

Portmeirion Group PLC
Registered number: 124842

Report and Accounts for the
year ended 31 December 2016

Heritage and innovation

THURSDAY



A676LEA3

A25

25/05/2017

#2

COMPANIES HOUSE

Stock code: PMP

Highlights

Revenue (£'000)

£76,677

+11.7%

2016	76,677
2015	68,669
2014	61,370
2013	58,295
2012	55,525

Pre-tax profit (£'000)

£7,806

-9.7%

2016	7,806
2015	8,649
2014	7,611
2013	7,009
2012	6,595

Basic EPS (p)

59.60p

-9.7%

2016	59.60
2015	66.02
2014	57.64
2013	53.26
2012	47.28

Dividends paid & proposed (p)

32.25p

+7.5%

2016	32.25
2015	30.00
2014	26.50
2013	24.00
2012	21.80

Financial Highlights

- Eighth consecutive year of record Group revenue which increased by 11.7% to £76.7 million (2015: £68.7 million).
- EBITDA is level at £9.7 million (2015: £9.7 million).
- Profit before tax down by 9.7% to £7.8 million (2015: £8.6 million).
- Total dividends paid and proposed for 2016 increased by 7.5% to 32.25p (2015: 30.00p).

Operational Highlights

- Completed £17.5 million acquisition of Wax Lyrical Limited, the UK's largest manufacturer of home fragrances.
- Received the Queen's Award for Enterprise in the category of International Trade, which recognises the Company's continuous growth in overseas sales and overall outstanding achievement in international trade over the last six years.
- Long-standing Group Finance Director, Brett Phillips, to retire from the Group in 2017.
- Appointed Michael Knapper as Operations Director and Moira MacDonald as Group Company Secretary.

Pictured on front cover (left to right): Spode Blue Italian, Portmeirion Botanic Garden and Sophie Conran for Portmeirion.

Pictured left (clockwise from top left): Sophie Conran for Portmeirion, Pimpernel Holiday Nostalgie, Wax Lyrical Lakes and Portmeirion Chocles.

Strategic Report

- 01 Highlights
- 02 At a Glance
- 04 Chairman and Chief Executive's Review
- 08 Business Model and Strategy
- 10 Snapshot of 2016
- 11 Our Brands
- 16 Key Performance Indicators
- 17 Principal Risks and Uncertainties
- 18 Corporate and Social Responsibility
- 21 Going Concern and Outlook

Corporate Governance

- 22 Board of Directors
- 24 Corporate Governance Statement
- 28 Directors' Remuneration Report
- 36 Report of the Directors
- 40 Statement of Directors' Responsibilities
- 41 Independent Auditors' Report

Financial Statements

- 42 Consolidated Income Statement
- 43 Consolidated Statement of Comprehensive Income
- 44 Consolidated Balance Sheet
- 45 Company Balance Sheet
- 46 Consolidated Statement of Changes in Equity
- 47 Company Statement of Changes in Equity
- 48 Consolidated Statement of Cash Flows
- 49 Company Statement of Cash Flows
- 50 Notes to the Financial Statements
- 83 Five-year Summary
- 84 Company Information and Financial Calendar
- 85 Retail Outlets

A significant force in the homewares industry

Portmeirion Group PLC is a British company, based in Stoke-on-Trent. We are a market leader in high quality and innovatively designed tableware, home fragrance, cookware, giftware and tabletop accessories.

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 aim is for our Group to be as successful and as profitable as possible. To achieve this we need to conduct ourselves in an efficient manner to maintain high levels of customer service, and drive forward targeted product development to grow our sales. We need to have a focused commitment to operational excellence, innovation and quality and work towards our vision with energy, integrity and a sense of purpose.

We have 788 valued employees in the UK and the US and sell into over 60 countries around the world where our brands and products are enjoyed by millions of consumers.

Business Model and Strategy page 08

Product design and development

Our value lies with our strong brands and the patterns which underpin these. Some of our major tableware patterns are also brand names in their own right such as the classic Botanic Garden range, which has a worldwide following. Our oldest continuous pattern, Spode Blue Italian, celebrated its 200th anniversary in 2016.

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 fashionable Ted Baker Portmeirion collections and popular Royal Worcester Wrendale Designs range.

Our brands

Fashionable yet timeless collections of tableware and gifts

Tableware and cookware rich in history and heritage

The UK's largest manufacturer of home fragrance

Established in 1751 and celebrated for prestigious tableware and cookware

The premier brand for placemats and coasters

Our Brands pages 11-15



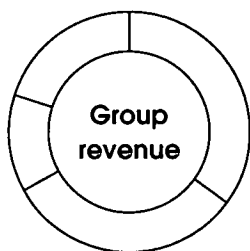
Production and sourcing

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 48:52 for 2016. Production from our Stoke-on-Trent factory is well placed to produce in line with anticipated demand and our facility in Ulverston has sufficient capacity to grow as product is launched through Portmeirion’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.



35% United Kingdom
 32% United States
 13% South Korea
 20% Rest of the World

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

UK sales of £27.1 million represent 35% of Group revenue.

Our routes to market include major department stores, over 500 independent retailers, 12 retail outlets, nationwide mail order companies and UK-based websites dedicated to each of the five Portmeirion Group brands.

United States

Connecticut warehouse, New York showroom and New Jersey office

US sales of £24.2 million represent 32% of Group revenue.

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, warehouse club merchandisers and via a growing website.

South Korea

Exclusive distributor

South Korea sales of £9.7 million represent 13% of Group revenue.

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.

Other markets

Other markets accounted for £15.7 million of sales which represent 20% of Group revenue.

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

Chairman and Chief Executive's Review

"We are delighted to be reporting an eighth consecutive year of record revenue, notwithstanding the challenges faced by the Group during the period which have affected profits. Our core values of innovation, targeted product development and operational excellence remain unchanged, and we are pleased to report on the success experienced by the continued integration of Wax Lyrical. Trading in the first two months of the current year is ahead of the comparative period in 2016 on a like-for-like basis. The outlook for 2017 is positive and the issues experienced are being overcome by proactive management."

The year under review has been challenging for Portmeirion, largely because of factors external to the business. The United Kingdom referendum on EU membership which resulted in a leave vote in June 2016 and the presidential election in the United States in November 2016 were major uncertainties in our two largest markets; uncertainty leads to caution within business and for consumers, albeit the presidential elections are regular four yearly uncertainties. These uncertainties have not yet fully played out and we are vigilant as to any future effects on international trade. South Korea, our third largest market, continued to suffer economic problems particularly in demand for luxury products. Following a huge sales increase in India in 2015, the region unfortunately did not perform as well in 2016, and returning sales to prior high levels in India will take time. Despite these problems our diversified product range, supply base, wide market access and first-class people enabled us to keep Portmeirion on a steady course. Additionally, the strategic acquisition in the year of Wax Lyrical, the UK's largest manufacturer of home fragrances, provides us with excellent growth prospects.

Dividend

The Board is recommending a final dividend of 25.25p per share bringing the total paid and proposed for the year to 32.25p per share, an increase of 7.5% over the total amounts paid in respect of 2015. This is a 5.6% increase over the final dividend for 2015.

The dividends paid and proposed for 2016 are covered 1.85 times by earnings (2015: 2.2 times). The Board continues to consider that a level of dividend being twice covered is an appropriate and sustainable level for the business, although it believes a marginal fall for the 2016 dividend cover below this guideline can be temporarily accommodated.

Over the last eight years we have increased our total dividends by 10.3% per annum compound. Our share price has grown by 430% since our flotation price of £1.80 in 1988, and our total dividends paid have amounted to £3.97 per share during that period. We have never cut or withheld our dividend as a listed company.

The Board is committed to a progressive dividend policy; we believe that this is what our shareholders expect of us. We aim to maintain a sustainable and fair level of dividend cover, having regard to the immediate past and our view forward, and to increase our dividends whenever our results, cash balances and prudent views of future prospects and business investment needs allow us so to do. 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.

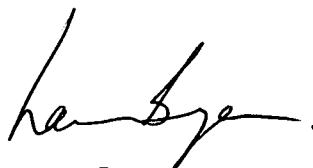
Revenues

Revenues were £76.7 million for the year, an increase of 11.7% over the previous year (2015: £68.7 million). This represents the eighth consecutive year of record revenues for the Group. At a constant US dollar exchange rate our revenue increase would have been lower at 6.5%. The part-year sales for Wax Lyrical consolidated within the total revenues of £76.7 million were £10.4 million (2015: £nil), which represent 8 months of the financial year.

The United Kingdom became our largest market in 2016 due to the majority of Wax Lyrical's sales being in the United Kingdom. Excluding Wax Lyrical, sales in the United Kingdom from original Portmeirion businesses increased by 2.1% over 2015. Total United Kingdom sales were £27.1 million in 2016 (2015: £17.9 million). We remain cautious about the effect on our sales of the United Kingdom leaving the EU although it may be some time before the actual effect is known.



Dick Steele
Non-executive Chairman



Lawrence Bryan
Chief Executive

The United States provided a revenue uplift of 8.7% in translated figures, which is equivalent to a decrease of 3.7% in local currency. There are hopeful signs in the United States that the economy remains on the upswing, but some doubt remains about how Government policy will affect importers.

Our own internet based sales in the UK and the US totalled £3.3 million in 2016, a 31.8% increase over 2015. This sales channel provides good margins and greater visibility of and contact with our end consumer, offering a great opportunity for growth.

Sales into South Korea fell by a further 21.2% in 2016 over 2015 to £9.7 million, meaning that on a two year basis our sales to South Korea have fallen by £5.4 million. We were hopeful at the end of 2015 that this market was stabilising for us, and we remain hopeful but chastened. We are working closely with our exclusive distributor in South Korea to rebuild sales.

In 2015 our sales into India were £5.8 million, which we had planned to grow in 2016, however the performance of our Indian distributor was extremely disappointing, as we announced in July 2016, and, despite immediate proactive management, sales in India in 2016 were £1.1 million. Accordingly we have changed our distribution arrangements in India so as to target specific distribution channels. Despite the sales shortfalls in South Korea and India, we continued to increase total Group sales. Wax Lyrical was the most important contributor to this increase, supported by improved sales into Europe and some Asian markets such as Hong Kong and Taiwan.

We continue to be well served by our strategy of diversifying products, customers, geographic markets and routes to market. These strategies enable us to exploit opportunities as and when they appear and to mitigate shortfalls in other areas.

Profits

Earnings before interest, taxation, depreciation and amortisation (EBITDA) were level with 2015 at £9.7 million. Profit before taxation was £7.8 million, a reduction of £0.8 million or 9.7% on the previous year. The difference in the proportions arises because of increased amortisation and depreciation as a consequence of the Wax Lyrical acquisition and a full year's depreciation of our new kiln.

Basic earnings per share decreased by 9.7% to 59.60p per share, while dividends have increased by 7.5%, with dividend cover remaining at a reasonable level, in the Board's opinion.

The Group's EBITDA has not increased despite the acquisition of Wax Lyrical, due to the sales shortfalls in India and South Korea, which are of UK manufactured product and so have a disproportionate adverse effect on our profits. This is a key area of focus.

Our corporate profits are subject to taxation in either the United States or the United Kingdom and are paid in accordance with statutory and ethical practices. The corporate taxation which we paid in 2016 amounted to £1.6 million (2015: £2.0 million).

Assets and liabilities

Inventories are a continuing focus for us: we finished the year with £16.3 million of stock compared to £12.7 million at the previous year end. Most of this increase is attributable to stock holdings of Wax Lyrical, which was acquired during the year. Stocks have reduced by £3.7 million from 30 June 2016. The valuation of our stock balances is a critical accounting judgement in our figures; our methodology for providing against obsolete and slow-moving stock is rigorous and unchanged from previous years.

Net borrowings were £2.3 million at the year end (2015: £11.1 million cash) after a net outflow of £13.5 million for the year. Major elements causing the net outflow include the acquisition of Wax Lyrical at £16.7 million, dividends paid of £3.2 million and tax paid of £1.6 million. Portmeirion remains a business which is cash generative and is soundly financed. Our committed bank facilities from Lloyds Bank amount to £21.0 million and consist of a £2.0 million overdraft on an annual renewal cycle, a £10.0 million loan repayable equally over five years from May 2016, of which £9.0 million was outstanding at the year end, and a £10.0 million revolving credit facility repayable in full in May 2019. We experience a large working capital swing during the year; it is not unreasonable to assume a cash swing of about £10 million in 2017. In light of this our year end position plus committed bank facilities show a conservative approach to funding.

During the year we have paid £1.4 million into our long-closed defined benefit pension scheme. Largely due to the reduction in the discount rate applied, the accounting deficit recorded in these accounts has increased from £3.1 million at the end of 2015 to £7.1 million in 2016. Many companies carry defined pension scheme deficits, we are fortunate in that we were an early mover in closing our scheme and so our deficit is comparatively light. We continue to keep this under review.

Goodwill and intangible assets are major elements on our balance sheet compared to the previous year totalling £13.8 million (2015: £1.0 million). The increase is mainly due to the acquisition of Wax Lyrical during the year.

As at the period end, we held treasury shares with a book value of £448,000 to satisfy employee share schemes. These treasury shares were originally bought at an average price of £1.87 each, amounting to 239,477 shares, of which we used 3,303 during the year. We also hold 307,048 shares in the Portmeirion Employees' Share Trust ("ESOP shares") to satisfy employees' share options. These ESOP shares have a book value of £2,488,000, having been bought in the market at a blended cost of £8.10 each. We have used 32,000 during the year. No treasury shares or ESOP shares were acquired during the year.

Chairman and Chief Executive's Review continued

Wax Lyrical

We acquired Wax Lyrical on 4 May 2016 for a headline cash price of £17.5 million which, taking account of cash in the acquired business, reduced to £16.7 million. This acquisition cost was well within our cash and borrowing capabilities, indeed it would not have been in shareholders' interests to issue shares for the acquisition. Wax Lyrical is the UK's largest manufacturer of home fragrances and is based in Cumbria, England. Joanne Barber, the continuing Managing Director of Wax Lyrical, oversees all aspects of this business following the acquisition and reports directly to the Group Board.

Wax Lyrical's sales of £10.4 million and operating profits of £1.5 million generated from the date of acquisition to the year end have been included in the Group's consolidated results. As we continue to integrate the new business the break-out of Wax Lyrical's figures will become less meaningful. We are delighted with this acquisition; future integration benefits will be significant.

Products and brands

We have five major brand names: Portmeirion, Spode, Wax Lyrical, Royal Worcester and Pimpernel. Brands are germane to our business model and investing in our brands, by product development, marketing, trade shows, public relations and intellectual property protection is what we do as daily business; that investment is a revenue expense and so does not show on our balance sheet.

Portmeirion Botanic Garden 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 nearly £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 hard-nosed in legal protection. Botanic Garden was launched in 1972.

Spode Christmas Tree, launched in 1938, is our second largest pattern and, on an ongoing basis, generates sales of over \$10 million per annum mainly from the US. It is the dominant Christmas tableware pattern in the North American market and is supported by a number of other Christmas patterns which we sell including The Holly and The Ivy and Christmas Wish. Spode Blue Italian is our oldest continuously produced pattern having been extant for over two centuries. It is hard to identify any other tableware pattern with such a continuous history. Cobalt blue pattern on finest English earthenware is a traditional English look; on an ongoing basis it continues to generate annual worldwide sales of over £2.5 million. There is a YouTube short film under "Spode UK" which shows how the pattern is produced today in our Stoke-on-Trent factory.

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. Last year saw new patterns released of which Strawberry Thief, licensed from Morris & Co, is an outstanding

example. There were also hundreds of line extensions to existing patterns. In the current year-to-date, Choices and Sara Miller have been well received amongst a number of new patterns, Wrendale Designs continues to expand, and we are additionally pulling home fragrance products into our established ceramic ranges as we tie more closely to Wax Lyrical.

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.

Production and sourcing

It is customer demand which determines whether a ceramic product is manufactured at our own factory in Stoke-on-Trent, at another Stoke-on-Trent factory or elsewhere. Our Stoke-on-Trent factory produces the finest English earthenware, it does not produce bone china, porcelain, stoneware or any of a myriad other styles of ceramics. Regardless of what products are demanded, all are manufactured to our high quality standards, as our reputation is in the backstamp.

Because of the decline in sales to South Korea and India, markets which take large volumes of English-made product, in 2016 our factory production was pulled back; tableware products excluding home fragrance were 40% UK production and 60% overseas production in 2016 whereas in 2015 the proportions were 46% to 54%.

Our new kiln came online in 2016 just a few weeks before we saw the reality of falling demand from India and South Korea. However, it has helped relieve a bottleneck with our existing glost kiln, is more fuel efficient than the existing tunnel kilns and significantly more fuel and labour efficient than the four intermittent kilns that we have had to use during high throughput periods. We are confident that should demand require it we can raise production to 170,000 pieces of best per week, and with some planning and reorganisation achieve 250,000 pieces of best per week. Average weekly production of best per week has been 130,000 in 2016. The search for new manufacturing efficiencies is unrelenting including seeking more automated ways of working. Clearly, putting more volume through the factory would be a marginal cost benefit with a great effect on profits.

People

We had 788 people employed with us at the year end, this compares to 691 at the end of 2015. Of these 153 were with Wax Lyrical, so we have reduced existing headcount by 56. We have had to balance production against demand and have avoided new hirings allowing natural reductions through retirements and leavers to adjust our cost base. Our workforce is flexible in respect of their skill base, which has helped.

We have an apprenticeship programme and a graduate programme. Average sales per employee were £99,323 in 2016, a 1.1% reduction on the 2015 level. EBITDA per employee was just over £12,600 which is a reduction of 11.3% over 2015.

Average wage costs per employee were just over £27,800, a 2.7% reduction on 2015. These average sales, EBITDA and wage costs per employee are key performance indicators. At over £21 million per annum, staff costs are the biggest item of expense in our business. Most of our people are in the UK at our Stoke-on-Trent factory, offices and warehouse, at our UK stores and at our Cumbrian factory, warehouse and offices; nearly 40 of our people are in the US at our warehouse, offices and showroom.

We operate a non-contractual annual incentive scheme; for 2016 most of our people will receive a payment under this scheme, albeit it at generally lower levels than in previous years, by way of thanks for their continuing contribution and commitment to the long-term success of Portmeirion. No director of Portmeirion Group PLC will receive an incentive payment in respect of 2016.

Corporate and Social Responsibility page 18

The environment

We recognise our environmental responsibilities and strive for more efficient use of resources and elimination of waste. We continue to beat the challenging targets on energy efficiency set as part of ongoing membership of a Climate Change Agreement. Our annual energy bills exceed £1.3 million per annum; it makes good commercial sense for us to care about energy usage. Our factory in Cumbria makes extensive use of renewable energy.

Risks

The principal risks which we consider we are subject to are listed on page 17; five of these risks merit a little more discussion here.

Currency risks are carefully monitored by us on a daily basis. We are broadly covered by a natural hedge as our US dollar receivables from our US dollar denominated sales are largely matched by our US dollar payables for our purchases from the Far East. In the year under review and in 2017 this feature of the business is comforting as sterling has weakened so far against the US dollar. Other foreign exchange exposures are managed as appropriate.

Political and regulatory decisions are often unforeseen, last year we noted the impending UK referendum on the EU and the US presidential election. We have weathered those storms thus far. We will continue to monitor any future changes to trading terms internationally and take action as appropriate.

Energy costs are a major item of expenditure; we will maintain our relentless search for energy efficiencies, but we must be cognisant of the effect of weakened sterling feeding through to energy prices over time.

We have a diversified approach to product sourcing, from our own factories in the UK, other UK sources and from overseas. This diversification increases the chances of a problem occurring but lessens the impact of any decision, although switching production does take time.

Our long-closed defined benefit pension scheme continues to absorb cash. Last year we paid £1.4 million in and the previous year we paid in £0.9 million, although these figures do not reflect as costs. This is an example of a political risk; a political decision in 1997 is still feeding through and current monetary policy is hitting discount rates and thus liability levels. We continue to take action to de-risk the scheme.

Principal Risks and Uncertainties page 17

Corporate governance

We recognise and welcome the benefits of corporate governance requirements and we implement them enthusiastically when we can see tangible shareholder benefits. We are an AIM-listed company and so are not subject to the full listing requirements and corporate governance rules which apply to companies with a full listing on the main market. In short, we comply where reasonable and where not we explain.

We consider our approach to be forward looking and proactive in a number of areas, in particular in seeking re-election of all continuing Directors each year and in the efforts which we make to get shareholders to engage with us.

The invaluable guidance provided by the Quoted Companies Alliance, of which we are enthusiastic members, is a vital yardstick for companies of our size. Good corporate governance provides shareholder value.

Corporate Governance Statement page 24

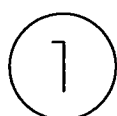
Senior management

This year Brett Phillips, Group Finance Director and Portmeirion UK Managing Director, is retiring. Brett has been a big part of Portmeirion since 1988 when he was appointed as Group Finance Director; he is probably the longest serving finance director on the Stock Exchange. His careful guidance, industry and company knowledge, conservative financial approach and cheerful disposition will be missed. We are currently recruiting a replacement. We wish Brett well for the future and have asked him to retain a link to Portmeirion by chairing Furlong Mills Limited, an associate company which provides us with raw materials, for at least a year after his retirement.

The Board has been strengthened by the appointment of Michael Knapper as Operations Director and by the appointment of Moira MacDonald as Company Secretary.

Business Model and Strategy

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. The Group manufactures in England – ceramics in Stoke-on-Trent and home fragrance products in Cumbria – and we source products worldwide. We have warehouses in Stoke-on-Trent and Cumbria, England, and in Connecticut, USA and Guangdong, China. We are international.



Guiding principles

Underlying everything we do are the guiding principles of nurturing our brands, continuing product development, assured quality, conservative financing and the drive to improve dividends.

These principles are reinforced by an emphasis on diversity; we strive for diversity in our markets, products, suppliers and workforce so as to ensure the long-term prosperity of the business.



Income

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.



Profitability and cash generation

The business profitability and cash generation depend on sales volumes and prices, manufacturing levels, sourcing costs, overhead costs and working capital management. Growing sales and controlling costs drive healthy operating margins and cash balances.

Sales volumes and prices, which are supported by product innovation, are carefully measured and our progress in key markets is monitored by customer feedback and input with particular focus on new product launches. We remain committed to product development; in the last twelve months we have launched over 460 new products including ranges such as Portmeirion Choices, Botanic Blooms and Sara Miller, and Spode Strawberry Thief.

Portmeirion The Holly and The Ivy

Pimpernel Crimson Trees

Portmeirion Sara Miller



Brands

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

Portmeirion has been an innovative brand since 1960. Within the Portmeirion catalogue is Botanic Garden, which is a traditional casual pattern with worldwide appeal. It was first manufactured in 1972 and is a brand in itself being one of the most sought after, recognisable and valuable tableware patterns in the world. The Sophie Conran for Portmeirion ranges are more contemporary than Botanic Garden and also have significant export appeal.

The Spode and Royal Worcester brands were acquired in 2009; their heritage goes back more than 250 years. We continue to develop these brands with new pattern introductions, Royal Worcester Wrendale Designs being an outstanding example, and refresh their heritage ranges with new products. Spode Blue Italian still generates sales of over £2.5 million a year from a

200 year old pattern. Spode Christmas Tree, which is 80 years old in 2018, generates sales of \$10 million a year, mainly from North America.

We acquired the Wax Lyrical brand in May 2016 for a net cost of just under £17 million; much of this purchase price can be ascribed to the brand value.

Our expenditure on maintaining, building and protecting our brands and patterns is significant; our future success as a business depends upon it. On average some 45,000 individual items carrying our prestigious brand names are sold every day worldwide; each item sold carries our reputation with it.

The Group remains keen to acquire and develop other brands which can fit within our business model. We review many opportunities against our strict criteria of strategic fit, value and combined growth opportunities.



Funding

Portmeirion Group PLC is listed on the AIM. The AIM gives us access to equity capital should we so require. Our shares are actively traded.

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; this ensures that our short-term borrowing requirements are adequately covered. The third and fourth quarters of our calendar and financial year have a significant working capital requirement as we build stocks and then debtors to meet the increased consumer demand over our important fourth quarter which includes Christmas.

The Group is cash generative, over the last eight years we have averaged over £5 million a year generated from operating profits, and aims to provide a sustainable and growing return to shareholders through a progressive dividend policy, increasing dividends where profitability, cash generation and business needs allow.

Snapshot of 2016

Queen's Award 2016

In June 2016 the Group was informed that it had won the Queen's Award for Enterprise in the category of International Trade, which recognises the Company's continuous growth in international trade over the last six years.

Wax Lyrical Fired Earth

The Wax Lyrical Fired Earth decorative candle tin collection was The Giftware Association's Gift of the Year 2016, in the home fragrance category.

Ted Baker Portmeirion

Ted Baker Portmeirion Rosie Lee range won the Best Licensed Brand Home and Garden Product or Range at the Brand and Lifestyle Licensing Awards.

Apprenticeship and Training Award

Portmeirion UK was awarded the Insider Made in the Midlands Apprenticeship and Training Award 2016 in recognition of our commitment to the development of skills for local young people and current employees.

International Trade awards

Portmeirion UK was presented with the 2016 International Trade Award in The Sentinel Business Awards.

Portmeirion UK was awarded the 2016 International Trade award at the Staffordshire Chambers Business Awards.

The Douglas Macmillan Hospice Corporate Partner 2017 Gold Award

Portmeirion UK achieved a Gold Corporate Partner Award for their contribution to the Douglas Macmillan Hospice. Portmeirion exceeded their initial fundraising target of £5,000, largely as a result of the passion and dedication shown by all of our staff who have fundraised or given their time.

Our Brands

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 and Ted Baker Portmeirion ranges together with the new Choices collection showcase the diverse, high quality products within the brand which deliver both beautiful designs and practicality for modern-day living.

www.portmeirion.co.uk

Pictured: Portmeirion Botanic Blooms

Our Brands continued

Renowned for its rich heritage and timeless designs, Spode's product portfolio appeals across the generations and includes celebrated British designs such as Blue Italian, Blue Room and Christmas Tree. These classic and intricately detailed designs have stood the test of time with Spode being widely regarded as one of the UK's great ceramic brands.

www.spode.co.uk

Pictured: Spode Christmas Tree

Portmeirion Group acquired Wax Lyrical in May 2016. 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.

www.wax-lyrical.com

Pictured: Wax Lyrical Fired Earth

Our Brands continued

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

www.royalworchester.co.uk

Pictured: Royal Worcester Wrendale Designs

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 Chef's Specials

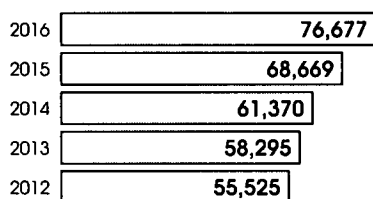
Key Performance Indicators

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)

£76,677

+11.7%

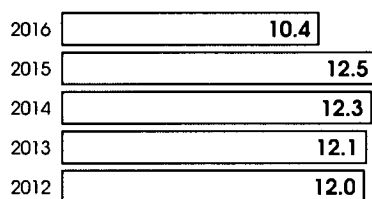


Revenue growth is key, in existing markets and in new markets. 2016 was our eighth successive year of revenue growth, with the part-year sales of Wax Lyrical being the most important contributor to the increase over prior year.

Return on sales (%)

10.4%

-16.8%

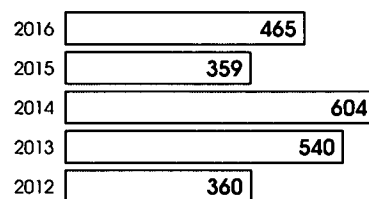


Return on sales expresses operating profit as a percentage of revenue. Because of our high fixed cost base, increases in revenue growth can have great effect on return on sales. The return on sales was impacted during 2016 by the reduction in manufactured sales to South Korea and India.

New products launched

465

+29.5%

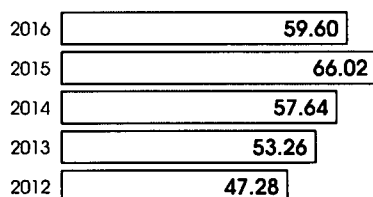


New products launched include new ranges and extensions to existing ranges; these are essential to help drive revenue growth in future years and so in many ways represent expenditure today for benefit tomorrow. The Group has a strong track record of launching new products and in 2017 will be launching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

Basic EPS (p)

59.60p

-9.7%

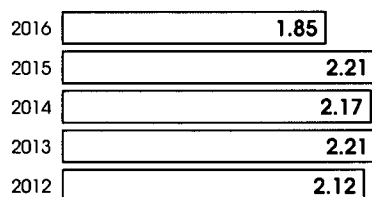


Earnings per share is a shorthand measure of profitability; it takes all the revenue and costs from the year and divides the post-tax profit arising by the number of active shares in issue. It is a measure which helps determine the amount of dividend which can be declared and paid and, as such, together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

Dividend cover

1.85x

-16.3%



Dividend cover shows the extent to which profits exceed dividends paid. The Board continues to consider dividend cover of two to be an appropriate and sustainable level, although a marginal fall for the 2016 dividend cover below this guideline can be temporarily accommodated.

Principal Risks and Uncertainties

The Group Board considers the risks to the business at every Board meeting. It formally reviews and documents the principal risks to the business at least annually. The principal risks inherent in the Group's business model include the following:

Risk	Mitigation	Change
<p>Economic environment</p> <p>Whilst there is renewed optimism regarding the general world economy and hope for an economic recovery, retail conditions remain challenging following the uncertainty created by the Brexit vote and further adverse conditions in the retail sector would have a detrimental impact on trading.</p>	<p>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.</p> <p>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 7.</p>	<p>Increase</p>
<p>Competitors</p> <p>The Group faces strong competition in most of the major markets in which it operates, which presents a risk of losing market share, revenue and profit.</p>	<p>This 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.</p>	<p>Increase</p>
<p>People</p> <p>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.</p>	<p>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.</p> <p>Management also seeks to ensure that personnel are appropriately remunerated to ensure that good performance is recognised.</p>	<p>No change</p>
<p>Suppliers</p> <p>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.</p>	<p>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 of supplies.</p> <p>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.</p>	<p>No change</p>
<p>Financial risk</p> <p>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 and insufficient funds to complete the daily business function and consequent threat to the going concern basis of the organisation.</p>	<p>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 31 on pages 76 to 78.</p> <p>During 2016 the weakening of sterling against the US dollar was a risk that was negotiated in part by a natural self hedge and the remainder by US dollar currency contracts.</p>	<p>Increase</p>

Corporate and Social Responsibility

Portmeirion UK's
Employee of the Year
winner Alan Varley.

Portmeirion UK completed
a 200 for 200 volunteer
scheme during the year.

Environmental policy

The Group recognises the importance of its environmental responsibilities and monitors its impact on the environment. Policies are designed and implemented to reduce damage that might be caused by the Group's activities.

Efficient use of resources is important to the Group. Products are designed and production processes formulated to target high manufacturing yields, thus optimising the utilisation of resources.

Initiatives designed to reduce the Group's impact on the environment include the recycling of manufacturing waste, reducing carbon emissions and utilisation of recyclable packaging materials. In addition, 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. 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 2016 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. Wax Lyrical won the Insider Made in the North West Award for Green Innovation in 2016.

Portmeirion UK's commitment to reducing its carbon emissions is evidenced by having been subject to a Climate Change Agreement since 2000. During 2016, the Company continued to beat the challenging targets on energy efficiency set as part of its ongoing membership of this agreement.

Employees

The Group recognises that our people are our greatest asset and that the Group's performance and its success within our marketplace is directly related to the effectiveness of our people, who deliver the high quality products and exceptional service that we are renowned for. The Group aims to attract, retain and motivate the highest calibre of employees within a structure that encourages their development to maximise their contribution to our customers and the Group.

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 embedded in our Group values. We operate employee forums where representatives from different areas meet to discuss business related issues. Employee engagement is measured by opinion surveys. Portmeirion UK's 2016 survey, showed that 90% of employees responding said that they were happy or very happy to be working for the Group and in Wax Lyrical's 2016 survey 91% of employees responding said that they were proud to work for Wax Lyrical.

In 2016, the Group continued to align both individual and team objectives to focus on the aims, vision and values set by each operating subsidiary and that are specific to their business and their stakeholders.

Recognition

Throughout the Group we operate employee recognition schemes including discretionary incentive schemes, length of service and good attendance awards. These schemes reinforce employee actions which support Group aims and values, foster a sense of belonging and a recognition culture.

Employee performance is measured against formal objectives set annually with line management and on which regular feedback is given.

In 2016, Portmeirion UK recognised its first winner of its employee voted 'Employee of the Year' award. The winner, Alan Varley, showed exceptional focus, commitment and dedication in his duties as a senior engineer in our Stoke-on-Trent factory.

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 including through accredited qualifications in leadership and management.

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 function has 18 such trainers and we hope to increase this by a further 5 in 2017. Internal trainers have the very best knowledge of the job that they are doing and sharing their expertise is crucial to ensuring that those valuable, developed skills are not lost.

Reward strategy

Our reward strategy aims to provide a package that offers competitive pay and distinctive benefits. All employees are offered membership of our Group personal pension plans which provide employer contributions for all members.

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. Reporting of not only all injuries or incidents but near misses too is required and actively encouraged. All new employees receive in-house health and safety training with further training undertaken as the employee role or need requires. 386 employees in Portmeirion UK and 147 in Wax Lyrical have received in-house health and safety training in 2016.

Recruitment

Youth unemployment remains one of the biggest social issues that the UK faces. During 2016 some of our employees visited local high schools on career days to help guide young people to a future career with us. Giving people the opportunity to succeed is at the heart of our ethos and we recognise the value young people can bring to building a dynamic and productive workforce. To help with our future succession planning we are aiming to recruit a further 10 apprentices during 2017.

Wellbeing

Investment in our people stretches beyond their careers to their wellbeing generally. Our new Portmeirion UK 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. Portmeirion UK has recently been accredited for the Workplace Wellbeing Charter.

Community

Helping the community is important to us. Most of our financial contributions to charities come from the efforts and personal involvement of our staff, with support from the Board. Product donations are also made to local charities.

During 2016, Portmeirion UK supported the Douglas Macmillan Hospice as its employee chosen Charity of the Year. This support included a 200 for 200 volunteer scheme which entailed employees completing over 200 hours of charitable service in celebration of Spode Blue Italian's 200th anniversary and a Charity night raising £16,000. The highly successful volunteer scheme actually delivered 273 volunteering hours to help with activities such as gardening, coin counting, retail support and popular mobile lithographing in-patient craft therapy sessions.

For many years St Mary's Hospice has been Wax Lyrical's nominated charity and has received fundraising support as well as sponsored advertisements and dedicated clothes donation banks on site.

Investor in People

Both 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.

Corporate and Social Responsibility continued

Investment in Young People

Portmeirion UK won the Apprenticeship and Training Award 2016 at the Insider Made in the Midlands Awards, recognising our commitment to the development of skills for local young people and current employees. We are very proud of this award and look forward to the continued success of our Home Grown Talent Programme.

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.

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 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. Supplier compliance requirements cover both:

- a Code of Conduct: covering social and ethical treatment of workforce, minimum age of workforce, health and safety, working conditions and environmental waste control; and
- quality of goods: quality must meet or exceed international quality, technical performance and safety standards.

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.

Relations with customers

The Group is committed to providing safe, value for money, high quality products and to developing and maintaining positive relationships with its customers.

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.

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 7. In addition, note 31 to the accounts includes an analysis of the Group's financial risk management objectives, details of its financial instruments and hedging activities and its exposure 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 borrowings of £2.3 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 £6.9 million (2015: £10.7 million). Overall cash decreased by £13.5 million, largely due to the funding required for the Wax Lyrical acquisition of £16.7 million. This was funded partly by cash reserves and the remainder from a term loan repayable over five years.

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 48% 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 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

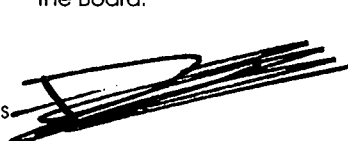
Trading in the first two months of the current year is over 20% ahead of the comparative period in 2016 with Wax Lyrical's sales in for the first time. Excluding Wax Lyrical, the business is currently trading marginally ahead of 2016. However, as we remain increasingly second half weighted, sales in these first two months of the year are low in comparison to the balance of the year.

Our business is worldwide for revenues and for supplies; our ranges have longevity and our brands have heritage and strength.

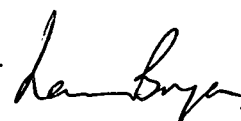
Our strategy and core values remain unchanged; we believe in attentive design, assured quality, a professional sales approach, nurtured brands, prudent financing and progressive dividends. The greatest of these beliefs is dividends, and our ability to maintain our dividend policy is dependent on the delivery of our strategy and the strength of our core values.

Of immediate importance to us is volume throughput in our factories and leveraging the benefits of the Wax Lyrical acquisition. We will continue to seek out acquisition opportunities to match our demanding criteria. Our brands, quality standards, people, production facilities, suppliers, logistics, designs and finances are all in fine fettle. 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
8 March 2017



Lawrence Bryan
Chief Executive

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 is not mandatory for AIM companies, such as ourselves, 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

Lawrence Bryan N
Chief Executive

Lawrence Bryan oversees all the Group's business and is responsible for formulating the Group's objectives and strategy. In addition, all operations in the United States report directly to him as President of Portmeirion Group USA, Inc., as well as the newly acquired Wax Lyrical business. 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.

R Remuneration Committee

A Audit Committee

N Nomination Committee

Philip Atherton
Group Sales and Marketing Director

Phil Atherton is responsible for Portmeirion UK's sales, marketing and design. 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.

Dick Steele

R A N

Non-executive Chairman

Dick Steele is responsible for leading the Board and ensuring that it operates in an effective manner whilst promoting communication with shareholders. He is a Fellow of the Institute of Chartered Accountants in England and Wales and also a member of the Institute of Taxation. He is a Non-executive Director of the Quoted Companies Alliance and Non-executive Chairman of two private equity backed businesses: ASL and Country Baskets.

Janis Kong OBE

R A N

Non-executive Director

Janis Kong has extensive experience in retail, consumer products and risk management. She is Chairman of Bristol Airport Limited, Non-executive Director of Copenhagen Airports A/S and Tui AG. 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.

Lady Judge CBE

R A N

Non-executive Director

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 is the Chairman of the Institute of Directors and 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.

Michael Knapper**Operations Director**

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.

Brett Phillips**Group Finance Director**

Brett Phillips is responsible for all aspects of financial control and legal matters. He is Managing Director of Portmeirion Group UK Limited, the Group's main operating company, and sits on all subsidiary boards. Brett is a Chartered Accountant. He is Chairman of the Board of Furlong Mills Limited, an associated undertaking of the Group. Brett will retire from the Group during 2017.

Moira MacDonald**Company Secretary**

Moira MacDonald was appointed on 1 March 2017 replacing Brett Phillips as Company Secretary. Moira is a Chartered Secretary and has 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.

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 2014 (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 three Non-executive Directors.

The Board considers, after careful review, that the Non-executive Directors bring an independent judgement to bear notwithstanding their length of service. The Board has considered the need for progressive refreshing of the Board in formulating this view. All Non-executive Directors have contracts which expire on the completion of one year's notice. These are available for inspection at the Company's registered office and at the Annual General Meeting. 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 two 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 2016:

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

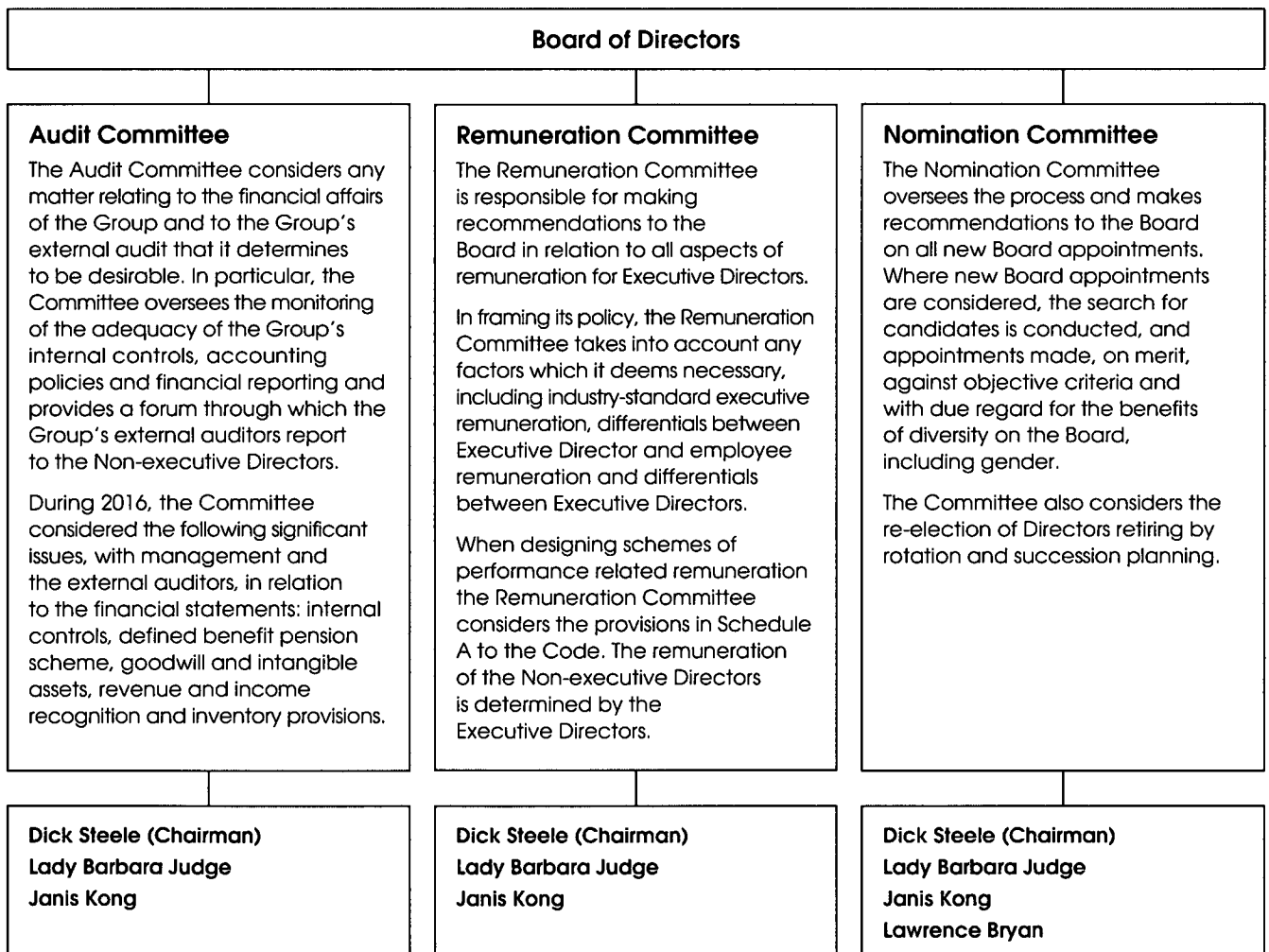
During the year the Board carried out an evaluation of its own performance, taking into account guidance included in the Financial Reporting Council's Guidance on Board Effectiveness. The Board concluded that it had performed effectively. During the year appraisals were carried out with the Directors.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

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.



Corporate Governance Statement continued

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 2016, 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 25 May 2017. 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 61.

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 2017 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 21.

Approval

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



Dick Steele
Non-executive Chairman
8 March 2017

Directors' Remuneration Report

This report is on the activities of the Remuneration Committee for the year ended 31 December 2016 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 2014 (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 on 25 May 2017 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 2016.

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 page 1.

There have been no structural changes to the Remuneration Policy during 2016.

Performance of our Executive Directors is assessed against a range of financial and operational measures ensuring value is delivered to shareholders. Annual incentive payments are based on a demanding profit before tax and exceptional items target. As a result of this target not being met in 2016, Executive Directors did not receive an incentive payment for the year ended 31 December 2016. Details of the Directors' shareholdings are given on page 37.

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
8 March 2017

Remuneration Committee

The members of the Remuneration Committee during 2016 are set out on pages 22 and 23. The terms of reference of the Remuneration Committee are available at www.portmeiriongroup.com.

Dick Steele is Chairman of the Remuneration Committee. The Board considers it appropriate that Dick Steele, with his experience in this area, chairs this Committee. There have been no changes in the composition or chairmanship of the Remuneration Committee during the year. None of the Committee 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 2016, the Committee held three 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 2016. 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 2016 are set out on page 33. 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 up to four times salary, critical illness cover and a company car or cash alternative. 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 that 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 not exceeding a market value of 20% of the gross annual incentive payment earned by the Executive Director in respect of the previous financial year.	Maximum award is 20% 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 32.

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 2016 are set out on page 33. Increases above those awarded for the rest of the Group may be made to reflect the periodic nature of any review. Changes in the scope and responsibilities of a Director's role, or the time commitment required, may require an adjustment to the level of fees.	None.
Pension			
Providing post-retirement benefits if the Non-executive Director does not opt out of the auto-enrolment process.	The Group operates defined contribution schemes.	Dependent on the value of the fund at retirement.	None.

Current service contracts and terms of engagement

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

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

	Date of contract	Notice period
P.E. Atherton	22.11.2012	12 months
L. Bryan	08.11.2002	12 months
M.J. Knapper	01.03.2017	12 months
B.W.J. Phillips	15.03.2000	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 25 May 2017 are set out in the Directors and their interests section of the Report of the Directors on page 36.

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 the Remuneration Policy.

Directors' Remuneration Report continued

Application of Remuneration Policy for the year ended 31 December 2016

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 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 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 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 2016, the profit target was not met and no incentive payment made.

Share options

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

The Company has two Executive Share Option Plans: The Portmeirion 2012 Approved Share Option Plan (the "2012 Approved Plan") and The Portmeirion 2012 Unapproved Share Option Plan (the "2012 Unapproved Plan"). These are discretionary schemes, enabling the grant of options over ordinary shares in the Company to selected employees of the 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 as it directly reflects operational performance and is also a significant factor in determining the market's view of the Group's value.

Options granted in 2013 and 2014 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 or the transfer of shares out of treasury.

Options under the 2010 Deferred Incentive Plan can only be granted to the extent performance targets relating to the annual incentive payment arrangements are met. The exercise of options granted under the 2010 Deferred Incentive Plan are not, therefore, subject to the satisfaction of performance targets.

Pensions

Philip Atherton, Brett Phillips 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.

Application of Remuneration Policy for the year ended 31 December 2016 continued

Pensions continued

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. During 2016, Brett Phillips received a gross pension of £16,000 (2015: £15,000).

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:

	2016 £'000	2015 £'000
Emoluments	1,057	1,313
Long-term incentive plan (LTIP)	39	210
Gains made on exercise of share options	—	111
Money purchase pension contributions	59	70
	1,155	1,704

Directors' emoluments

	Salary and fees £'000	Taxable benefits ⁽¹⁾ £'000	Incentive £'000	LTIP ⁽²⁾ £'000	Pension contributions £'000	Total 2016 £'000	Total 2015 £'000
Executive							
P.E. Atherton	188	17	—	—	21	226	294
L. Bryan ⁽³⁾	444	6	—	25	22	497	791
B.W.J. Phillips	233	15	—	14	15	277	467
Non-executive							
Lady Judge	31	1	—	—	—	32	31
J. Kong	31	—	—	—	—	31	31
R.J. Steele	90	1	—	—	1	92	90
	1,017	40	—	39	59	1,155	1,704

Notes:

- (1) The taxable benefits shown above for P.E. Atherton and B.W.J. Phillips arise from the provision of a company car, critical illness and private medical insurance; life assurance provided is not a taxable benefit for these directors based in the UK. 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 £26,000 (2015: £18,000) 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 11 May 2016, L. Bryan and B.W.J. Phillips exercised options granted in 2013 under the 2010 Deferred Incentive Plan. The mid-market closing price of the Company's shares on 11 May 2016 was 1190.0p. 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, 1190.0p, 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 plan section of this report on page 35.
- (3) L. Bryan is remunerated in US dollars and his remuneration is translated into sterling at the average exchange rate for the year. In 2016, this was \$1.3548/£ (2015: \$1.5282/£).

Directors' share options and long-term incentives

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

Directors' Remuneration Report continued

Application of Remuneration Policy for the year ended 31 December 2016 continued**Executive Share Option Plans**

The Company has two share option plans, the 2012 Approved Plan and the 2012 Unapproved Plan, as described on page 32. Details of options held under these schemes by Directors who served during the year are as follows:

Director	At 01.01.2016	Number of options		At 31.12.2016	Exercise price (p)	Dates on which exercisable	
		Granted	Exercised			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
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
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

Notes:

- (1) The performance criteria attaching to share options are detailed on page 32.
- (2) The Company's share price reached a high of 1267.5p and a low of 749.0p during 2016. The average share price during 2016 was 974.9p. The share price on 31 December 2016 was 935.0p.
- (3) There have been no changes to the Directors' interests in the shares or options over shares of the Company between 31 December 2016 and 8 March 2017.

Long-term incentive plan

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

Director	At 01.01.2016	Number of options		At 31.12.2016	Dates on which exercisable	
		Granted	Exercised		Earliest	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	2,106	—	(2,106)	—	20.04.2016	18.07.2016
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	1,197	—	(1,197)	—	20.04.2016	18.07.2016
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.

Application of Remuneration Policy for the year ended 31 December 2016 continued

Long-term incentive plan continued

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 2016 £'000	Total gains on exercise 2015 £'000
L. Bryan	11.05.2016	2,106	100.0	1,190.0	25	25	69
B.W.J. Phillips	11.05.2016	1,197	100.0	1,190.0	14	14	40

Consultations with shareholders and statement of voting at general meeting

At the Annual General Meeting of the Company held on 19 May 2016, a resolution to approve the Directors' Remuneration Report for the year ended 31 December 2015 was passed with 6,328,622 proxy votes lodged, of which 99.59% were in favour, 0.21% gave discretion and 0.20% voted against.

In February 2017, the Chairman wrote to significant institutional shareholders offering a meeting to discuss corporate governance matters. The Chairman is in contact with all other significant shareholders in the Company.

Approval

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



Dick Steele
Chairman of the Remuneration Committee
8 March 2017

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 2016. The Corporate Governance Statement set out on pages 24 to 27 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 Directors' Report have been omitted as they are included in the Strategic Report on pages 1 to 21. 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 31 on pages 76 to 79. 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 3 October 2016 an interim dividend of 7.00p (2015: 6.10p) per share was paid on the ordinary share capital. The Directors recommend that a final dividend of 25.25p per share be paid (2015: 23.90p), making a total for the year of 32.25p (2015: 30.00p) per share. The final dividend will be paid, subject to shareholders' approval, on 30 May 2017 to shareholders on the register at the close of business on 28 April 2017.

Research and development

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

Directors and their interests

The Directors of the Company are listed on pages 22 and 23 together with biographical and Committee membership details. Michael Knapper joined the Board on 1 March 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 2014. Phil Atherton, Lawrence Bryan, Lady Barbara Judge, Janis Kong and Dick Steele will therefore retire at the Annual General Meeting to be held on 25 May 2017 and, being eligible, are offering themselves for re-election. In addition, Michael Knapper is being proposed for election, as he has joined the Board since the last Annual General Meeting. In light of Brett Phillips' retirement from the Group during 2017, he will continue as a Director under the mandate given by shareholders at the Annual General Meeting on 19 May 2016 until such time as he does retire. The Board has formally reviewed the performance of each 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 24 to 27.

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 24 to 27.

The Directors who held office at 31 December 2016 had the following beneficial interests in the share capital of the Company:

	At 31 December 2016 5p ordinary shares Beneficial	At 31 December 2015 5p ordinary shares Beneficial
L. Bryan	142,834	140,728
Lady Judge	5,000	5,000
J. Kong	5,000	5,000
B.W.J. Phillips	61,745	90,548
R.J. Steele	27,000	22,000

Directors' share interests include the interests of their spouses, civil partners and infant children or stepchildren as required by section 822 of the Companies Act 2006. There were no changes in the beneficial interests of the Directors in the Company's shares between 31 December 2016 and 8 March 2017.

Details of Directors' share options are provided in the Directors' Remuneration Report on pages 34 and 35.

Details of transactions with Directors and other related parties are to be found in note 29 on page 73.

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 71. 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 32 on page 71 and pages 79 to 81.

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 2016 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 ⁽²⁾	16.65%	1,792,272
Investec Wealth & Investment Limited ⁽³⁾	13.00%	1,399,867
Marlborough Multi Cap Income Fund ⁽³⁾	7.70%	828,500
Ymddiriedolaeth Clough Williams-Ellis Foundation ⁽²⁾	6.17%	664,612
Shahzad Farhadi	5.87%	632,333
Kamrouz Farhadi	5.23%	562,917
Henderson UK Equity Income Fund ⁽³⁾	3.46%	372,500

Notes:

- (1) The percentages are of the total shares in issue, excluding treasury shares (10,765,556).
- (2) All holdings are direct holdings unless otherwise indicated.
- (3) Shareholding held indirectly through a nominee.

During the period between 31 December 2016 and 8 March 2017, 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 25 May 2017 at 12:00 noon (the "2017 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 2017 AGM, the following resolutions will be proposed together with the resolution described below regarding market purchases of the Company's shares:

- Authority to allot shares – under section 551 of the Companies Act 2006, the directors of a company may only allot unissued shares or any rights to subscribe for or to convert any security into shares in the company if authorised to do so. The resolution giving authority to allot shares, if passed, will continue to provide flexibility for the Directors to act in the best interests of shareholders, when opportunities arise, by issuing new shares, and replaces the authority given at the Annual General Meeting of the Company held on 19 May 2016. The authority will allow the Directors to allot new shares up to a nominal value of £179,425, approximately equal to one-third of the present issued share capital excluding treasury shares as at 8 March 2017. The Directors have no current intention of exercising this authority except in relation to the allotment of shares under the share option schemes.
- 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 £53,827, which is approximately equal to 10% of the present issued share capital excluding treasury shares as at 8 March 2017, and allotments of equity securities and/or sale of treasury shares in connection with a rights issue or other in proportion offer to shareholders.

Acquisition of the Company's own shares

The Company did not purchase any of its own shares during the year. The Company holds 239,477 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 19 May 2016, to purchase through the market 1,076,037 of the Company's ordinary shares. This authority expires on 30 June 2017.

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 a special resolution of the 2017 AGM seeks authority from members to allow the Company to make market purchases, subject to the restrictions set out in the Notice of Annual General Meeting, and in particular to the maximum number of ordinary shares that may be purchased being 1,076,555, approximately equal to 10% of the present issued share capital of the Company excluding treasury shares as at 8 March 2017. 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") was set up in 2013 to encourage and facilitate 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 2016, 32,000 were transferred from the Trust to certain employees of the Group on the exercise of share options. There were no purchases of shares into the Trust during 2016. The Trust holds a total of 307,048 shares representing approximately 2.85% of the issued share capital of the Company excluding treasury shares as at 8 March 2017.

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 2016, to complement these discussions, the Group has continued communicating information from Board level to all employees on a regular basis via a programme of team briefings and by use of the Company's intranet and notice boards.

Share option and profit related incentive schemes are operated to encourage the involvement of employees in the Group's performance. 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 page 60.

Political contributions

There were no political contributions during the year.

Auditors

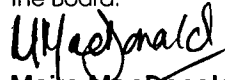
Each of the persons who are Directors at the date of approval of this Annual Report confirms that:

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

8 March 2017

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 Auditors' Report

Independent auditors' report to the members of Portmeirion Group PLC

We have audited the financial statements of Portmeirion Group PLC for the year ended 31 December 2016 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 related notes. The financial reporting framework that has been applied in the preparation of the Group and Company financial statements is applicable law and International Financial Reporting Standards (IFRS) 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 2016.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;

- the parent Company financial statements have been properly prepared in accordance with IFRS 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.

Opinion 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.

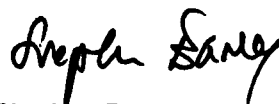
Matters on which we are required to report by exception

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:

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

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



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
8 March 2017

Consolidated Income Statement

for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Revenue	4,5	76,677	68,669
Operating costs	6	(68,713)	(60,102)
Operating profit		7,964	8,567
Interest income	9	31	19
Finance costs	10	(387)	(177)
Share of profit of associated undertakings		198	240
Profit before tax		7,806	8,649
Tax	11	(1,581)	(1,752)
Profit for the year attributable to equity holders		6,225	6,897
Earnings per share	13	59.60p	66.02p
Diluted earnings per share	13	59.10p	65.48p
Dividends paid and proposed per share	12	32.25p	30.00p

All the above figures relate to continuing operations.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Profit for the year		6,225	6,897
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of net defined benefit pension scheme liability	30	(5,357)	261
Deferred tax relating to items that will not be reclassified subsequently to profit or loss	24	815	(245)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		1,293	385
Deferred tax relating to items that may be reclassified subsequently to profit or loss	24	193	17
Other comprehensive income for the year		(3,056)	418
Total comprehensive income for the year attributable to equity holders		3,169	7,315

Consolidated Balance Sheet

31 December 2016

Portmeirion Group PLC

Registered number: 124842

	Notes	2016 £'000	2015 £'000
Non-current assets			
Goodwill	14	7,229	—
Intangible assets	15	6,566	1,032
Property, plant and equipment	16	10,617	9,639
Interests in associates	17	2,313	2,044
Deferred tax asset	24	1,475	566
Total non-current assets		28,200	13,281
Current assets			
Inventories	19	16,267	12,700
Trade and other receivables	20	12,485	9,312
Cash and cash equivalents	21	6,540	11,130
Total current assets		35,292	33,142
Total assets		63,492	46,423
Current liabilities			
Trade and other payables	22	(8,738)	(5,986)
Current income tax liabilities		(1,005)	(830)
Borrowings	23	(1,961)	—
Total current liabilities		(11,704)	(6,816)
Non-current liabilities			
Pension scheme deficit	30	(7,130)	(3,085)
Deferred tax liability	24	(961)	—
Borrowings	23	(6,909)	—
Total non-current liabilities		(15,000)	(3,085)
Total liabilities		(26,704)	(9,901)
Net assets		36,788	36,522
Equity			
Called up share capital	25	550	550
Share premium account		6,624	6,612
Investment in own shares	26	(2,936)	(3,137)
Share-based payment reserve		496	370
Translation reserve		2,900	1,414
Retained earnings		29,154	30,713
Total equity		36,788	36,522

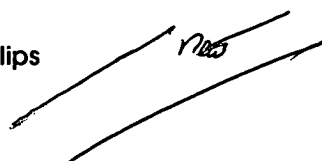
These financial statements were approved by the Board of Directors and authorised for issue on 8 March 2017.

They were signed on its behalf by:

L. Bryan
Director



B.W.J. Phillips
Director



Company Balance Sheet

31 December 2016

	Notes	2016 £'000	2015 £'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	2,244	721
Cash and cash equivalents		—	12
Total current assets		2,244	733
Total assets		14,610	13,099
Current liabilities			
Current income tax liabilities		—	(13)
Total current liabilities		—	(13)
Total liabilities		—	(13)
Net assets		14,610	13,086
Equity			
Called up share capital	25	550	550
Share premium account		6,624	6,612
Other reserves		197	197
Investment in own shares	26	(2,936)	(3,137)
Share-based payment reserve		496	370
Retained earnings		9,679	8,494
Total equity		14,610	13,086

The financial statements of Portmeirion Group PLC, company registration number 124842, were approved by the Board of Directors and authorised for issue on 8 March 2017.

They were signed on its behalf by:

L. Bryan
Director



B.W.J. Phillips
Director



Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	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 2015	549	6,456	(1,814)	292	1,012	26,552	33,047
Profit for the year	—	—	—	—	—	6,897	6,897
Other comprehensive income for the year	—	—	—	—	402	16	418
Total comprehensive income for the year	—	—	—	—	402	6,913	7,315
Dividends paid	—	—	—	—	—	(2,852)	(2,852)
Increase in share-based payment reserve	—	—	—	175	—	—	175
Transfer on exercise or lapse of options	—	—	—	(97)	—	97	—
Shares issued under employee share schemes	1	156	74	—	—	(21)	210
Purchase of own shares	—	—	(1,397)	—	—	(7)	(1,404)
Deferred tax on share-based payment	—	—	—	—	—	31	31
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 31 December 2016	550	6,624	(2,936)	496	2,900	29,154	36,788

Company Statement of Changes in Equity

for the year ended 31 December 2016

	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 2015	549	6,456	197	(1,814)	292	6,840	12,520
Profit for the year	—	—	—	—	—	4,437	4,437
Total comprehensive income for the year	—	—	—	—	—	4,437	4,437
Dividends paid	—	—	—	—	—	(2,852)	(2,852)
Increase in share-based payment reserve	—	—	—	—	175	—	175
Transfer on exercise or lapse of options	—	—	—	—	(97)	97	—
Shares issued under employee share schemes	1	156	—	74	—	(21)	210
Purchase of own shares	—	—	—	(1,397)	—	(7)	(1,404)
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 31 December 2016	550	6,624	197	(2,936)	496	9,679	14,610

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	2016 £'000	2015 £'000
Operating profit	7,964	8,567
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	1,328	978
Amortisation of intangible assets	454	192
Contributions to defined benefit pension scheme	(1,400)	(937)
Charge for share-based payments	144	175
Exchange gain	205	58
Profit on sale of tangible fixed assets	(2)	(1)
Operating cash flows before movements in working capital	8,693	9,032
(Increase)/decrease in inventories	(342)	3,096
(Increase)/decrease in receivables	(709)	1,607
Increase/(decrease) in payables	1,096	(934)
Cash generated from operations	8,738	12,801
Interest paid	(233)	(50)
Income taxes paid	(1,620)	(2,045)
Net cash from operating activities	6,885	10,706
Investing activities		
Interest received	31	19
Proceeds on disposal of property, plant and equipment	34	2
Purchase of property, plant and equipment	(744)	(1,420)
Purchase of intangible assets	(20)	(47)
Acquisition of subsidiary	(16,669)	—
Net cash outflow from investing activities	(17,368)	(1,446)
Financing activities		
Equity dividends paid	(3,217)	(2,852)
Shares issued under employee share schemes	207	210
Purchase of own shares	—	(1,404)
New bank loans raised	16,844	—
Repayments of borrowings	(8,000)	—
Net cash inflow/(outflow) from financing activities	5,834	(4,046)
Net (decrease)/increase in cash and cash equivalents	(4,649)	5,214
Cash and cash equivalents at beginning of year	11,130	5,905
Effect of foreign exchange rate changes	59	11
Cash and cash equivalents at end of year	6,540	11,130

Company Statement of Cash Flows

for the year ended 31 December 2016

	2016 £'000	2015 £'000
Operating profit	4,390	4,421
<i>Adjustments for:</i>		
Charge for share-based payments	144	175
Operating cash flows before movements in working capital	4,534	4,596
Increase in receivables	(1,523)	(539)
Cash generated from operations	3,011	4,057
Income taxes paid	(13)	(11)
Net cash from operating activities	2,998	4,046
Financing activities		
Equity dividends paid	(3,217)	(2,852)
Shares issued under employee share schemes	207	210
Purchase of own shares	—	(1,404)
Net cash outflow from financing activities	(3,010)	(4,046)
Net decrease in cash and cash equivalents	(12)	—
Cash and cash equivalents at beginning of year	12	12
Cash and cash equivalents at end of year	—	12

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 84. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 21. 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 profit of the Company for the year was £4,390,000 (2015: £4,437,000).

The going concern basis has been considered in the Strategic Report on page 21.

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 and a new interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on 1 January 2016. 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 1 (amendment) 'Presentation of Financial Statements' – Disclosure initiative	1 January 2016
IAS 16 (amendment) 'Property, Plant and Equipment' and IAS 38 (amendment) 'Intangible Assets' – Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IAS 16 (amendment) 'Property, Plant and Equipment' and IAS 41 (amendment) 'Agriculture' – Agriculture: Bearer plants	1 January 2016
IAS 19 (amendment) 'Employee Benefits' – Defined benefit plans: Employee contributions	1 February 2015
IAS 27 (amendment) 'Separate Financial Statements' – Equity method in separate financial statements	1 January 2016
IFRS 10 (amendment) 'Consolidated Financial Statements', IFRS 12 (amendment) 'Disclosure of Interests in Other Entities' and IAS 28 (amendment) 'Investments in Associates and Joint Ventures' – Investment entities: Applying the consolidation exception	1 January 2016
IFRS 11 (amendment) 'Joint Arrangements' – Accounting for acquisitions of interests in joint operations	1 January 2016
Annual Improvements to IFRS (2010–2012)	1 February 2015
Annual Improvements to IFRS (2012–2014)	1 January 2016

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
IAS 7 (amendment) 'Statement of Cash Flows' – Disclosure initiative	Expected to be endorsed Q2 2017
IAS 12 (amendment) 'Income Taxes' – Recognition of deferred tax assets for unrealised losses	Expected to be endorsed Q2 2017
IFRS 9 'Financial Instruments'	1 January 2018
IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	Expected to be endorsed Q2 2017
IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	Expected to be endorsed H2 2017

1. Basis of preparation continued

	EU effective date periods beginning on or after
IAS 40 (amendment) 'Investment Property' – Transfers of investment property	Expected to be endorsed H2 2017
IFRS 2 (amendment) 'Share-based Payment' – Classification and measurement of share-based payment transactions	Expected to be endorsed H2 2017
IFRS 4 (amendment) 'Insurance Contracts' – Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	Expected to be endorsed 2017
Annual Improvements to IFRS (2014–2016)	Expected to be endorsed H2 2017
IFRS 16 'Leases'	Expected to be endorsed H2 2017
IFRS 14 'Regulatory Deferral Accounts'	Will not be endorsed by the EU
IFRS 10 (amendment) 'Consolidated Financial Statements' and IAS 28 (amendment) 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture	Endorsement by the EU has been postponed

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, which will require a presentational adjustment to include operating leases on the balance sheet, and as a result will affect the recognition, measurement and presentation of leases.

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 2016.

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

2.1 Basis of consolidation

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

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

All accounts for subsidiaries and associated undertakings have been prepared for the year ended 31 December 2016 except for the accounts of Portmeirion Canada Inc. which have a year end of 30 June 2016. The Group accounts include interim financial information to 31 December 2016 for Portmeirion Canada Inc.

2.2 Investments

Fixed asset investments 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.

Notes to the Financial Statements continued

2. Significant accounting policies continued

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.

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

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

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

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

2.5 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.

Assets held under finance leases are recognised as assets of the Group at their fair value.

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 as they fall due.

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

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

2. Significant accounting policies continued

2.9 Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

2.10 Property, plant and equipment

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

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

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

2.11 Intangible assets

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

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

Notes to the Financial Statements continued

2. Significant accounting policies continued**2.12 Impairment of tangible assets, intangible assets and goodwill**

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

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

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

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

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

2.13 Business combinations and goodwill

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

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

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

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 re-assesses 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.

2. Significant accounting policies continued

2.13 Business combinations and goodwill continued

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 met:

- 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;
- 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 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.

Notes to the Financial Statements continued

2. Significant accounting policies continued

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

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

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

Receivables

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

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 31.

2.18 Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 32.

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.

Impairment of inventory

Provision is made for the impairment of slow-moving and obsolete inventory based on historical and forecast sales and estimates of net realisable value. The carrying value of inventory at the year end was £16,267,000 (2015: £12,700,000).

Defined benefit pension scheme

The valuation of the Group's defined benefit pension scheme assets and liabilities under IAS 19 'Employee Benefits' requires assumptions to be made regarding inflation, discount rates, mortality, salary and pension increases. The carrying value of the scheme liability at the year end was £7,130,000 (2015: £3,085,000).

4. Revenue

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

	2016 £'000	2015 £'000
Continuing operations		
Sale of goods	76,467	68,480
Royalties	210	189
	76,677	68,669

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 operations and the newly acquired Wax Lyrical business. 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.

	2016			2015		
	Total sales £'000	Inter-segment sales £'000	Sales to third parties £'000	Total sales £'000	Inter-segment sales £'000	Sales to third parties £'000
Revenue by origin						
Portmeirion UK	46,188	(3,835)	42,353	50,667	(4,134)	46,533
Portmeirion USA	23,969	—	23,969	22,136	—	22,136
Wax Lyrical	10,515	(160)	10,355	—	—	—
	80,672	(3,995)	76,677	72,803	(4,134)	68,669

Included in revenues arising from the United Kingdom are revenues of £9,724,000 (2015: £12,346,000) which arose from sales to the Group's largest customer in South Korea.

Inter-segment sales are charged at prevailing market prices.

Notes to the Financial Statements continued

5. Segmental analysis continued

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

Revenue	2016 £'000	2015 £'000
United Kingdom	27,084	17,924
United States	24,216	22,287
South Korea	9,724	12,346
Rest of the World	15,653	16,112
	76,677	68,669

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.

Operating profit by origin	2016 £'000	2015 £'000
Portmeirion UK	5,307	7,459
Portmeirion USA	1,202	1,108
Wax Lyrical	1,455	—
Operating profit	7,964	8,567
<i>Unallocated items:</i>		
Share of profit of associated undertakings	198	240
Interest income	31	19
Finance costs	(387)	(177)
Profit before tax	7,806	8,649
Tax	(1,581)	(1,752)
Profit after tax	6,225	6,897

5. Segmental analysis continued

Other Information	2016				2015			
	Portmeirion UK £'000	Portmeirion USA £'000	Wax Lyrical £'000	Consolidated £'000	Portmeirion UK £'000	Portmeirion USA £'000	Wax Lyrical £'000	Consolidated £'000
Capital additions	411	160	193	764	1,449	18	—	1,467
Depreciation and amortisation	1,092	179	511	1,782	1,023	147	—	1,170
<i>Balance sheet:</i>								
Assets								
Non-current segment assets	10,885	668	14,333	25,886	10,100	571	—	10,671
Other segment assets	19,332	8,168	7,356	34,856	25,797	7,449	—	33,246
Total segment assets	30,217	8,836	21,689	60,742	35,897	8,020	—	43,917
Interests in associates				2,313				2,044
Other assets				437				462
Consolidated total assets				63,492				46,423
Liabilities								
Segment liabilities	21,675	1,694	3,315	26,684	8,737	1,070	—	9,807
Other liabilities				20				94
Consolidated total liabilities				26,704				9,901
Reconciliation of earnings before interest, tax, depreciation and amortisation (EBITDA)								
Operating profit							7,964	8,567
<i>Add back:</i>								
Depreciation							1,328	978
Amortisation							454	192
Earnings before interest, tax, depreciation and amortisation							9,746	9,737

6. Operating costs

	2016 £'000	2015 £'000
Cost of inventories recognised as an expense	31,581	27,201
Movement on inventory impairment provision	723	1,238
Other external charges	12,920	10,691
Staff costs (note 7)	21,491	19,569
Depreciation of property, plant and equipment	1,328	978
Amortisation of intangible assets	454	192
Impairment of trade receivables	49	28
Cost of research and development	265	214
Net foreign exchange gains	(98)	(9)
	68,713	60,102

Notes to the Financial Statements continued

7. Staff numbers and costs

	2016 Number	2015 Number
<i>The average number of persons employed during the year, including Directors:</i>		
Operatives	483	439
Salaried employees	289	245
	772	684
	2016 £'000	2015 £'000
Staff costs		
Wages and salaries	18,182	16,565
Social security costs	1,526	1,389
Other pension costs	1,228	1,166
Non-monetary benefits	555	449
	21,491	19,569
	2016 £'000	2015 £'000
<i>Directors' emoluments:</i>		
Salary and fees, taxable benefits and incentive	1,057	1,313
Gains made on exercise of share options	—	111
Long-term incentive plan	39	210
Pension contributions	59	70
	1,155	1,704
	2016 Number	2015 Number
Number of Directors who were members of a defined contribution pension scheme during the year	4	4
Number of Directors who exercised options over shares in the ultimate parent company	2	2
	2016 £'000	2015 £'000
<i>Remuneration of the highest paid Director:</i>		
Salary and fees, taxable benefits and incentive	450	571
Gains made on exercise of share options	—	65
Long Term Incentive Plan	25	135
Pension contributions	22	20
	497	791

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

8. Auditors' remuneration

	2016 £'000	2015 £'000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	51	49
Other audit related services - interim review	8	6
The audit of the Company's subsidiaries	13	—
Total audit related fees	72	55
Fees payable to the Group's auditor and their associates for other services to the Group		
Other taxation advisory services	2	5
Other services	5	—
Total non-audit fees	7	5
Fees payable to the Group's auditor and their associates in respect of associated pension schemes		
Audit of the Portmeirion Potteries Limited Retirement Benefits Scheme	5	4
	5	4

The audit fee for the Company was £1,600 (2015: £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

	2016 £'000	2015 £'000
Bank deposits	31	19

10. Finance costs

	2016 £'000	2015 £'000
Interest paid	281	20
Realised losses on financial derivatives	8	10
Unrealised losses on financial derivatives	10	17
Net interest expense on pension scheme deficit	88	130
	387	177

Notes to the Financial Statements continued

11. Taxation on profit on ordinary activities

	2016 £'000	2015 £'000
Current taxation		
United Kingdom corporation tax at 20% (2015: 20.25%)	1,149	1,201
Overseas taxation	483	482
	1,632	1,683
Deferred taxation		
Origination and reversal of temporary differences	(209)	38
Pension scheme	158	31
	(51)	69
	1,581	1,752

United Kingdom corporation tax is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation	7,806	8,649
Tax on profit on ordinary activities at standard rate of 20% (2015: 20.25%)	1,561	1,751
<i>Factors affecting charge for the year:</i>		
Expenses not deductible for tax purposes and other adjustments	(209)	(253)
Foreign tax charged at higher rates than UK standard rate	269	272
Differences relating to associates' tax charge	(40)	(18)
Total tax on profit on ordinary activities	1,581	1,752

12. Dividends paid

	2016 £'000	2015 £'000
Final dividend of 23.90p per share paid in respect of the year ended 31 December 2015 (2015: final dividend of 21.00p per share paid in respect of the year ended 31 December 2014)	2,491	2,216
Interim dividend of 7.00p per share paid in respect of the year ended 31 December 2016 (2015: interim dividend of 6.10p per share paid in respect of the year ended 31 December 2015)	732	636
Unclaimed dividends written back	(6)	—
Total dividends paid in the year	3,217	2,852

The Directors recommend that a final dividend for 2016 of 25.25p (2015: 23.90p) per ordinary share be paid, making a total for the year of 32.25p (2015: 30.00p) per share. The final dividend will be paid, subject to shareholders' approval, on 30 May 2017, to shareholders on the register at the close of business on 28 April 2017. 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:

	2016			2015		
	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	6,225	10,445,140	59.60	6,897	10,446,483	66.02
<i>Effect of dilutive securities:</i>						
employee share options	—	87,517	—	—	87,095	—
Diluted earnings per share	6,225	10,532,657	59.10	6,897	10,533,578	65.48

14. Goodwill

	Total £'000
Cost	
At 1 January 2015 and 1 January 2016	—
Recognised on acquisition of a subsidiary	7,229
At 31 December 2016	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.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 1.5%. 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 2015	59	556	2,693	3,308
Additions	—	47	—	47
Disposals	—	(314)	—	(314)
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 31 December 2016	59	309	8,661	9,029
Amortisation				
At 1 January 2015	14	364	1,753	2,131
Charge for the year	45	84	63	192
On disposals	—	(314)	—	(314)
At 1 January 2016	59	134	1,816	2,009
Charge for the year	—	80	374	454
On disposals	—	—	—	—
At 31 December 2016	59	214	2,190	2,463
Net book value				
At 31 December 2016	—	95	6,471	6,566
At 31 December 2015	—	155	877	1,032

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 £814,000 (2015: £877,000). The remaining amortisation period is thirteen years.

At the year end the Wax Lyrical intellectual property had a carrying value of £3,725,000 and the customer lists had a carrying value of £1,932,000. The remaining amortisation periods are fourteen years four months and nine years four months respectively.

At 31 December 2016, the Group had entered into contractual commitments for the acquisition of intangible assets amounting to £nil (2015: £nil).

An impairment review of intellectual property has been carried out based on anticipated revenue and no indications of impairment have been identified.

16. Property, plant and equipment

	Land and buildings			Plant and vehicles £'000	Total £'000
	Freehold £'000	Leasehold £'000	Leasehold improvements £'000		
Cost					
At 1 January 2015	3,855	3,874	1,326	13,210	22,265
Additions	—	—	—	1,420	1,420
Disposals	—	—	—	(919)	(919)
Exchange rate adjustments	—	—	32	57	89
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 31 December 2016	3,855	3,874	1,595	15,752	25,076
Depreciation					
At 1 January 2015	1,821	72	832	10,372	13,097
Charge for the year	70	51	90	767	978
On disposals	—	—	—	(918)	(918)
Exchange rate adjustments	—	—	17	42	59
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 31 December 2016	1,961	174	1,108	11,216	14,459
Net book value					
At 31 December 2016	1,894	3,700	487	4,536	10,617
At 31 December 2015	1,964	3,751	419	3,505	9,639

At 31 December 2016, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £101,000 (2015: £nil).

Notes to the Financial Statements continued

17. Interests in associates

Associated undertakings	2016 £'000	2015 £'000
Furlong Mills Limited		
2,080 ordinary shares of £1 each, representing 33.33% of the issued share capital		
Share of net assets	1,477	1,347
Discount on acquisition	(13)	(13)
	1,464	1,334
Portmeirion Canada Inc.		
100 common shares representing 50% of the issued share capital		
Share of net assets	849	710
	2,313	2,044
Aggregated amounts relating to associates	2016 £'000	2015 £'000
Profit or loss from continuing operations	198	240

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:

	2016 £'000	2015 £'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
<i>Capital contributions made to subsidiary undertakings:</i>		
Portmeirion Group UK Limited	10,146	10,146
Portmeirion Enterprises Limited	705	705
Portmeirion Distribution Limited	60	60
	12,366	12,366

Long-term receivables have been reflected as capital contributions within investments to better represent their nature.

18. Investment in subsidiaries continued

At 31 December 2016 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

	2016 £'000	2015 £'000
Raw materials and other consumables	3,039	1,984
Work in progress	564	545
Finished goods	12,664	10,171
	16,267	12,700

20. Trade and other receivables

Group	2016 £'000	2015 £'000
Amounts receivable for the sale of goods	11,435	8,647
Allowance for doubtful debts	(310)	(210)
Trade receivables	11,125	8,437
Amounts owed by associated undertakings	251	215
Other receivables	97	33
Prepayments and accrued income	1,012	627
	12,485	9,312

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 £2,447,000 (2015: £1,573,000) 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 48 days (2015: 55 days).

Ageing of past due but not impaired receivables	2016 £'000	2015 £'000
31-60 days	2,264	1,158
61-90 days	124	222
91+ days	59	193
Total	2,447	1,573

Movement in the allowance for doubtful debts	2016 £'000	2015 £'000
Balance at the beginning of the year	210	196
Recognised on acquisition of a subsidiary	99	—
Impairment losses recognised	49	28
Amounts written off as uncollectable	(48)	(14)
Balance at the end of the year	310	210

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	2016 £'000	2015 £'000
120+ days	109	91

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £nil (2015: £13,000), 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	2016 £'000	2015 £'000
Amounts owed by subsidiary undertakings	2,244	721

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

	2016 £'000	2015 £'000
Cash and cash equivalents	6,540	11,130

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	2016 £'000	2015 £'000
Trade payables and accruals	7,317	5,003
Other taxation and social security	808	449
Other payables	613	534
	8,738	5,986

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 35 days (2015: 34 days). For most suppliers no interest is charged on the trade payables from the date of invoice to the end of the following month. Thereafter, interest may be charged on the outstanding balances at various interest rates. The Group's policy is to pay all payables within the credit timeframe.

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

Notes to the Financial Statements continued

23. Borrowings

The Group has three facilities:

- a) A £2,000,000 overdraft facility available until 31 May 2017. 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 £9,000,000.
- 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 2016.

24. Deferred tax

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

	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Share- based payment £'000	Capital gain rolled over £'000	Other temporary differences £'000	Temporary difference acquired intangibles £'000	Total £'000
At 1 January 2015	(519)	831	105	(277)	692	—	832
Credit/(charge) to income	27	(31)	(27)	28	(66)	—	(69)
Credit to equity	—	—	31	—	—	—	31
(Charge)/credit to other comprehensive income	—	(245)	—	—	17	—	(228)
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 31 December 2016	(433)	1,212	80	(235)	851	(961)	514

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:

	2016 £'000	2015 £'000
Deferred tax liability	(961)	—
Deferred tax asset	1,475	566
	514	566

At the balance sheet date, the Group had no unused tax trading or capital losses (2015: £nil) available for offset against future profits.

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

25. Share capital

	2016		2015	
	Number '000	£'000	Number '000	£'000
<i>Allotted, called up and fully paid share capital:</i>				
ordinary shares of 5p each	11,005	550	11,003	550

The market price of the Company's shares at 31 December 2016 was 935.0p per share. During the year the price ranged between 749.0p and 1,267.5p per share.

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

During the year the Company issued 1,879 new ordinary shares of 5p each for a total of £12,000 in order to satisfy the exercise of share options.

Options granted to Directors and employees (note 32) to acquire ordinary shares of 5p in the Company and still outstanding at 31 December 2016 were as follows:

	Number of shares	Exercise price per share (p)	Dates on which exercisable	
			Earliest	Latest
2010 Deferred Incentive Plan	1,734	—	16.04.2017	14.07.2017
2010 Deferred Incentive Plan	4,457	—	22.04.2018	20.07.2018
2010 Deferred Incentive Plan	5,830	—	12.05.2019	10.08.2019
2012 Approved Plan	4,918	610.0	03.05.2016	01.05.2023
2012 Unapproved Plan	108,203	610.0	03.05.2016	01.05.2023
2012 Approved Plan	11,194	740.0	01.05.2017	29.04.2024
2012 Unapproved Plan	135,806	740.0	01.05.2017	29.04.2024
2012 Approved Plan	7,573	935.0	28.04.2018	26.04.2025
2012 Unapproved Plan	157,427	935.0	28.04.2018	26.04.2025

Options held by the Directors are shown in the Directors' Remuneration Report on page 34.

Notes to the Financial Statements continued

26. Own shares

	2016 £'000	2015 £'000
Treasury shares		
At 1 January	453	527
Shares purchased	—	—
Shares issued under employee share schemes	(5)	(74)
At 31 December	448	453
ESOP shares		
At 1 January	2,684	1,287
Shares purchased	—	1,397
Shares issued under employee share schemes	(196)	—
At 31 December	2,488	2,684
Total at 31 December	2,936	3,137

The Group currently holds 239,477 (2015: 242,780) 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 32). The number of ordinary shares held by the Employees' Share Trust at 31 December 2016 was 307,048 (2015: 339,048).

27. 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 office and showroom 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

	2016 £'000	2015 £'000
Lease payments under operating leases recognised as an expense in the year	1,602	1,271

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:

	2016 £'000	2015 £'000
Within one year	1,480	1,139
In the second to fifth years inclusive	2,467	2,487
After five years	1,647	—
	5,594	3,626

The Company did not have any operating lease arrangements.

28. 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.

29. 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 2016 £'000	Purchases 2015 £'000	Sales 2016 £'000	Sales 2015 £'000
Portmeirion Canada Inc.	—	—	1,509	1,603
Furlong Mills Limited	812	916	—	—

The outstanding balances at 31 December 2016 with associated undertakings were:

	Debtor 2016 £'000	Debtor 2015 £'000	Creditor 2016 £'000	Creditor 2015 £'000
Portmeirion Canada Inc.	136	145	—	—
Furlong Mills Limited	115	70	—	—

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 page 60.

Company

During 2016 net transactions totalling £1,523,000 were debited (2015: £539,000 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 £196,000 (2015: borrowed £1,404,000). The purpose of the loan is for acquiring shares to satisfy Group share option exercises (note 32). The total outstanding loan is now £2,501,000 (2015: £2,697,000). The ESOP share reserve is disclosed in note 26 on page 72.

The outstanding balances with subsidiary undertakings at 31 December 2016 and 31 December 2015 are shown in note 20 on page 69.

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

30. 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 £1,228,000 (2015: £1,166,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

Notes to the Financial Statements continued

30. Pensions continued

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.

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 2016 in accordance with IAS 19 by qualified actuaries.

The major assumptions used by the actuaries were:

	2016	2015
<i>Rate of increase of pensions in payment:</i>		
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	3.50%	3.20%
Rate of revaluation of pensions in deferment	2.50%	2.20%
Rate used to discount scheme liabilities	2.60%	3.70%
<i>Inflation assumption:</i>		
RPI	3.60%	3.30%
CPI	2.50%	2.20%
<i>Life expectancy at 65 for a member:</i>		
Currently aged 65 – male	22.2	22.1
Currently aged 45 – male	23.9	23.8
Currently aged 65 – female	24.2	24.1
Currently aged 45 – female	26.1	26.0

30. Pensions continued

The most significant actuarial assumption for the determination of the defined benefit obligation is the discount rate. If the discount rate were 0.1% higher, the defined benefit obligation would reduce by £727,000 (2015: £537,000).

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

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

	2016 Fair value £'000	2015 Fair value £'000
Scheme assets		
Equities	4,683	4,123
Bonds	7,544	6,316
Gilts	9,413	7,532
Diversified growth funds	4,715	4,706
Insured pensions	5,963	5,713
Cash	41	52
Total fair value of assets	32,359	28,442
Present value of defined benefit obligations	(39,489)	(31,527)
Deficit in the scheme	(7,130)	(3,085)
Analysis of the amount charged to operating profit		
	2016 £'000	2015 £'000
Current service cost	—	—
Past service cost	—	—
	—	—
Analysis of the amount included in the income statement		
	2016 £'000	2015 £'000
Interest on pension scheme assets	1,049	1,024
Interest on pension scheme liabilities	(1,137)	(1,154)
Amount charged to other finance costs	(88)	(130)
Amounts recognised in the consolidated statement of comprehensive income		
	2016 £'000	2015 £'000
Return on plan assets (excluding amounts included in net interest expense)	3,036	(964)
Actuarial gains and losses arising from changes in financial assumptions	(7,438)	789
Actuarial gains and losses arising from changes in demographic assumptions	(955)	436
Remeasurement of the net defined benefit pension scheme liability	(5,357)	261

The cumulative amount of actuarial gains and losses recognised in the consolidated statement of comprehensive income since adoption of IFRS is a loss of £10,058,000 (2015: loss of £4,701,000).

Notes to the Financial Statements continued

30. Pensions continued

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

	2016 £'000	2015 £'000
At 1 January	31,527	32,501
Service cost	—	—
Interest cost	1,137	1,154
Remeasurements (financial)	7,438	(789)
Remeasurements (demographic)	955	(436)
Benefits paid	(1,568)	(903)
At 31 December	39,489	31,527

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

	2016 £'000	2015 £'000
At 1 January	28,442	28,348
Interest on assets	1,049	1,024
Remeasurement of assets	3,036	(964)
Contributions by the employer	1,400	937
Benefits paid	(1,568)	(903)
At 31 December	32,359	28,442

The estimated amount of contributions expected to be paid to the scheme during the current financial year is £1,200,000 (2016: £1,400,000).

At 31 December 2016, contributions of £126,000 (2015: £129,000) 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 £155,000 (2015: £134,000) at 31 December 2016.

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

Credit risk

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

31. Financial instruments continued

Financial risk management objectives continued

Credit risk continued

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 2016 would decrease by £98,000 (2015: £4,000).

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 a forward contract for US dollars and 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 foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Euro	56	268	606	297
US dollar	2,403	1,884	5,879	5,946
Canadian dollar	—	—	126	121
Swedish krona	7	8	115	209
Norwegian krone	—	6	120	34
Chinese yuan	20	94	87	154

Foreign currency sensitivity analysis

The Group is mainly exposed to the currencies of euro, US dollar, Canadian dollar, Swedish krona, Norwegian krone and Chinese yuan.

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

	Euro impact		US dollar impact		Canadian dollar impact		Swedish krona impact		Norwegian krone impact		Chinese yuan impact	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Profit or (loss)	(50)	(3)	(29)	(65)	(11)	(11)	(9)	(18)	(11)	(2)	(6)	(5)

Notes to the Financial Statements continued

31. Financial instruments continued**Financial risk management objectives continued****Liquidity risk management**

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

Liquidity and interest risk tables

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

At 31 December 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)	—	—

At 31 December 2015	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	0.5	15,503	4,279	—	—	19,782
Other assets	—	—	—	—	26,641	26,641
Total assets		15,503	4,279	—	26,641	46,423
Shareholders' funds	—	—	—	—	(36,522)	(36,522)
Financial liabilities	—	(4,241)	(1,138)	(158)	—	(5,537)
Other liabilities	—	(581)	(138)	(560)	—	(1,279)
Pension scheme deficit	—	—	—	—	(3,085)	(3,085)
Total liabilities and shareholders' funds		(4,822)	(1,276)	(718)	(39,607)	(46,423)
Cumulative gap		10,681	13,684	12,966	—	—

31. Financial instruments continued

Liquidity and interest risk tables continued

Categories of financial instruments	2016 £'000	2015 £'000
Financial assets:		
Cash and cash equivalents	6,540	11,130
Loans and receivables	11,376	8,652
	17,916	19,782
Financial liabilities:		
Amortised cost	7,930	5,537

32. Share-based payments

Equity-settled share option schemes

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

The Group recognised total expenses of £144,000 and £175,000 related to share-based payment transactions in 2016 and 2015 respectively. The Company recharged these expenses to Portmeirion Group UK Limited.

a) The Portmeirion 2002 Share Option Scheme

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

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

	2016		2015	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at 1 January	—	—	43,000	4.875
Granted during the year	—	—	—	—
Lapsed during the year	—	—	—	—
Surrendered during the year	—	—	—	—
Exercised during the year	—	—	(43,000)	4.875
Outstanding at 31 December	—	—	—	—
Exercisable at 31 December	—	—	—	—

There were no options outstanding at 31 December 2016.

No options were granted in the current or prior years.

Notes to the Financial Statements continued

32. Share-based payments continued**Equity-settled share option schemes continued****b) The Portmeirion Group 2010 Deferred Incentive Share Option Plan**

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

	2016		2015	
	Number of share options	Total exercise price £	Number of share options	Total exercise price £
Outstanding at 1 January	9,494	8	16,645	7
Granted during the year	5,830	3	4,457	3
Lapsed during the year	—	—	—	—
Surrendered during the year	—	—	—	—
Exercised during the year	(3,303)	2	(11,608)	2
Outstanding at 31 December	12,021	9	9,494	8
Exercisable at 31 December	—	—	—	—

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 1.9 years (2015: 1.7 years). In 2016, options were granted on 11 May. The aggregate of the estimated fair value of those options is £63,540. In 2015, options were granted on 21 April. The aggregate of the estimated fair value of those options is £38,141.

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

	2016	2015
Weighted average share price at date of grant	£11.800	£9.350
Weighted average exercise price	£nil	£nil
Expected volatility	14%	16%
Expected life	3.125 years	3.125 years
Risk-free rate	0.53%	0.70%
Expected dividend rate	2.54%	2.83%

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.

32. Share-based payments continued

Equity-settled share option schemes continued

c) The Portmeirion 2012 Approved and Unapproved Share Option Plans

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:

	2016		2015	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at 1 January	459,000	7.685	294,000	6.750
Granted during the year	—	—	165,000	9.350
Lapsed during the year	—	—	—	—
Surrendered during the year	—	—	—	—
Exercised during the year	(33,879)	6.100	—	—
Outstanding at 31 December	425,121	7.811	459,000	7.685
Exercisable at 31 December	113,121	6.100	—	—

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 7.4 years (2015: 8.4 years).

There were no options granted in 2016. In 2015, options were granted on 27 April. The aggregate of the estimated fair value of those options is £136,837.

The range of exercise prices for the options outstanding at 31 December is from £6.100 to £9.350.

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

	2016	2015
Weighted average share price at date of grant	—	£9.250
Weighted average exercise price	—	£9.350
Expected volatility	—	17%
Expected life	—	4 years
Risk-free rate	—	0.98%
Expected dividend rate	—	2.86%

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 historic experience as a benchmark.

33. Acquisition of subsidiary

On 4 May 2016, the Group acquired the entire issued share capital of Lighthouse Holdings Limited for a total cash consideration of £17,500,000 plus surplus cash as at 30 April 2016.

Lighthouse Holdings Limited's wholly owned operating subsidiary, Wax Lyrical Limited, is the UK's largest manufacturer of home fragrances. Wax Lyrical is based in the Lake District and is both a wholesaler and retailer of its home fragrance products, primarily scented candles and reed diffusers, to both UK and export markets. Manufactured in the UK, its leading brands of Wax Lyrical and Colony are sold in high quality stores together with ranges produced for some of the world's leading luxury brands. Wax Lyrical exports to over 40 countries around the world.

Lighthouse's audited accounts for the year ended 31 December 2015 recorded revenue of £13,813,000, a pre-tax profit of £2,065,000 and net assets as at 31 December 2015 of £7,648,000.

Notes to the Financial Statements continued

33. Acquisition of subsidiary continued

The acquisition brings the following strategic benefits for Portmeirion:

- the acquisition was earnings enhancing in 2016;
- Wax Lyrical, with its high quality brands and "Made in Britain" pedigree, represents a strong strategic fit for Portmeirion; and
- the combined Group will benefit from a wider product offering and access to a larger customer base.

Significant growth opportunities for Wax Lyrical's products are envisaged within the Group's existing markets and distribution channels. In particular, the Group expects to grow Wax Lyrical's sales through Portmeirion's existing UK customers, websites and retail outlets as well as into export markets such as the United States and South Korea.

The amounts recognised at fair value in respect of the identifiable assets acquired and liabilities assumed are as follows:

	£'000
Cash and cash equivalents	1,432
Trade and other receivables	2,040
Inventory	2,549
Property, plant and equipment	1,482
Trade and other payables	(1,362)
Current income tax liabilities	(163)
Identifiable intangible assets	5,968
Less deferred tax liability	(1,074)
Total identifiable assets	10,872
Goodwill	7,229
Total consideration	18,101
	£'000
<i>Satisfied by:</i>	
Cash and cash equivalents	5,257
Borrowings	12,844
Total consideration transferred	18,101
	£'000
<i>Net cash outflow arising on acquisition:</i>	
Cash consideration	18,101
Less: cash and cash equivalent balances acquired	(1,432)
	16,669

The goodwill of £7,229,000 arising from the acquisition consists of the anticipated synergies of combining the existing Group operations with those of Wax Lyrical. This will include shared product development, distribution channels, access to new customers in the UK and export markets and other operational synergies. None of the goodwill is expected to be deductible for income tax purposes. The intangible assets value of £5,968,000 represents intellectual property and customer lists recognised at their fair value, which are being amortised over their estimated useful lives of 15 and 10 years respectively.

Acquisition-related costs (included in operating costs) amount to £170,000.

Wax Lyrical contributed £10,355,000 revenue and £1,455,000 to the Group's profit for the period between the date of acquisition and the balance sheet date. If the acquisition of Wax Lyrical had been completed on the first day of the financial year, Group revenue for the period would have been £80,716,000 and Group pre-tax profit would have been £7,921,000.

Five-year Summary

Consolidated income statement information

Years ended 31 December

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Revenue	76,677	68,669	61,370	58,295	55,525
Profit before tax	7,806	8,649	7,611	7,009	6,595
Tax	(1,581)	(1,752)	(1,538)	(1,400)	(1,709)
Profit attributable to equity holders	6,225	6,897	6,073	5,609	4,886
Earnings per share	59.60p	66.02p	57.64p	53.26p	47.28p
Diluted earnings per share	59.10p	65.48p	57.30p	52.84p	46.60p
Dividends paid and proposed per share	32.25p	30.00p	26.50p	24.00p	21.80p

Consolidated balance sheet information

At 31 December

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Assets employed					
Non-current assets	28,200	13,281	13,031	12,704	9,774
Current assets	35,292	33,142	32,221	28,807	28,683
Current liabilities	(11,704)	(6,816)	(8,052)	(7,606)	(6,637)
Non-current liabilities	(15,000)	(3,085)	(4,153)	(2,404)	(4,973)
	36,788	36,522	33,047	31,501	26,847
Financed by					
Called up share capital	550	550	549	548	541
Share premium account and reserves	36,238	35,972	32,498	30,953	26,306
	36,788	36,522	33,047	31,501	26,847

Company Information

Board of Directors

Non-executive Chairman

Richard J. Steele BCOM FCA CTA

Chief Executive

Lawrence Bryan BA

Group Finance Director

Brett W.J. Phillips BSc ACA

Group Sales and Marketing Director

Philip E. Atherton

Operations Director

Michael J. Knapper

Non-executive Director

Lady Barbara Thomas Judge CBE BA JD

Non-executive Director

Janis Kong OBE BSc

Company Secretary

Moira MacDonald ACIS

Registered office and number

London Road
Stoke-on-Trent
ST4 7QQ

Tel: +44 (0) 1782 744721

www.portmeiriongroup.com

Registered number: 124842

Auditors

Mazars LLP
The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF

Nominated adviser and broker

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

Joint broker

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

Registrars

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Tel: 0871 664 0300* (UK)

+44 (0) 37 1664 0300 (outside UK)

Email: shareholder.services@capitaregistrars.com

www.capitaassetservices.com

* 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.

Solicitors

Pinsent Masons LLP
3 Colmore Circus
Birmingham
B4 6BH

Financial PR advisers

Bell Pottinger
6th Floor, Holborn Gate
330 High Holborn
London
WC1V 7QD

Tel: +44 (0) 20 3772 2500

Email: info@bellpottinger.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.

Portmeirion Group PLC

London Road
Stoke-on-Trent
ST4 7QQ

Tel: +44 (0) 1782 744721

www.portmeiriongroup.com