits and pension contributions to 5 May 2017. Included within the amount for salary and fees is £112,000 in respect of a payment for loss of office.

(6) M.T. Raybould was appointed to the Board on 26 May 2017. M.T. Raybould was an employee of Portmeirion Group UK Limited from 19 April 2017. Amounts disclosed above reflect salary, taxable benefits and pension contributions from 19 April 2017.

(7) A.A. Andrea was appointed to the Board on 20 June 2017. Amounts disclosed above reflect fees, taxable benefits and pension contributions from 20 June 2017.

Directors' Remuneration Report *continued*

Application of Remuneration Policy for the year ended 31 December 2017 *continued*

Directors' share options and long-term incentives

Aggregate emoluments disclosed on page 35 do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors.

Executive Share Option Plans

The Company has two share option plans, the 2012 Approved Plan and the 2012 Unapproved Plan as described on page 34. Details of options held under these schemes by Directors who served during the year are as follows:

Director	At 01.01.2017	Number of options Granted	Exercised	Lapsed	At 31.12.2017	Exercise price (p)	Dates on which exercisable Earliest	Latest
P.E. Atherton	30,000	—	(30,000)	—	—	610.0	03.05.2016	01.05.2023
P.E. Atherton	30,000	—	(30,000)	—	—	740.0	01.05.2017	29.04.2024
P.E. Atherton	33,000	—	—	—	33,000	935.0	28.04.2018	26.04.2025
P.E. Atherton	—	25,000	—	—	25,000	960.0	12.08.2020	10.08.2027
L. Bryan	45,000	—	(45,000)	—	—	610.0	03.05.2016	01.05.2023
L. Bryan	45,000	—	(45,000)	—	—	740.0	01.05.2017	29.04.2024
L. Bryan	49,500	—	—	—	49,500	935.0	28.04.2018	26.04.2025
L. Bryan	—	40,000	—	—	40,000	960.0	12.08.2020	10.08.2027
M.J. Knapper	10,000	—	(10,000)	—	—	740.0	01.05.2017	29.04.2024
M.J. Knapper	11,000	—	—	—	11,000	935.0	28.04.2018	26.04.2025
M.J. Knapper	—	20,000	—	—	20,000	960.0	12.08.2020	10.08.2027
B.W.J. Phillips	30,000	—	(30,000)	—	—	610.0	03.05.2016	01.05.2023
B.W.J. Phillips	30,000	—	(30,000)	—	—	740.0	01.05.2017	29.04.2024
B.W.J. Phillips	33,000	—	—	(33,000)	—	935.0	28.04.2018	26.04.2025
M.T. Raybould	—	30,000	—	—	30,000	960.0	12.08.2020	10.08.2027

Notes:

(1) The performance criteria attaching to share options are detailed on page 34.

(2) The Company's share price reached a high of 997.50p and a low of 832.50p during 2017. The average share price during 2017 was 931.30p. The share price on 31 December 2017 was 925.00p.

(3) There have been no changes to the Directors' interests in the shares or options over shares of the Company between 31 December 2017 and 14 March 2018.

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

Director	Date of exercise	Number of options exercised	Total exercise price (p)	Market price on exercise per share (p)	Gains on exercise £'000	Total gains on exercise 2017 £'000	Total gains on exercise 2016 £'000
P.E. Atherton	08.08.17	30,000	610.0	965.0	107		
P.E. Atherton	08.08.17	30,000	740.0	965.0	68	175	—
L. Bryan	08.08.17	45,000	610.0	965.0	160		
L. Bryan	08.08.17	45,000	740.0	965.0	101	261	—
M.J. Knapper	08.08.17	10,000	740.0	965.0	23	23	—
B.W.J. Phillips	23.05.17	30,000	610.0	815.0	62		
B.W.J. Phillips	23.05.17	30,000	740.0	815.0	23	85	—

Application of Remuneration Policy for the year ended 31 December 2017 *continued*

Long-term incentive schemes

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

Director	At 01.01.2017	Number of options Granted	Number of options Exercised	Number of options Lapsed	At 31.12.2017	Dates on which exercisable Earliest	Dates on which exercisable Latest
P.E. Atherton	392	—	(392)	—	—	16.04.2017	14.07.2017
P.E. Atherton	1,102	—	—	—	1,102	22.04.2018	20.07.2018
P.E. Atherton	1,365	—	—	—	1,365	12.05.2019	10.08.2019
L. Bryan	833	—	(833)	—	—	16.04.2017	14.07.2017
L. Bryan	2,034	—	—	—	2,034	22.04.2018	20.07.2018
L. Bryan	2,860	—	—	—	2,860	12.05.2019	10.08.2019
B.W.J. Phillips	509	—	(509)	—	—	16.04.2017	14.07.2017
B.W.J. Phillips	1,321	—	—	(1,321)	—	22.04.2018	20.07.2018
B.W.J. Phillips	1,605	—	—	(1,605)	—	12.05.2019	10.08.2019

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.

Details of the options exercised under the 2010 Deferred Incentive Plan during the year are as follows:

Director	Date of exercise	Number of options exercised	Total exercise price (p)	Market price on exercise per share (p)	Gains on exercise £'000	Total gains on exercise 2017 £'000	Total gains on exercise 2016 £'000
P.E. Atherton	18.05.2017	392	100.00	832.5	3	3	—
L. Bryan	18.05.2017	833	100.00	832.5	7	7	25
B.W.J. Phillips	18.05.2017	509	100.00	832.5	4	4	14

Consultations with shareholders and statement of voting at general meeting

At the Annual General Meeting of the Company held on 25 May 2017, a resolution to approve the Directors' Remuneration Report for the year ended 31 December 2016 was passed with 6,277,150 proxy votes lodged, of which 99.93% were in favour, 0.01% gave discretion and 0.06% voted against.

In February 2018, the Chairman wrote to major shareholders in the company offering a meeting to discuss corporate governance matters and the proposed amendments to the 2010 Deferred Incentive Plan as referred to on page 34. The Chairman is in contact with all institutional and other significant shareholders.

Approval

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

Dick Steele

Chairman of the Remuneration Committee

14 March 2018

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 2017. The Corporate Governance Statement set out on pages 26 to 29 forms part of this report.

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

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Report of the Directors have been omitted as they are included in the Strategic Report on pages 1 to 23. These matters relate to a full review of the performance of the Group for the year, current trading and future outlook.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 32 on pages 82 to 84. This note also includes information on financial risk management objectives and policies, including the policy for hedging and an assessment of the Group's exposure to financial risk.

Dividends

On 2 October 2017 an interim dividend of 7.40p (2016: 7.00p) per share was paid on the ordinary share capital. The Directors recommend that a final dividend of 27.26p per share be paid (2016: 25.25p), making a total dividend for the year of 34.66p (2016: 32.25p) per share. The final dividend will be paid, subject to shareholders' approval, on 30 May 2018 to shareholders on the register at the close of business on 27 April 2018.

Research and development

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

Directors and their interests

The Directors of the Company are listed on pages 24 and 25 together with biographical and Committee membership details. Mick Knapper joined the Board on 1 March 2017, Mike Raybould on 26 May 2017 and Andrew Andrea on 20 June 2017; all other Directors have served throughout the year.

In accordance with our commitment to good corporate governance practice that is relevant to our business, the Board has voluntarily adopted the policy that in normal circumstances all continuing Directors stand for re-election on an annual basis in line with the recommendations of the UK Corporate Governance Code 2016. Phil Atherton, Lawrence Bryan, Lady Barbara Judge, Janis Kong, Mick Knapper and Dick Steele will therefore retire at the Annual General Meeting to be held on 17 May 2018 and, all apart from Lady Barbara Judge, are offering themselves for re-election. In addition, Andrew Andrea and Mike Raybould are being proposed for election, as they joined the Board since the last Annual General Meeting. The Board has formally reviewed the performance of each continuing Director and concluded that they remain effective and are committed to their roles at Portmeirion Group PLC.

Further details on the composition of the Board and appointment of Directors are given in the Corporate Governance Statement on pages 26 to 29.

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 26 to 29.

The Directors who held office at 31 December 2017 had the following beneficial interests in the share capital of the Company:

	At 31 December 2017 5p ordinary shares Beneficial	At 31 December 2016 5p ordinary shares Beneficial
A.A. Andrea (appointed 20 June 2017)	—	n/a
P.E. Atherton	10,549	—
L. Bryan	143,667	142,834
Lady Judge	5,000	5,000
M.J. Knapper (appointed 1 March 2017)	1,337	n/a
J. Kong	5,000	5,000
M.T. Raybould (appointed 26 May 2017)	—	n/a
R.J. Steele	27,000	27,000

Directors' share interests include the interests of their spouses, civil partners and infant children or stepchildren as required by section 822 of the Companies Act 2006. There were no changes in the beneficial interests of the Directors in the Company's shares between 31 December 2017 and 14 March 2018.

Details of Directors' share options are provided in the Directors' Remuneration Report on pages 36 and 37.

Details of transactions with Directors and other related parties are to be found in note 30 on page 77.

Directors' indemnities

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

Capital structure

Details of the share capital in issue, together with details of the movements in the Company's issued share capital during the year, are shown in note 25 on page 75. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

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

Details of employee share schemes are set out in notes 25 and 33 on page 75 and pages 85 to 86. Shares held by the Portmeirion Employees' Share Trust abstain from voting.

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

Substantial shareholdings

On 31 December 2017 the Company had been notified, in accordance with chapter 5 of the Disclosure Guidance and Transparency Rules, of the following beneficial interests in 3% or more of its issued share capital excluding treasury shares:

	Percentage of voting rights and issued share capital(1)	Number of ordinary shares
Trustees of Caroline Fulbright Settlement(3)	16.52%	1,792,272
Investec Wealth & Investment Limited(3)	12.90%	1,399,867
Ymddiriedolaeth Clough Williams-Ellis Foundation(3)	6.12%	664,612
Canaccord Genuity Group Inc	5.97%	647,918
Shahrzad Farhadi	5.83%	632,333
Kamrouz Farhadi	5.19%	562,917

Notes:

(1) The percentages are of the total shares in issue, excluding treasury shares (10,852,361).

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

(3) Shareholding held indirectly through a nominee.

During the period between 31 December 2017 and 14 March 2018, the Company did not receive any notifications under chapter 5 of the Disclosure Guidance and Transparency Rules.

Report of the Directors *continued*

Annual General Meeting

The Annual General Meeting will be held at the registered office of the Company at London Road, Stoke-on-Trent, on 17 May 2018 at 12:00 noon (the "2018 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 2018 AGM, the following resolutions will be proposed together with the resolution described below regarding market purchases of the Company's shares:

- Authority to allot shares - under section 551 of the Companies Act 2006, the directors of a company may only allot shares or grant any rights to subscribe for or to convert any security into shares in the company if authorised to do so by shareholders. At the Annual General Meeting of the Company held on 25 May 2017, as in previous years, the Directors were given authority to allot shares and grant such rights. This authority is due to expire at the conclusion of the 2018 AGM, and the Directors propose to renew it. Share capital management guidelines published by the Investment Association confirm that the Association's members will regard as routine an authority to allot up to two-thirds of a company's existing issued share capital (excluding treasury shares), provided that any amount in excess of one-third of the existing issued shares can be applied only to fully pre-emptive rights issues. In light of these guidelines, which the Board consider represent best practice, this authority (if approved by shareholders) will allow the Directors to allot new shares or to grant rights to subscribe for, or to convert any security into, shares in the Company up to an aggregate nominal value of £361,744, approximately equal to two-thirds of the issued share capital excluding treasury shares as at 14 March 2018. Of this amount, £180,872 (representing approximately one-third of the Company's issued ordinary share capital excluding treasury shares as at 14 March 2018) can only be allotted pursuant to fully pre-emptive rights issues. The authority will last until the conclusion of the Company's next Annual General Meeting in 2019 or, if earlier, until 30 June 2019. The Directors have no current intention of exercising this authority except in relation to the allotment of shares under share option schemes. However, the Directors consider it appropriate to maintain the flexibility that this authority will provide to be in a position to respond to market developments and to enable allotments to take place to finance business opportunities should they arise.

- Disapplication of pre-emption rights – if equity securities are to be allotted for cash, section 561(1) of the Companies Act 2006 requires that those equity securities are offered first to existing shareholders in proportion to the number held by them at the time of the offer and otherwise in compliance with the technical requirements of that Act. Those pre-emption provisions also apply to the sale of treasury shares by the Company. However, it may be in the interests of the Company for the Directors to allot shares and/or sell treasury shares other than to shareholders in proportion to their existing holdings or otherwise than strictly in compliance with those requirements. This resolution would allow the Directors, pursuant to section 570 and section 573 of the Companies Act 2006, to allot shares and to sell treasury shares for cash without first offering them to shareholders in accordance with that Act. The authority is limited to the issue of equity securities and/or sale of treasury shares for cash up to a maximum nominal amount of £54,261, which is approximately equal to 10% of the present issued share capital excluding treasury shares as at 14 March 2018, and allotments of equity securities and/or sale of treasury shares in connection with a rights issue or other in proportion offer to shareholders.

- Amendments to The Portmeirion Group 2010 Deferred Incentive Share Option Plan – shareholder approval is being sought to make certain amendments to the Plan to increase the limit on the value of options that may be granted to an employee in respect of a financial year, from 20% of the gross value of the prior year's annual incentive payment, to 50% and to add in malus, clawback and holding period provisions as set out in the Notice of the 2018 AGM.

Acquisition of the Company's own shares

The Company did not purchase any of its own shares during the year. The Company holds 237,743 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 25 May 2017, to purchase through the market 1,076,555 of the Company's ordinary shares. This authority expires on 30 June 2018.

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 15 of the 2018 AGM seeks authority from members to allow the Company to make market purchases, subject to the restrictions set out in the Notice of the 2018 AGM, and in particular to the maximum number of ordinary shares that may be purchased being 1,085,236, approximately equal to 10% of the present issued share capital of the Company excluding treasury shares as at 14 March 2018. 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.

The Portmeirion Employees' Share Trust (the "Trust") facilitates the acquisition and holding of shares in the Company by and for the benefit of the employees of the Group. The shares are held in the Trust to provide for awards under employee share option schemes. During 2017, 157,671 were transferred from the Trust to senior employees of the Group on the exercise of share options. The Trust purchased 3,540 shares during 2017. The Trust holds a total of 152,917 shares representing approximately 1.41% of the issued share capital of the Company excluding treasury shares as at 14 March 2018.

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 2017, to complement these discussions, the Group has continued communicating information from Board level to all employees on a regular basis via a programme of team briefings and by use of the Company's intranet and notice boards.

Share option and profit related incentive schemes are operated to encourage the involvement of more senior employees in the Group's performance. The Group's UK operating subsidiaries are both Investors in People and Portmeirion UK has received the Investment in Young People award. The Directors are committed to the continuing development of the Group's employees through the principles of Investors in People. Details of staff numbers and costs are set out in note 7 on pages 64 and 65.

Political contributions

There were no political contributions during the year.

Auditors

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

1. so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
2. the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

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

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

Moira MacDonald
Company Secretary
14 March 2018

Statement of Directors' Responsibilities

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

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

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

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

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

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

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

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

Independent Auditor’s Report

to the members of Portmeirion Group PLC

Opinion

We have audited the financial statements of Portmeirion Group PLC (the "parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated and Company statements of changes in equity, the consolidated and Company statements of cash flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group’s and of the parent Company’s affairs as at 31 December 2017 and of the Group’s profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Use of the audit report

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

Conclusions relating to going concern

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

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

Key audit matters

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

Independent Auditor's Report *continued*

to the members of Portmeirion Group PLC

Key audit matters *continued*

Key Audit Matter	How we responded to this risk
Revenue recognition For Portmeirion Group PLC we see the risk of misstatement or fraud in revenue recognition as being principally in relation to cut-off. We see the cut-off risk being specifically applicable to three scenarios within the Group. **Revenue recognition for export sales.** There is a risk that export sales close to the year end could be accounted for incorrectly. There is a risk that revenue is recognised prior to the transfer of the risks and rewards of the stock involved. **Provisions for goods sold on sale or return.** There is a risk that the provision required for sales which could potentially be returned is materially misstated. **Provision for rebates.** There is a risk that the provision in place for rebates is underestimated.	**Our audit work included but not limited to:** • reviewing the key elements underpinning the trigger points to recognise revenue; • focusing on export sales made in December and ensuring the cut-off between sales and stock movements is reflective of the year end position; • reviewing management estimates for returns provisions. Our review included a comparison to historical rate of returns, any correspondence with clients and actual returns post year end to the date of audit sign off; and • reviewing management estimates for rebate provisions. We agreed a sample of these to post year end payments and credit notes where possible. Our work also included a review on historical accuracy of provisions and any correspondence with clients.
Inventory provision Appropriate provisioning in respect of inventory is a key issue for the business. There is a risk that the inventory provision is materially misstated and that stock is not being held at the lower of cost and net realisable value.	**Our audit work included but not limited to:** • reviewing in detail the assessments made by management including the application of consistency of approach with the prior year, and any significant trends or events occurring in the year that could have an impact on the level of provision required; • reviewing slow-moving stock lines as well as any aged / old pattern items to validate the adequacy of the provision made against these; and • sample testing a number of stock items to sales invoices post year end to validate that stock is held at the lower of cost and net realisable value.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements on the financial statements and our audit. Materiality is used so we can plan and perform our audit to obtain reasonable, rather than absolute assurance about whether the financial statements are free from material misstatement. The level of materiality we set is based on our assessment of the magnitude of misstatements that individually or in aggregate, could reasonably be expected to have influence on the economic decisions the users of the financial statements may take based on the information included in the financial statements. Based on our professional judgement the level of overall materiality we set for the financial statements is outlined below:

Overall Group materiality:	£661,000
Benchmark applied:	This has been calculated with reference to the group's profit before tax, of which it represents approximately 7.5%.
Basis for chosen benchmark:	Profit before tax has been identified as the principal benchmark within the financial statements as it is considered to be the focus of the shareholders. 7.5% has been chosen to reflect the level of understanding of the stakeholders of the Group in relation to the inherent uncertainties around accounting estimates and judgements.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was £496,000 which is approximately 75% of overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £20,000 as well as any misstatements below that amount that, in our opinion, warranted reporting for qualitative reasons.

For each component in the scope of the Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £4,000 and £385,000.

An overview of the scope of our audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether accounting policies are appropriate to the Group's and parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently incorrect, based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatement or inconsistencies we consider the implications for our report.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on this assessment, we focused our Group audit scope primarily on the largest trading subsidiaries being Portmeirion Group UK Limited, Portmeirion Group USA, Inc. and Wax Lyrical Limited.

The locations subject to full audit procedures represent the principal business units and account for 94% of the Group's net assets, 99% of the Group's revenue and 96% of the Group's adjusted profit before tax.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Independent Auditor’s Report *continued*

to the members of Portmeirion Group PLC

Responsibilities of Directors

As explained more fully in the Statement of Directors’ Responsibilities set out on page 42, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor’s responsibilities for the audit of the financial statements

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

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

Steph Eames

Stephen Eames

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

14 March 2018

Consolidated Income Statement

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Revenue	4,5	84,769	76,677
Operating costs	6	(75,687)	(68,713)
Operating profit		9,082	7,964
Interest income	9	17	31
Finance costs	10	(487)	(387)
Share of profit of associated undertakings		210	198
Profit before tax		8,822	7,806
Tax	11	(1,944)	(1,581)
Profit for the year attributable to equity holders		6,878	6,225
Earnings per share	13	65.07p	59.60p
Diluted earnings per share	13	64.79p	59.10p
Dividends paid and proposed per share	12	34.66p	32.25p

All the above figures relate to continuing operations.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Profit for the year		6,878	6,225
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit pension scheme liability	31	4,428	(5,357)
Deferred tax relating to items that will not be reclassified subsequently to profit or loss	24	(753)	815
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(767)	1,293
Deferred tax relating to items that may be reclassified subsequently to profit or loss	24	(57)	193
Other comprehensive income for the year		2,851	(3,056)
Total comprehensive income for the year attributable to equity holders		9,729	3,169

Consolidated Balance Sheet

31 December 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Goodwill	14	7,229	7,229
Intangible assets	15	6,058	6,566
Property, plant and equipment	16	10,149	10,617
Interests in associates	17	2,525	2,313
Deferred tax asset	24	340	1,475
Total non-current assets		26,301	28,200
Current assets			
Inventories	19	18,074	16,267
Trade and other receivables	20	12,431	12,485
Cash and cash equivalents	21	8,487	6,540
Total current assets		38,992	35,292
Total assets		65,293	63,492
Current liabilities			
Trade and other payables	22	(10,556)	(8,738)
Current income tax liabilities		(475)	(1,005)
Borrowings	27	(1,981)	(1,961)
Total current liabilities		(13,012)	(11,704)
Non-current liabilities			
Pension scheme deficit	31	(1,672)	(7,130)
Deferred tax liability	24	(882)	(961)
Borrowings	27	(4,955)	(6,909)
Total non-current liabilities		(7,509)	(15,000)
Total liabilities		(20,521)	(26,704)
Net assets		44,772	36,788
Equity			
Called up share capital	25	554	550
Share premium account		7,193	6,624
Investment in own shares	26	(1,876)	(2,936)
Share-based payment reserve		550	496
Translation reserve		2,076	2,900
Retained earnings		36,275	29,154
Total equity		44,772	36,788

These financial statements were approved by the Board of Directors and authorised for issue on 14 March 2018.

They were signed on its behalf by:

L. Bryan
Director

M. Raybould
Director

Company Balance Sheet

31 December 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Investment in subsidiaries	18	12,366	12,366
Total non-current assets		12,366	12,366
Current assets			
Trade and other receivables	20	3,986	2,244
Cash and cash equivalents		—	—
Total current assets		3,986	2,244
Total assets		16,352	14,610
Current liabilities			
Current income tax liabilities		—	—
Total current liabilities		—	—
Total liabilities		—	—
Net assets		16,352	14,610
Equity			
Called up share capital	25	554	550
Share premium account		7,193	6,624
Other reserves		197	197
Investment in own shares	26	(1,876)	(2,936)
Share-based payment reserve		550	496
Retained earnings		9,734	9,679
Total equity		16,352	14,610

The Company reported a profit for the financial year ended 31 December 2017 of £3,483,000 (2016: £4,390,000).

The financial statements of Portmeirion Group PLC, company registration number 124842, were approved by the Board of Directors and authorised for issue on 14 March 2018.

They were signed on its behalf by:

L. Bryan
Director

M. Raybould
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital £'000	Share premium account £'000	Investment in own shares £'000	Share-based payment reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	550	6,612	(3,137)	370	1,414	30,713	36,522
Profit for the year	—	—	—	—	—	6,225	6,225
Other comprehensive income for the year	—	—	—	—	1,486	(4,542)	(3,056)
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**1,486**	**1,683**	**3,169**
Dividends paid	—	—	—	—	—	(3,217)	(3,217)
Increase in share-based payment reserve	—	—	—	144	—	—	144
Transfer on exercise or lapse of options	—	—	—	(18)	—	18	—
Shares issued under employee share schemes	—	12	201	—	—	(6)	207
Deferred tax on share-based payment	—	—	—	—	—	(37)	(37)
At 1 January 2017	**550**	**6,624**	**(2,936)**	**496**	**2,900**	**29,154**	**36,788**
Profit for the year	—	—	—	—	—	6,878	6,878
Other comprehensive income for the year	—	—	—	—	(824)	3,675	2,851
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**(824)**	**10,553**	**9,729**
Dividends paid	—	—	—	—	—	(3,433)	(3,433)
Increase in share-based payment reserve	—	—	—	66	—	—	66
Transfer on exercise or lapse of options	—	—	—	(12)	—	12	—
Shares issued under employee share schemes	4	569	1,094	—	—	(7)	1,660
Purchase of own shares	—	—	(34)	—	—	—	(34)
Deferred tax on share-based payment	—	—	—	—	—	(4)	(4)
At 31 December 2017	**554**	**7,193**	**(1,876)**	**550**	**2,076**	**36,275**	**44,772**

Company Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital £'000	Share premium account £'000	Other reserves £'000	Investment in own shares £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	550	6,612	197	(3,137)	370	8,494	13,086
Profit for the year	—	—	—	—	—	4,390	4,390
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**4,390**	**4,390**
Dividends paid	—	—	—	—	—	(3,217)	(3,217)
Increase in share-based payment reserve	—	—	—	—	144	—	144
Transfer on exercise or lapse of options	—	—	—	—	(18)	18	—
Shares issued under employee share schemes	—	12	—	201	—	(6)	207
At 1 January 2017	**550**	**6,624**	**197**	**(2,936)**	**496**	**9,679**	**14,610**
Profit for the year	—	—	—	—	—	3,483	3,483
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**3,483**	**3,483**
Dividends paid	—	—	—	—	—	(3,433)	(3,433)
Increase in share-based payment reserve	—	—	—	—	66	—	66
Transfer on exercise or lapse of options	—	—	—	—	(12)	12	—
Shares issued under employee share schemes	4	569	—	1,094	—	(7)	1,660
Purchase of own shares	—	—	—	(34)	—	—	(34)
At 31 December 2017	**554**	**7,193**	**197**	**(1,876)**	**550**	**9,734**	**16,352**

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Operating profit		9,082	7,964
Adjustments for:			
Depreciation of property, plant and equipment	16	1,329	1,328
Amortisation of intangible assets	15	588	454
Charge for share-based payments	33	66	144
Exchange (loss)/gain		(168)	205
Profit on sale of tangible fixed assets		(17)	(2)
Operating cash flows before movements in working capital		10,880	10,093
Increase in inventories		(2,243)	(342)
Increase in receivables		(193)	(709)
Increase in payables		1,992	1,096
Cash generated from operations		10,436	10,138
Contributions to defined benefit pension scheme	31	(1,200)	(1,400)
Interest paid		(247)	(233)
Income taxes paid		(2,246)	(1,620)
Net cash from operating activities		6,743	6,885
Investing activities			
Interest received		17	31
Proceeds on disposal of property, plant and equipment		47	34
Purchase of property, plant and equipment	16	(938)	(744)
Purchase of intangible assets	15	(80)	(20)
Acquisition of subsidiary		—	(16,669)
Net cash outflow from investing activities		(954)	(17,368)
Financing activities			
Equity dividends paid	12	(3,433)	(3,217)
Shares issued under employee share schemes		1,660	207
Purchase of own shares		(34)	—
New bank loans raised	27	3,000	16,844
Repayments of borrowings	27	(5,000)	(8,000)
Net cash (outflow)/inflow from financing activities		(3,807)	5,834
Net increase/(decrease) in cash and cash equivalents		1,982	(4,649)
Cash and cash equivalents at beginning of year		6,540	11,130
Effect of foreign exchange rate changes		(35)	59
Cash and cash equivalents at end of year		8,487	6,540

Company Statement of Cash Flows

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Operating profit		3,483	4,390
Adjustments for:			
Charge for share-based payments	33	66	144
Operating cash flows before movements in working capital		3,549	4,534
Increase in receivables		(1,742)	(1,523)
Cash generated from operations		1,807	3,011
Income taxes paid		—	(13)
Net cash from operating activities		1,807	2,998
Financing activities			
Equity dividends paid	12	(3,433)	(3,217)
Shares issued under employee share schemes		1,660	207
Purchase of own shares		(34)	—
Net cash outflow from financing activities		(1,807)	(3,010)
Net decrease in cash and cash equivalents		—	(12)
Cash and cash equivalents at beginning of year		—	12
Cash and cash equivalents at end of year		—	—

Notes to the Financial Statements

1. Basis of preparation

Portmeirion Group PLC is a company incorporated in England and Wales. The address of the registered office is given on page 88. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 23. These accounts have been prepared in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards (IFRS)) and the Companies Act 2006 applicable to companies reporting under IFRS.

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

The going concern basis has been considered in the Strategic Report on page 20.

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

In the current year, the Group has applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on 1 January 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

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

	EU effective date periods beginning on or after
IAS 7 (amendment) 'Statement of Cash Flows' – Disclosure initiative	1 January 2017
IAS 12 (amendment) 'Income Taxes' – Recognition of deferred tax assets for unrealised losses	1 January 2017
Annual Improvements to IFRS (2014–2016) – Amendments to IFRS 12	1 January 2017

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

	EU effective date periods beginning on or after
IFRS 9 'Financial Instruments'	1 January 2018
IFRS 15 'Revenue from Contracts with Customers' (and the related Clarifications)	1 January 2018
IFRS 16 'Leases'	1 January 2019
IFRS 17 'Insurance Contracts'	Not yet endorsed by the EU
IFRS 2 (amendment) 'Share-based Payment' – Classification and measurement of share-based payment transactions	1 January 2018
IFRS 4 (amendment) 'Insurance Contracts' – Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	1 January 2018
IAS 40 (amendment) 'Investment Property' – Transfers of investment property	1 January 2018
Annual Improvements to IFRS (2014–2016) – Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IFRS 28 'Investments in Associates and Joint Ventures'	1 January 2018
IFRIC 22 'Foreign Currency Transactions and Advanced Consideration'	1 January 2018
IFRIC 23 'Uncertainty over Income Tax Treatments'	1 January 2019

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

IFRS 16 distinguishes leases on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases except for short-term leases and leases of low value assets.

Notes to the Financial Statements *continued*

1. Basis of preparation *continued*

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected because operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of £8,714,000 (2016: £5,594,000). IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the potential impact is currently being assessed. It is not practicable to provide a reasonable estimate of the financial effect until this review is complete.

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 2017.

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

2.1 Basis of consolidation

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

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

All accounts for subsidiaries and associated undertakings have been prepared for the year ended 31 December 2017 except for the accounts of Portmeirion Canada Inc. which have a year end of 30 June 2017. The Group accounts include interim financial information to 31 December 2017 for Portmeirion Canada Inc.

2.2 Investments

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

2.3 Investment in associated undertakings ("associates")

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

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost 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.

2.4 Revenue recognition

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

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

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.

2. Significant accounting policies *continued*

2.4 Revenue recognition *continued*

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

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

2.5 Leases

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

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

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

2.6 Foreign currencies

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

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

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

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

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

2.7 Operating profit

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

2.8 Group pension schemes

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

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

Past service costs are recognised 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.

2.9 Taxation

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

Current tax

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

Notes to the Financial Statements *continued*

2. Significant accounting policies *continued*

2.9 Taxation *continued*

Deferred tax

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

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

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

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

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

2.10 Property, plant and equipment

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

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

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

2.11 Intangible assets

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

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

2.12 Impairment of tangible assets, intangible assets and goodwill

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

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

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

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

2. Significant accounting policies *continued*

2.12 Impairment of tangible assets, intangible assets and goodwill *continued*

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

2.13 Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

2.14 Inventories

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

2.15 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 assessed and can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

Notes to the Financial Statements *continued*

2. Significant accounting policies *continued*

2.15 Research and development *continued*

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Amortisation is recognised on a straight-line basis over their estimated useful lives.

2.16 Equity

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

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

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

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

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

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

2.17 Financial instruments

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

Derivative financial instruments

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

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

Receivables

Trade receivables and other receivables 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. Discounting is omitted where the effect of discounting is immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Cash and cash equivalents

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

2. Significant accounting policies *continued*

2.17 Financial instruments *continued*

Financial liabilities and equity

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

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

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

2.18 Share-based payments

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the Group's accounting policies

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

Revenue recognition

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

Provision is made for goods sold on a sale on return basis. In making this judgement, management have considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 'Revenue', and made a best estimate of the anticipated returns from customers.

Impairment of inventory

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

Defined benefit pension scheme

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

Notes to the Financial Statements *continued*

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

Critical judgements in applying the Group's accounting policies *continued*

Intangible assets and goodwill

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

4. Revenue

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

Continuing operations	2017 £'000	2016 £'000
Sale of goods	84,500	76,467
Royalties	269	210
	84,769	76,677

5. Segmental analysis

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

	2017			2016		
Revenue by origin	Total sales £'000	Inter-segment sales £'000	Sales to third parties £'000	Total sales £'000	Inter-segment sales £'000	Sales to third parties £'000
Portmeirion UK – ceramic	48,637	(2,491)	46,146	46,146	(3,835)	42,311
Portmeirion USA – ceramic	24,700	—	24,700	23,818	—	23,818
Home fragrance	13,923	—	13,923	10,548	—	10,548
	87,260	(2,491)	84,769	80,512	(3,835)	76,677

Included in revenues arising from the United Kingdom are revenues of £6,604,000 (2016: £9,724,000) which arose from sales to the Group's largest customer in South Korea.

Inter-segment sales are charged at prevailing market prices.

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

Revenue	2017 £'000	2016 £'000
United Kingdom	28,836	27,084
United States	25,156	24,216
South Korea	6,604	9,724
Rest of the World	24,173	15,653
	84,769	76,677

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

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

5. Segmental analysis *continued*

Operating profit by origin	2017 £'000	2016 £'000
Portmeirion UK – ceramic	6,419	5,307
Portmeirion USA – ceramic	1,196	1,202
Home fragrance	1,467	1,455
Operating profit	9,082	7,964
Unallocated items:		
Share of profit of associated undertakings	210	198
Interest income	17	31
Finance costs	(487)	(387)
Profit before tax	8,822	7,806
Tax	(1,944)	(1,581)
Profit after tax	6,878	6,225

	2017				2016			
Other information	Portmeirion UK ceramic £'000	Portmeirion USA ceramic £'000	Home fragrance £'000	Consolidated £'000	Portmeirion UK ceramic £'000	Portmeirion USA ceramic £'000	Home fragrance £'000	Consolidated £'000
Capital additions	741	69	208	1,018	411	160	193	764
Depreciation and amortisation	1,014	183	720	1,917	1,092	179	511	1,782
Balance sheet:								
Assets								
Non-current segment assets	9,298	502	13,976	23,776	10,885	668	14,333	25,886
Other segment assets	21,849	8,412	8,280	38,541	19,332	8,168	7,356	34,856
Total segment assets	31,147	8,914	22,256	62,317	30,217	8,836	21,689	60,742
Interests in associates				2,525				2,313
Other assets				451				437
Consolidated total assets				65,293				63,492
Liabilities								
Segment liabilities	15,155	1,910	3,443	20,508	21,675	1,694	3,315	26,684
Other liabilities				13				20
Consolidated total liabilities				20,521				26,704

All non-current segment assets relate to the UK business other than £474,000 (2016: £643,000) which relate to the USA business segment.

Reconciliation of earnings before interest, tax, depreciation and amortisation (EBITDA)	2017 £'000	2016 £'000
Operating profit	9,082	7,964
Add back:		
Depreciation	1,329	1,328
Amortisation	588	454
Earnings before interest, tax, depreciation and amortisation	10,999	9,746

Notes to the Financial Statements *continued*

6. Operating costs

	2017 £'000	2016 £'000
Cost of inventories recognised as an expense	37,655	31,581
Movement on inventory impairment provision	(116)	723
Other external charges	13,214	12,920
Staff costs (note 7)	22,676	21,491
Depreciation of property, plant and equipment	1,329	1,328
Amortisation of intangible assets	588	454
Impairment of trade receivables	67	49
Cost of research and development	194	265
Net foreign exchange losses/(gains)	80	(98)
	75,687	68,713

7. Staff numbers and costs

	2017 Number	2016 Number
The average number of persons employed during the year, including Directors:		
Operatives	463	483
Salaried employees	320	289
	783	772

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

	2017 £'000	2016 £'000
Staff costs		
Wages and salaries	19,123	18,182
Social security costs	1,703	1,526
Other pension costs	1,304	1,228
Non-monetary benefits	546	555
	22,676	21,491

	2017 £'000	2016 £'000
Directors' emoluments:		
Salary and fees, taxable benefits and incentive	1,657	1,057
Gains made on exercise of share options	544	—
Long-term incentive plan	28	39
Pension contributions	84	59
	2,313	1,155

	2017 Number	2016 Number
Number of Directors who were members of a defined contribution pension scheme during the year	5	4
Number of Directors who exercised options over shares in the ultimate parent company	4	2

7. Staff numbers and costs *continued*

	2017 £'000	2016 £'000
Remuneration of the highest paid Director:		
Salary and fees, taxable benefits and incentive	635	450
Gains made on exercise of share options	261	—
Long-term incentive plan	14	25
Pension contributions	25	22
	935	497

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

8. Auditors' remuneration

	2017 £'000	2016 £'000
Fees payable to the Group's auditors for the audit of the Group's annual accounts	53	51
Other audit related services – interim review	6	8
The audit of the Company's subsidiaries	13	13
Total audit related fees	72	72
Fees payable to the Group's auditors and their associates for other services to the Group		
Other taxation advisory services	14	2
Other services	1	5
Total non-audit fees	15	7
Fees payable to the Group's auditors and their associates in respect of associated pension schemes		
Audit of the Portmeirion Potteries Limited Retirement Benefits Scheme	5	5
	5	5

The audit fee for the Company was £1,600 (2016: £1,600).

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

9. Interest income

	2017 £'000	2016 £'000
Bank deposits	17	31

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

10. Finance costs

	2017 £'000	2016 £'000
Interest paid	313	281
Realised losses on financial derivatives	4	8
Unrealised losses on financial derivatives	—	10
Net interest expense on pension scheme deficit (note 31)	170	88
	487	387

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

Notes to the Financial Statements *continued*

11. Taxation on profit on ordinary activities

	2017 £'000	2016 £'000
Current taxation		
United Kingdom corporation tax at 19.25% (2016: 20%)	1,222	1,149
Overseas taxation	480	483
	1,702	1,632
Deferred taxation		
Origination and reversal of temporary differences	67	(209)
Pension scheme	175	158
	242	(51)
	1,944	1,581

United Kingdom corporation tax is calculated at 19.25% (2016: 20%) 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:

	2017 £'000	2016 £'000
Profit on ordinary activities before taxation	8,822	7,806
Tax on profit on ordinary activities at standard rate of 19.25% (2016: 20%)	1,698	1,561
Factors affecting charge for the year:		
Expenses not deductible for tax purposes and other adjustments	47	(209)
Foreign tax charged at higher rates than UK standard rate	239	269
Differences relating to associates' tax charge	(40)	(40)
Total tax on profit on ordinary activities	1,944	1,581

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

12. Dividends paid

	2017 £'000	2016 £'000
Final dividend of 25.25p per share paid in respect of the year ended 31 December 2016 (2016: final dividend of 23.90p per share paid in respect of the year ended 31 December 2015)	2,641	2,491
Interim dividend of 7.40p per share paid in respect of the year ended 31 December 2017 (2016: interim dividend of 7.00p per share paid in respect of the year ended 31 December 2016)	792	732
Unclaimed dividends written back	—	(6)
Total dividends paid in the year	3,433	3,217

The Directors recommend that a final dividend for 2017 of 27.26p (2016: 25.25p) per ordinary share be paid, making a total for the year of 34.66p (2016: 32.25p) per share. The final dividend will be paid, subject to shareholders' approval, on 30 May 2018, to shareholders on the register at the close of business on 27 April 2018. 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:

	2017			2016		
	Earnings £'000	Weighted average number of shares	Earnings per share (p)	Earnings £'000	Weighted average number of shares	Earnings per share (p)
Basic earnings per share	6,878	10,570,942	65.07	6,225	10,445,140	59.60
Effect of dilutive securities:						
employee share options	—	45,459	—	—	87,517	—
Diluted earnings per share	6,878	10,616,401	64.79	6,225	10,532,657	59.10

14. Goodwill

	Total £'000
Cost	
At 1 January 2016	—
Recognised on acquisition of a subsidiary	7,229
At 31 December 2016	7,229
—	—
At 31 December 2017	7,229

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

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

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

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

The rate used to discount the forecast cash flows from Wax Lyrical is 5%.

Notes to the Financial Statements *continued*

15. Intangible assets

	Development costs £'000	Computer software £'000	Intellectual property and customer lists £'000	Total £'000
Cost				
At 1 January 2016	59	289	2,693	3,041
Additions	—	20	—	20
Recognised on acquisition of a subsidiary	—	—	5,968	5,968
Disposals	—	—	—	—
At 1 January 2017	59	309	8,661	9,029
Additions	—	80	—	80
Disposals	—	(7)	—	(7)
At 31 December 2017	59	382	8,661	9,102
Amortisation				
At 1 January 2016	59	134	1,816	2,009
Charge for the year	—	80	374	454
On disposals	—	—	—	—
At 1 January 2017	59	214	2,190	2,463
Charge for the year	—	58	530	588
On disposals	—	(7)	—	(7)
At 31 December 2017	59	265	2,720	3,044
Net book value				
At 31 December 2017	—	117	5,941	6,058
At 31 December 2016	—	95	6,471	6,566

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

At the year end the Spode and Royal Worcester intellectual property had a carrying value of £751,000 (2016: £814,000). The remaining amortisation period is twelve years.

At the year end the Wax Lyrical intellectual property had a carrying value of £3,465,000 (2016: £3,725,000) and the customer lists had a carrying value of £1,725,000 (2016: £1,932,000). The remaining amortisation periods are thirteen years four months and eight years four months respectively.

At 31 December 2017, the Group had entered into contractual commitments for the acquisition of intangible assets amounting to £100,000 (2016: £nil).

16. Property, plant and equipment

	Land and buildings				
	Freehold £'000	Leasehold £'000	Leasehold improvements £'000	Plant and vehicles £'000	Total £'000
Cost					
At 1 January 2016	3,855	3,874	1,358	13,768	22,855
Additions	—	—	4	740	744
Acquisition of subsidiary	—	—	117	1,365	1,482
Disposals	—	—	—	(335)	(335)
Exchange rate adjustments	—	—	116	214	330
At 1 January 2017	3,855	3,874	1,595	15,752	25,076
Additions	—	—	1	937	938
Disposals	—	—	—	(616)	(616)
Exchange rate adjustments	—	—	(62)	(119)	(181)
At 31 December 2017	**3,855**	**3,874**	**1,534**	**15,954**	**25,217**
Depreciation					
At 1 January 2016	1,891	123	939	10,263	13,216
Charge for the year	70	51	99	1,108	1,328
On disposals	—	—	—	(303)	(303)
Exchange rate adjustments	—	—	70	148	218
At 1 January 2017	1,961	174	1,108	11,216	14,459
Charge for the year	70	51	109	1,099	1,329
On disposals	—	—	—	(586)	(586)
Exchange rate adjustments	—	—	(45)	(89)	(134)
At 31 December 2017	**2,031**	**225**	**1,172**	**11,640**	**15,068**
Net book value					
At 31 December 2017	**1,824**	**3,649**	**362**	**4,314**	**10,149**
At 31 December 2016	1,894	3,700	487	4,536	10,617

At 31 December 2017, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £15,000 (2016: £101,000).

Notes to the Financial Statements *continued*

17. Interests in associates

Group

Associated undertakings	2017 £'000	2016 £'000
Furlong Mills Limited		
2,080 ordinary shares of £1 each, representing 33.33% of the issued share capital		
Current assets	3,926	3,574
Non-current assets	2,886	2,852
Current liabilities	(1,692)	(1,885)
Non-current liabilities	(151)	(109)
Equity attributable to owners of the Company	4,969	4,432
Share of net assets	1,656	1,477
Discount on acquisition	(13)	(13)
Carrying value of the Group's interest in the associate	1,643	1,464
Revenue	8,904	8,237
Profit from continuing operations	543	390
Portmeirion Canada Inc.		
100 common shares representing 50% of the issued share capital		
Current assets	2,386	2,284
Non-current assets	14	5
Current liabilities	(324)	(225)
Equity attributable to owners of the Company	2,076	2,064
Share of net assets	1,038	1,032
Adjustment for intercompany profit held in inventories	(156)	(183)
Carrying value of the Group's interest in the associate	882	849
Revenue	2,769	2,959
Profit from continuing operations	61	137
Aggregate carrying value of associated undertakings	2,525	2,313

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

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

18. Investment in subsidiaries

Company investment in subsidiary undertakings:

	2017 £'000	2016 £'000
30,100 ordinary shares of £1 each in Portmeirion Group UK Limited representing 100% of the issued share capital at cost	1,455	1,455
Capital contributions made to subsidiary undertakings:		
Portmeirion Group UK Limited	10,146	10,146
Portmeirion Enterprises Limited	705	705
Portmeirion Distribution Limited	60	60
	12,366	12,366

18. Investment in subsidiaries *continued*

No interest is charged on these capital contributions.

At 31 December 2017 the Company had the following subsidiary and associated undertakings:

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

The companies are incorporated in England and Wales and registered in England and Wales except where stated. The share capital of all subsidiary undertakings consists solely of ordinary shares. The Company holds 100% of the share capital of all subsidiaries, 50% of the ordinary share capital of Portmeirion Canada Inc. and 33.33% of the ordinary share capital of Furlong Mills Limited. Furlong Mills Limited supplies Portmeirion Group UK Limited with all of its clay and most of its glaze raw materials.

Notes:

(1) Wholly owned by Portmeirion Group UK Limited.

(2) Wholly owned by Portmeirion Enterprises Limited.

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

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

(5) Wholly owned by Lighthouse Holdings Limited.

(6) Wholly owned by Wax Lyrical Limited.

Notes to the Financial Statements *continued*

19. Inventories

Group

	2017 £'000	2016 £'000
Raw materials and other consumables	2,622	3,039
Work in progress	538	564
Finished goods	14,914	12,664
	18,074	16,267

20. Trade and other receivables

Group

	2017 £'000	2016 £'000
Amounts receivable for the sale of goods	11,348	11,435
Allowance for doubtful debts	(361)	(310)
Trade receivables	10,987	11,125
Amounts owed by associated undertakings	152	251
Other receivables	287	97
Prepayments and accrued income	1,005	1,012
	12,431	12,485

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

Included in the Group's trade receivable balance are receivables with a carrying amount of £2,406,000 (2016: £2,447,000) 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 53 days (2016: 48 days).

Ageing of past due but not impaired receivables	2017 £'000	2016 £'000
31–60 days	1,817	2,264
61–90 days	475	124
91+ days	114	59
Total	2,406	2,447

Movement in the allowance for doubtful debts	2017 £'000	2016 £'000
Balance at the beginning of the year	310	210
Recognised on acquisition of a subsidiary	—	99
Impairment losses recognised	67	49
Amounts written off as uncollectable	(16)	(48)
Balance at the end of the year	361	310

20. Trade and other receivables *continued*

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	2017 £'000	2016 £'000
120+ days	123	109

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £nil (2016: £nil), owed by companies which have been placed into liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

Company

	2017 £'000	2016 £'000
Amounts owed by subsidiary undertakings	3,986	2,244

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

21. Cash and cash equivalents

Group

	2017 £'000	2016 £'000
Cash and cash equivalents	8,487	6,540

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

22. Trade and other payables

Group

	2017 £'000	2016 £'000
Trade payables and accruals	9,401	7,317
Amounts owed to associated undertakings	14	—
Other taxation and social security	643	808
Other payables	498	613
	10,556	8,738

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 36 days (2016: 35 days). For most suppliers no interest is charged on the trade payables from the date of invoice to the end of the following month. Thereafter, interest may be charged on the outstanding balances at various interest rates. The Group's policy is to pay all payables within the credit timeframe.

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

Notes to the Financial Statements *continued*

23. Borrowings

The Group has three facilities:

a) A £2,000,000 overdraft facility available until 31 May 2018. Interest is payable at 1.9% on the net pooled fund balance, plus bank base rate on net sterling borrowings.

b) A £10,000,000 loan facility repayable in equal instalments over a five-year term until 4 May 2021. Interest is payable at an average 1.38% above three-month LIBOR. At the year end the outstanding balance was £7,000,000 which net of deferred facility fee costs of £64,000 left the balance sheet value of £6,936,000 (note 27).

c) A £10,000,000 revolving credit facility available until 4 May 2019. Interest is payable at 2.0% above three-month LIBOR.

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

The overdraft and revolving credit facilities were not being utilised at 31 December 2017.

24. Deferred tax

Group

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

	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Share-based payment £'000	Capital gain rolled over £'000	Other temporary differences £'000	Temporary difference acquired intangibles £'000	Total £'000
At 1 January 2016	(492)	555	109	(249)	643	—	566
Credit/(charge) to income	59	(158)	8	14	15	113	51
Charge to equity	—	—	(37)	—	—	—	(37)
Credit to other comprehensive income	—	815	—	—	193	—	1,008
Acquisition of subsidiary	—	—	—	—	—	(1,074)	(1,074)
At 1 January 2017	(433)	1,212	80	(235)	851	(961)	514
Credit/(charge) to income	131	(175)	(65)	—	(212)	79	(242)
Charge to equity	—	—	(4)	—	—	—	(4)
Charge to other comprehensive income	—	(753)	—	—	(57)	—	(810)
At 31 December 2017	(302)	284	11	(235)	582	(882)	(542)

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

	2017 £'000	2016 £'000
Deferred tax liability	(882)	(961)
Deferred tax asset	340	1,475
	(542)	514

At the balance sheet date, the Group had no unused tax trading or capital losses (2016: £nil) available for offset against future profits.

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

25. Share capital

	2017		2016	
	Number '000	£'000	Number '000	£'000
Allotted, called up and fully paid share capital:				
ordinary shares of 5p each	11,090	554	11,005	550

The market price of the Company's shares at 31 December 2017 was 925.0p per share. During the year the price ranged between 832.5p and 997.5p per share.

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

During the year the Company issued 85,071 new ordinary shares of 5p each for a total of £573,000 in order to satisfy the exercise of share options.

Options granted to Directors and employees (note 33) to acquire ordinary shares of 5p in the Company and still outstanding at 31 December 2017 were as follows:

	Number of shares	Exercise price per share (p)	Dates on which exercisable: Earliest	Dates on which exercisable: Latest
2010 Deferred Incentive Plan	3,136	—	22.04.2018	20.07.2018
2010 Deferred Incentive Plan	4,225	—	12.05.2019	10.08.2019
2012 Unapproved Plan	8,121	610.0	03.05.2016	01.05.2023
2012 Unapproved Plan	9,258	740.0	01.05.2017	29.04.2024
2012 Approved Plan	4,365	935.0	28.04.2018	26.04.2025
2012 Unapproved Plan	127,635	935.0	28.04.2018	26.04.2025
2012 Approved Plan	60,252	960.0	12.08.2020	10.08.2027
2010 Unapproved Plan	132,748	960.0	12.08.2020	10.08.2027

Options held by the Directors are shown in the Directors' Remuneration Report on pages 36 to 37.

26. Own shares

Treasury shares	2017 £'000	2016 £'000
At 1 January	448	453
Shares purchased	—	—
Shares issued under employee share schemes	(3)	(5)
At 31 December	445	448
ESOP shares		
At 1 January	2,488	2,684
Shares purchased	34	—
Shares issued under employee share schemes	(1,091)	(196)
At 31 December	1,431	2,488
Total at 31 December	**1,876**	**2,936**

The Group currently holds 237,743 (2016: 239,477) ordinary shares of 5p each in treasury.

The ESOP share reserve represents the cost of shares in Portmeirion Group PLC purchased in the market and held by The Portmeirion Employees' Share Trust to satisfy options under the Group's share option schemes (note 33). The number of ordinary shares held by The Portmeirion Employees' Share Trust at 31 December 2017 was 152,917 (2016: 307,048).

Notes to the Financial Statements *continued*

27. Notes to the statements of cash flows

Group

	1 January 2017	Financing[1] cash flows	Other[2] changes	31 December 2017
Current borrowings	1,961	—	20	**1,981**
Non-current borrowings	6,909	(2,000)	46	**4,955**
Total liabilities from financing activities	8,870	(2,000)	66	**6,936**

Notes:

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

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

28. Commitments

Operating lease arrangements

Operating lease payments represent rentals payable by the Group for:

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

Leases are negotiated on an individual basis.

The Group as lessee

	2017 £'000	2016 £'000
Lease payments under operating leases recognised as an expense in the year	**1,866**	1,602

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:

	2017 £'000	2016 £'000
Within one year	**1,671**	1,480
In the second to fifth years inclusive	**5,005**	2,467
After five years	**2,038**	1,647
	8,714	5,594

The Company did not have any operating lease arrangements.

29. Contingent liabilities

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

30. Related party transactions

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

Group

The transactions during the year with associated undertakings were:

	Purchases 2017 £'000	Purchases 2016 £'000	Sales 2017 £'000	Sales 2016 £'000
Portmeirion Canada Inc.	—	—	1,541	1,509
Furlong Mills Limited	768	812	—	—

The outstanding balances at 31 December 2017 with associated undertakings were:

	Debtor 2017 £'000	Debtor 2016 £'000	Creditor 2017 £'000	Creditor 2016 £'000
Portmeirion Canada Inc.	152	136	—	—
Furlong Mills Limited	—	115	14	—

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

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

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

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

The key management personnel of the Group are considered to be the Directors, the remuneration of whom is set out in note 7 on pages 64 and 65.

Company

During 2017 net transactions totalling £1,742,000 were debited (2016: £1,523,000 debited) to the intercompany account with the Company's subsidiary, Portmeirion Group UK Limited. These transactions represented payments and receipts made on behalf of the Company by Portmeirion Group UK Limited, an intergroup dividend and the charge for share-based payments.

During the year The Portmeirion Employees' Share Trust repaid part of an intercompany loan to the Company for £1,057,000 (2016: £196,000). The purpose of the loan is for acquiring shares to satisfy Group share option exercises (note 33). The total outstanding loan is now £1,431,000 (2016: £2,488,000). The ESOP share reserve is disclosed in note 26 on page 75.

The outstanding balances with subsidiary undertakings at 31 December 2017 and 31 December 2016 are shown in note 20 on page 73.

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

Notes to the Financial Statements *continued*

31. Pensions

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

The total cost charged to income of £1,304,000 (2016: £1,228,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

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

Investment risk

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

Interest risk

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

Longevity risk

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

Salary risk

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

Valuation and assumptions

For the defined benefit scheme, the most recent triennial valuation was at 5 April 2014. The main actuarial assumptions used in the valuation were:

- RPI of 3.60% per annum and CPI of 2.80% per annum;
- pre-retirement valuation rate of interest of 5.00% per annum;
- post-retirement valuation rate of interest of 3.70% per annum; and
- mortality experience based upon PCA00 tables with projections based on year of birth with a long-term rate of improvement of 1.75% per annum.

At the date of the last valuation on 5 April 2014 the market value of the scheme assets was £26,336,000 and the scheme had a deficiency of £7,295,000.

The actuarial valuation of the scheme was updated at 31 December 2017 in accordance with IAS 19 by qualified actuaries.

31. Pensions *continued*

Valuation and assumptions *continued*

The major assumptions used by the actuaries were:

	2017	2016
Rate of increase of pensions in payment:		
Post 06.04.88 GMP	3.00%	3.00%
Pre 06.04.97 excess over GMP	5.00%	5.00%
Post 06.04.97 pension	3.00%	3.50%
Rate of revaluation of pensions in deferment	2.05%	2.50%
Rate used to discount scheme liabilities	2.50%	2.60%
Inflation assumption:		
RPI	3.15%	3.60%
CPI	2.05%	2.50%
Life expectancy at 65 for a member:		
Currently aged 65 – male	21.9	22.2
Currently aged 45 – male	23.0	23.9
Currently aged 65 – female	23.7	24.2
Currently aged 45 – female	25.0	26.1

Sensitivity analysis

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

If the discount rate is 0.25% higher, the defined benefit obligation would reduce by £1,341,000 (2016: £1,817,000).

If inflation and related assumptions increased by 0.25%, the defined benefit obligation would increase by £240,000 (2016: £783,000).

If life expectancy increased by one year for both men and women, the defined benefit obligation would increase by £1,452,000 (2016: £1,729,000).

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

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

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

Notes to the Financial Statements *continued*

31. Pensions *continued*

Analysis of scheme assets and liabilities

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

	2017 Fair value £'000	2016 Fair value £'000
Scheme assets		
Equities	5,361	4,683
Bonds	8,096	7,544
Gilts	9,683	9,413
Diversified growth funds	5,248	4,715
Insured pensions	5,631	5,963
Cash	106	41
Total fair value of assets	34,125	32,359
Present value of defined benefit obligations	(35,797)	(39,489)
Deficit in the scheme	(1,672)	(7,130)

Analysis of the amount charged to operating profit

	2017 £'000	2016 £'000
Current service cost	—	—
Past service cost	—	—
	—	—

Analysis of the amount included in the income statement

	2017 £'000	2016 £'000
Interest on pension scheme assets	842	1,049
Interest on pension scheme liabilities	(1,012)	(1,137)
Amount charged to other finance costs	(170)	(88)

Amounts recognised in the consolidated statement of comprehensive income

	2017 £'000	2016 £'000
Return on plan assets (excluding amounts included in net interest expense)	860	3,036
Actuarial gains and losses arising from changes in financial assumptions	114	(7,438)
Actuarial gains and losses arising from changes in demographic assumptions	2,144	(955)
Actuarial gains and losses arising from experience adjustments	1,310	—
Remeasurement of the net defined benefit pension scheme liability	4,428	(5,357)

The cumulative amount of actuarial gains and losses recognised in the consolidated statement of comprehensive income since adoption of IFRS is a loss of £5,630,000 (2016: £10,058,000).

31. Pensions *continued*

Analysis of movements in scheme assets and liabilities

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

	2017 £'000	2016 £'000
At 1 January	39,489	31,527
Service cost	—	—
Interest cost	1,012	1,137
Remeasurements (financial assumptions)	(114)	7,438
Remeasurements (demographic assumptions)	(2,144)	955
Remeasurements (experience adjustments)	(1,310)	—
Benefits paid	(1,136)	(1,568)
At 31 December	35,797	39,489

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

	2017 £'000	2016 £'000
At 1 January	32,359	28,442
Interest on assets	842	1,049
Remeasurement of assets	860	3,036
Contributions by the employer	1,200	1,400
Benefits paid	(1,136)	(1,568)
At 31 December	34,125	32,359

Pension contributions

The estimated amount of contributions expected to be paid to the scheme during the next financial year is £1,200,000 (2017: £1,200,000). The Group is committed to paying into the scheme until August 2026, £1,200,000 per annum in line with the agreed schedule of contributions.

The average duration of the defined benefit obligation at the end of the reporting period is 19 years.

At 31 December 2017, contributions of £136,000 (2016: £126,000) 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 £133,000 (2016: £155,000) at 31 December 2017.

Notes to the Financial Statements *continued*

32. Financial instruments

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

Financial risk management objectives

Capital management

The Group and the Company manage their capital to ensure that all entities in the Group will be able to continue as a going concern while maximising the return to stakeholders. The Group's overall strategy remains unchanged from 2016.

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

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

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 20.

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

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

Interest rate risk management and sensitivity analysis

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates as disclosed in note 23. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and could further be mitigated by the use of interest rate swap contracts and forward interest rate contracts if deemed appropriate. If interest rates had been 1% higher and all the other variables were held constant, the Group's profit for the year ended 31 December 2017 would decrease by £99,000 (2016: £98,000).

Foreign currency risk management

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

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

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

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

	Liabilities		Assets	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Euro	135	56	657	606
US dollar	3,217	2,403	5,950	5,879

32. Financial instruments *continued*

Financial risk management objectives *continued*

Foreign currency sensitivity analysis

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

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

	Euro impact		US dollar impact	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Profit/(loss)	(48)	(50)	(13)	(29)

Liquidity risk management

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

Liquidity and interest risk tables

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

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

Notes to the Financial Statements *continued*

32. Financial instruments *continued*

Liquidity and interest risk tables *continued*

At 31 December 2016	Weighted average effective interest rate %	Less than 1 month £'000	1–3 months £'000	Over 3 months £'000	Non-financial assets/ (liabilities) £'000	Total £'000
Financial assets	0.25	13,065	4,851	—	—	17,916
Other assets	—	—	—	—	45,576	45,576
Total assets		13,065	4,851	—	45,576	63,492
Shareholders' funds	—	—	—	—	(36,788)	(36,788)
Financial liabilities	—	(7,105)	(649)	(176)	—	(7,930)
Borrowings	3.0	(500)	—	(8,370)	—	(8,870)
Other liabilities	—	(583)	(455)	(775)	(961)	(2,774)
Pension scheme deficit	—	—	—	—	(7,130)	(7,130)
Total liabilities and shareholders' funds		(8,188)	(1,104)	(9,321)	(44,879)	(63,492)
Cumulative gap		4,877	8,624	(697)	—	—

Categories of financial instruments	2017 £'000	2016 £'000
Financial assets:		
Cash and cash equivalents	8,487	6,540
Loans and receivables	11,139	11,376
	19,626	17,916
Financial liabilities:		
Amortised cost	9,913	7,930

33. Share-based payments

Equity-settled share option schemes

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

The Group recognised total expenses of £66,000 and £144,000 related to share-based payment transactions in 2017 and 2016 respectively. The Company recharged these expenses to Portmeirion Group UK Limited.

a) The Portmeirion Group 2010 Deferred Incentive Share Option Plan (LTIP)

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 Director in respect of the previous financial year. Options are exercisable at £1 per individual as the total exercise price. The vesting period is three years. If the options remain unexercised after a period of three years and three months from the date of grant the options expire.

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

	2017		2016	
	Number of share options	Total exercise price £	Number of share options	Total exercise price £
Outstanding at 1 January	12,021	9	9,494	8
Granted during the year	—	—	5,830	3
Lapsed during the year	(2,926)	2	—	—
Surrendered during the year	—	—	—	—
Exercised during the year	(1,734)	3	(3,303)	2
Outstanding at 31 December	7,361	4	12,021	9
Exercisable at 31 December	—	—	—	—

No options were granted during the year. The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 1.2 years (2016: 1.9 years). In 2016, options were granted on 11 May. The aggregate of the estimated fair value of those options is £46,047.

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

	2017	2016
Weighted average share price at date of grant	—	£11.800
Weighted average exercise price	—	£nil
Expected volatility	—	14%
Expected life	—	3.125 years
Risk-free rate	—	0.53%
Expected dividend rate	—	2.54%

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

Notes to the Financial Statements *continued*

33. Share-based payments *continued*

Equity-settled share option schemes *continued*

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

Options are exercisable at a price equal to the 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:

	2017		2016	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at 1 January	425,121	7.811	459,000	7.685
Granted during the year	193,000	9.600	—	—
Lapsed during the year	(33,000)	9.350	—	—
Surrendered during the year	—	—	—	—
Exercised during the year	(242,742)	6.838	(33,879)	6.100
Outstanding at 31 December	342,379	9.361	425,121	7.811
Exercisable at 31 December	17,379	6.793	113,121	6.100

The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 8.5 years (2016: 7.4 years).

In 2017, options were granted on 11 August. The aggregate of the estimated fair value of those options is £139,042. There were no options granted in 2016.

The range of exercise prices for the options outstanding at 31 December is from £6.100 to £9.600.

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

	2017	2016
Weighted average share price at date of grant	£9.550	—
Weighted average exercise price	£9.600	—
Expected volatility	17%	—
Expected life	4 years	—
Risk-free rate	0.34%	—
Expected dividend rate	3.38%	—

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

Five-year Summary

Consolidated income statement information

Years ended 31 December

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Revenue	84,769	76,677	68,669	61,370	58,295
Profit before tax	8,822	7,806	8,649	7,611	7,009
Tax	(1,944)	(1,581)	(1,752)	(1,538)	(1,400)
Profit attributable to equity holders	6,878	6,225	6,897	6,073	5,609
Earnings per share	65.07p	59.60p	66.02p	57.64p	53.26p
Diluted earnings per share	64.79p	59.10p	65.48p	57.30p	52.84p
Dividends paid and proposed per share	34.66p	32.25p	30.00p	26.50p	24.00p

Consolidated balance sheet information

At 31 December

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Assets employed					
Non-current assets	26,301	28,200	13,281	13,031	12,704
Current assets	38,992	35,292	33,142	32,221	28,807
Current liabilities	(13,012)	(11,704)	(6,816)	(8,052)	(7,606)
Non-current liabilities	(7,509)	(15,000)	(3,085)	(4,153)	(2,404)
	44,772	36,788	36,522	33,047	31,501
Financed by					
Called up share capital	554	550	550	549	548
Share premium account and reserves	44,218	36,238	35,972	32,498	30,953
	44,772	36,788	36,522	33,047	31,501

Company Information

Board of Directors

Non-executive Chairman
Dick Steele BCOM FCA CTA

Chief Executive
Lawrence Bryan BA

Group Finance Director
Mike Raybould BSc ACA

Group Sales and Marketing Director
Phil Atherton

Operations Director
Mick Knapper

Non-executive Director
Lady Barbara Thomas Judge CBE BA JD

Non-executive Director
Janis Kong OBE BSc

Non-executive Director
Andrew Andrea BA MA ACA

Company Secretary
Moira MacDonald FCIS

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Registered number: 124842

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London
EC4M 9AF

Joint broker
Cantor Fitzgerald Europe
One Churchill Place
Canary Wharf
London
E14 5RB

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The Registry
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Beckenham
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Email: shareholderenquiries@linkgroup.com
www.linkassetservices.com/shareholders

* Calls cost 12p per minute plus network extras. Lines open between 9:00 am and 5:30 pm GMT, Monday–Friday excluding public holidays in England and Wales.

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EC1A 7NN

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Email: hello@hudsonsandler.com

Financial Calendar

Annual General Meeting	May
Interim Report	August

Dividends

Interim announced	August
Paid	October
Final announced	March
Paid	May

Retail Outlets

Bridgend shop

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

Colne shop "Boundary Mill"

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

Longton shop

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

Rotherham shop "Boundary Mill"

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

Shiremoor shop "Boundary Mill"

Boundary Mill Stores
Park Lane
Shiremoor
Newcastle-upon-Tyne
NE27 0BS
Tel: +44 (0) 1912 972420

Stoke shop

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

Street shop

1B Clarks Village
Farm Road
Street
Somerset
BA16 0BB
Tel: +44 (0) 1458 446703

Swindon shop

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

Wax Lyrical Lindal shop

Wax Lyrical
Lindal-in-Furness
Ulverston
Cumbria
LA12 0LD
Tel: +44 (0) 1229 461102

Wax Lyrical Lowry outlet

Wax Lyrical Outlet
Unit F2
Lowry Outlet Mall
Salford Quays
Manchester
M50 3AH
Tel: +44 (0) 161 876 4525

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

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

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