

PORTMEIRION GROUP PLC

Report and Accounts
for the year ended 31 December 2013

Stock code: PMP



Welcome to Portmeirion Group PLC

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

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Pictured on front cover: Spode Delamere Rural

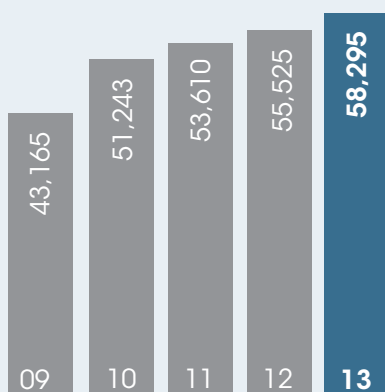
Pictured below: Portmeirion The Very Hungry Caterpillar™

Highlights

Revenue (£'000)

£58,295

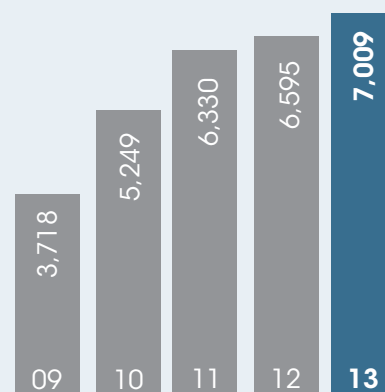
+5.0%



Pre-tax profit (£'000)

£7,009

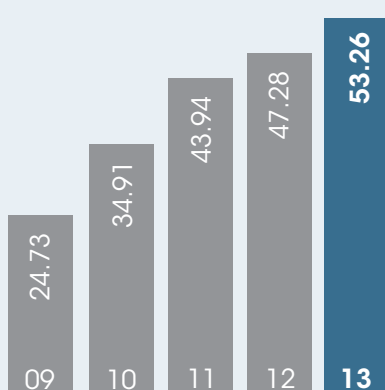
+6.3%



Basic EPS (p)

53.26p

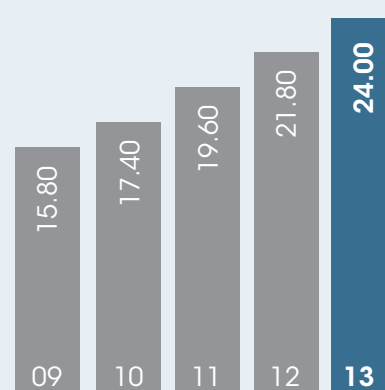
+12.6%



Dividends paid and proposed (p)

24.00p

+10.1%



Financial Highlights

- Record Group revenue of £58.3 million, up by 5.0% over 2012.
- Profit before tax increased by 6.3% to £7.0 million.
- Total dividend paid and proposed for 2013 increased by 10.1% to a record 24.00p.
- Strong balance sheet maintained with cash of £6.2 million (2012: £7.5 million).

Operational Highlights

- Completed £3.9 million purchase of long leasehold interest in warehouse and offices in July 2013.
- Launch of US website in July 2013 following revamp of UK website earlier in the year.
- Record UK production levels.
- Excellence in Housewares Award for new Sophie Conran for Portmeirion cookware range.

Our Brands

PORTMEIRION®

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

Building on the momentum of this award-winning range, new lines have been added to the Sophie Conran for Portmeirion ceramic coated cast aluminium cookware collection. Also new for 2014 is Ambiance which features a mixture of wood, porcelain and glass for informal entertaining; Coast, a stunning design reminiscent of Britain's seashores; and a Christmas pattern for the modern classic, Sophie Conran for Portmeirion range. Two new children's licenses, Thomas & Friends™ and Peppa Pig™, will join the product portfolio this summer.

Visit www.portmeirion.co.uk 

Portmeirion Ranges

Agapanthus, Ambiance, Arthur Goodfellow and Friends, Botanic Blue, Botanic Garden, Botanic Garden Birds, Exotic Botanic Garden, Christmas Wish, Coast, Crazy Daisy, Pomona, Porcelain Garden by Sanderson for Portmeirion, Sophie Conran for Portmeirion, The Holly and The Ivy, The Very Hungry Caterpillar™, Vintage Kellogg's™ and Water Garden.

Pictured: Portmeirion Ambiance



Spode.

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

In 2014 Spode launched a new design, Delamere Rural. Entirely manufactured at Portmeirion Group's Stoke-on-Trent factory, Delamere Rural is a reinvention of Spode's classic Woodland design and features a stunning floral border from the Spode archive, complemented by woodland animals on key pieces. In hues of grey, the collection is seen as trend setting and has already achieved encouraging sales performance. To sit alongside, Rural, a plain white collection with the same iconic Camilla shape has been launched.

Visit www.spode.co.uk 

Spode Ranges

Blue Italian, Blue Room, Christmas Tree, Delamere Rural, Glen Lodge, Rural and Woodland.

Pictured: Spode Christmas Tree



**ROYAL
WORCESTER®**
ESTABLISHED 1751

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

Royal Worcester's Wrendale Designs licence has proven very successful over the last year. Eight new mug designs have been launched in 2014 to include a gaggle of geese, a galloping horse and a prickly hedgehog. A nursery collection has also been developed under the licence that features Hannah Dale's captivating illustrations of baby animals – the perfect collection for new baby and christening gifts.

Visit www.royalworcester.co.uk

Royal Worcester Ranges

Evesham Gold, Fine Bone China Mugs, Painted Fruit, Peony Black, RHS Roses (a licensed collection featuring designs from the Royal Horticultural Society's design archive), Serendipity, Serendipity Gold, Serendipity Platinum and Wrendale Designs. Crystal Glassware: Cirrus by Sophie Conran for Royal Worcester.

Pictured: Royal Worcester Wrendale Designs



pimpernel

Pimpernel, the premier brand for placemats, coasters, trays and accessories, continues to build on its holistic solution for the tabletop with the introduction of a wealth of new and exclusive designs.

Pimpernel's globally successful placemat and coaster portfolio has been extended to include many new designs in 2014. These include an Organics Collection which features images of natural materials such as wood and slate, as well as additional licensed Morris & Co. designs. The brand has also launched innovative worktop savers and cake tins in some of its most popular designs such as Portmeirion's Botanic Garden and Vintage Kellogg's™. An extensive Wrendale Designs placemat, coaster, tray and textile collection complements the Royal Worcester licensed range.

Visit www.pimpernelinternational.co.uk

Pimpernel Products

Placemats, coasters, trays, textiles, mug sets, tisanieres, cake tins, glass worktop savers and kitchen accessories.

Pictured: Portmeirion and Pimpernel Vintage Kellogg's™



Where we Operate

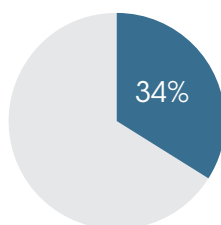
Portmeirion Group sells its products directly to retailers in the US and the UK and through exclusive distributors and agents in over 60 other countries around the world. Its major markets are the US, the UK and South Korea.

United States



Revenue
£19.9m

Share of Group Revenue



Distribution Channels

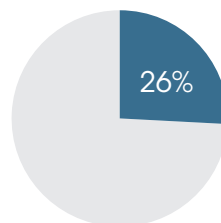
- Major US department stores.
- Over 1,200 independent US retailers.
- Major US internet retailers of both general and home goods merchandise.
- National chains of US "big box" retailers and warehouse club merchandisers.
- Recently launched US website.

United Kingdom



Revenue
£15.4m

Share of Group Revenue



Distribution Channels

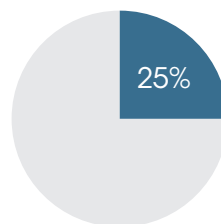
- Major UK department stores.
- Over 500 independent UK retailers.
- 10 retail outlets and nationwide mail order service.
- UK based website re-launched in 2013 after significant sales growth in prior year.

South Korea



Revenue
£14.8m

Share of Group Revenue



Distribution Channels

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



Markets

- Top selling pattern is Spode Christmas Tree, which celebrated its 75th Anniversary in 2013.
- New US website achieved \$0.5 million of sales following launch in July 2013.
- Supplied by our warehouse and operations based in Waterbury, Connecticut, with a showroom and offices in New York.

Pictured: Spode Glen Lodge



Markets

- Largest patterns are Botanic Garden and Sophie Conran for Portmeirion.
- Revamped website achieved over 50% growth to £0.8 million of sales.
- Supplied by our warehouse and operations based in Stoke-on-Trent and 10 retail outlets.

Pictured: Spode Blue Italian



Markets

- Favours UK manufactured product, including Botanic Garden and classic ranges.
- Sales growth of 21.8% to all time record of £14.8 million. Sales to South Korea have now more than doubled since 2009.
- Supplied by third party distributor based in Seoul.

Pictured: Portmeirion Botanic Garden

Strategic Report

for the year ended 31 December 2013

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



“Our core values are unchanged; we believe in attentive design, assured quality, a professional sales approach, nurtured brands, conservative financing and dividends. We are well positioned and optimistic for the future.”

The Directors present their Strategic Report for the Group for the year ended 31 December 2013.

Business model and strategy

The Portmeirion Group is an AIM listed company which manufactures ceramics, and markets and distributes ceramic tableware, cookware and giftware, glassware, candles, placemats, coasters and other associated products. It operates in the key markets as detailed on pages 4 and 5 with a head office based in Stoke-on-Trent and warehouses located in Stoke, Connecticut, USA and Guangdong, China in order to service those markets.

Income

The Group's revenue is generated through a variety of channels, with sales of its products made directly to retailers, through a network of agents and distributors, and directly to consumers through a number of outlets, concessions and online shops in the UK and United States. This revenue is supplemented by royalty income from licenses granted on in-house patterns and designs. A focus on customer targeted product development has ensured revenue levels continue to increase, with the fifth consecutive year of record revenue being achieved in 2013.

Profitability

The profitability of the business relies upon growing sales volumes whilst maintaining or increasing gross margins wherever possible, combined with close control over operating costs in order to achieve an annual increase in the Group's operating margin.

Product success in key markets is measured continuously with feedback provided by customers on new product launches. The Group is committed to innovation and quality and launched over 540 new products in 2013 alone, including the new Ambiance, Coast and Delamere Rural ranges.

Brands

The strength of the business lies with its four strong brands which are described in detail on pages 2 and 3. The traditional Portmeirion brand has been complemented by the additions of the Pimpernel brand in 2006 and more recently in 2009 the Spode and Royal Worcester brands. These have allowed the Group to grow revenue rapidly without a resultant increase in the fixed cost base. Following the success of these acquisitions the Group continues to review further opportunities against its strict selection criteria of strategic fit, value and opportunity for growth.

Funding

Funding for the business is provided via a committed £4 million overdraft and revolving credit bank facility to ensure that short-term borrowing requirements are adequately covered. These funds are to cover working capital requirements during the significant third quarter stock build to meet the increased retail demand over the final quarter including the important Christmas period.

The business is cash generative, and aims to provide a return to shareholders primarily through a progressive dividend policy, increasing dividends where profitability, cash generation and forecast growth allow.

Review of the business

Portmeirion continued to prosper in 2013 with worldwide revenues and earnings again being driven to their highest ever levels. This has enabled us to increase our dividends for the fifth successive year. We have weathered a tough market in the United States and have suffered some European difficulties with the imposition of punitive Anti-Dumping Duty. Our broad product range, diversified supply base and global distribution have enabled us to maintain progress despite these difficulties in key areas.

Our brands are global, valuable and respected; we continue to develop and improve our product ranges; our people are best in class; we are soundly financed. We are well positioned and optimistic for the future of our business.

Dividends

The Board is recommending a final dividend of 19.00 pence per share bringing the total paid and proposed for the year to 24.00 pence per share, an increase of 10.1% over the amounts in 2012.

The final dividend will be paid, subject to shareholders' approval at the AGM, on 23 May 2014 to shareholders on the register on 25 April 2014.

The dividends paid and proposed for 2013 are covered 2.2 times by earnings (2012: 2.1 times). The Board continues to consider that such a level of cover is sustainable and appropriate.

Over the last five years we have increased total dividends by an average of 10.3% per annum compound and our dividend is now 63.3% higher than it was in 2008.

We listed on the London Stock Exchange 26 years ago in 1988, the issue price of our shares at our flotation was £1.80 each. Our share price has increased fourfold since 1988, our total dividends have amounted to £3.17 per share and we have never cut or withheld our dividend in that time.

The Board is committed to a progressive dividend policy; we believe that this is what our shareholders expect of us and why they hold Portmeirion shares. Our aim is to maintain a sustainable level of dividend cover and to increase dividends whenever our prudent views of future trading and the cash needs of the business allow us so to do. Our policy is to increase the interim dividend by the same percentage as the final dividend of the preceding year, subject of course to prevailing conditions.

Sustainable dividends are the overriding goal at Portmeirion Group.



Pictured: Automated storage system in our Trentham warehouse



Record operating levels achieved

During 2013 demand for both own manufactured and sourced product pushed revenue levels to new highs.

In our manufacturing base in Stoke-on-Trent, average weekly production volumes grew 11.5% during 2013 to an all time high of 128,000 pieces per week. This compares to an average of 92,000 pieces only five years ago. This growth was required to meet increased demand for own manufactured product particularly in the South Korean market, where continued emphasis on new products has pushed revenue up 21.8% in the year to £14.8 million (2012: £12.1 million).

With manufacturing at these levels, our distribution network achieved record throughput to support the increase in manufactured exports, as well as imports of sourced product for distribution into Europe and the additional demand experienced through our UK website.

Our accomplished logistics operations were further underpinned by the £3.9 million purchase of the long leasehold interest in our Trentham warehouse and offices in July 2013. This purchase gives Portmeirion certainty of tenure and increases our flexibility to respond to changes in demand going forward.

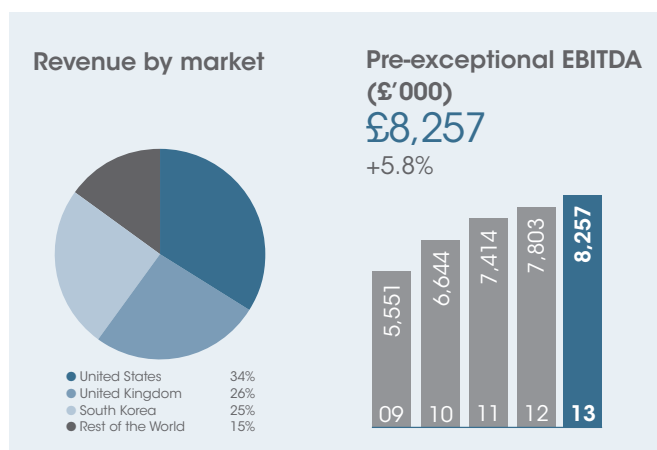
Strategic Report

for the year ended 31 December 2013

continued

Revenues

Revenues were £58.3 million for the year, an increase of 5.0% over the previous year (2012: £55.5 million).



Our largest market remains the United States which represents over a third of our sales, we finished the year 1.8% below the previous year in sterling terms and 3.1% below in local currency, as the US dollar has strengthened since 2012 the translated reduction is flattered. The American market has been difficult for some time but we are optimistic that we can achieve growth there when economic conditions improve. In a similar vein, our sales in Canada were 3.3% below last year. In Canada we have a joint venture where we own 50% of Portmeirion Canada Inc. Canada represents less than 5% of our sales.

Our second largest market is the United Kingdom where our factory, warehouse and head office are located. This market accounts for 26% of our sales and grew 3.5% over the previous year. Close behind the UK is South Korea which now represents a quarter of our sales, sales growth here was 21.8%.

An increasing element in our sales mix is the extent of online sales. Taking the USA and the UK together our direct online sales are some £1.1 million and growing fast. Needless to say, many of our wholesale customers have their own websites where they generate significant volumes. We intend that this route to market will become more important to us.

The spread and diversity of our customers, geographic markets and products are a real strength of Portmeirion. Such a broad approach helps us to weather the vagaries of climate, economic conditions, seasonality and political events.

Profits

The profit before taxation was £7.0 million, a 6.3% increase over the restated 2012 profit before taxation of £6.6 million. Earnings before interest, taxation, depreciation and amortisation (EBITDA) were £8.3 million, an increase of 5.8% (2012: £7.8 million).

Driven, in part, by lower corporation tax rates our basic earnings per share increased by 12.6% which enabled us to increase the dividends per share by 10.1% without reducing dividend cover.

Profit and EBITDA growth continued to outstrip revenue growth as we built upon our efficiency drives from prior years. However, profits were held back by the Anti-Dumping Duty imposed on some of our European sales.

Balance Sheet

We finished 2013 with £6.2 million of cash on the balance sheet (2012: £7.5 million), this was after paying dividends of £2.4 million, corporation taxes of £1.3 million and incurring capital expenditure of £4.7 million which included the £3.9 million acquisition of the long leasehold of our Stoke-on-Trent warehouse. This is now included as a fixed asset.

Inventories were broadly level with 2012 at £11.7 million and remain the largest asset on our balance sheet; our stocks are held in the UK, the USA and China. At their peak levels in 2013 our stocks were £14.3 million prior to our key seasonal demand. Our provisioning policies are rigorous.

The pension scheme deficit, which is in respect of a final salary scheme closed in 1999, has halved during the year under review due to increased return on assets and changes in actuarial assumptions. We paid £0.8 million cash into the scheme during 2013.

We have used treasury shares with a book value of £202,000 to satisfy share options exercised during the year. These treasury shares were bought some years ago at an average price of £1.87 each. We have 302,620 treasury shares remaining on the balance sheet and we plan to continue to use these to satisfy share options where appropriate. We have also acquired 94,000 shares for an employee benefit trust during the year. These will also be used to satisfy share options.

Products and Brands

We have four brand names – Portmeirion, Spode, Royal Worcester and Pimpernel and each has a long and illustrious history.

Our largest and most important pattern remains Portmeirion Botanic Garden, launched in 1972, accounting for over 40% of our sales; demand for Botanic Garden has been strong during 2013, largely from South Korea, and this has driven increased production through our Stoke-on-Trent factory.

Our second largest pattern is Spode Christmas Tree which is mainly sold in North America, this pattern was launched in 1938 and continues to grow. Our third largest pattern is Sophie Conran for Portmeirion, which was a 2006 launch and also continues to grow.

Product development remains key to our current and future success as a business. We continue to develop, extend, refresh and refine our existing patterns so as to increase their customer appeal. Our oldest pattern, Spode Blue Italian, has a heritage spanning nearly two centuries but we still enjoyed sales growth in the pattern last year.

A list of our current patterns can be found within the 'Our Brands' section of this report on pages 2 and 3, and also at www.portmeirion.co.uk, www.spode.co.uk, www.royalworcester.co.uk and www.pimpernelinternational.co.uk. Online purchasing is also available from these websites.

Production and Sourcing

Our sourced versus own manufactured sales ratio was 56 to 44 (2012: 59 to 41). This split is a result of differing market demands for different ranges, rather than a management decision, as we source or manufacture product from the most appropriate places. All product, whether sourced or manufactured, is made to our design and to our stringent standards; our backstamps are guarantees of quality and are supported by our reputation.

Our Stoke-on-Trent factory has driven out more production volume and more production efficiencies. Average weekly production of best quality pieces is a rough proxy for volume, in 2013 we achieved 128,000 per week, in 2012 it was 115,000 per week. In 2008 we were achieving 92,000 per week from the same site. This is a key performance indicator.

People

The average number of people employed by Portmeirion was broadly level in 2013 compared to 2012, and average sales per employee were £100,856, a 6.6% increase on 2012. EBITDA per employee was £14,285, an increase of 7.5% on 2012.

Our health and safety record is excellent. Health and safety is at the forefront of our business approach and all incidents are thoroughly reported upon and investigated.

All permanent employees participate in various incentive schemes. 2013 was another record year for Portmeirion with revenues, profits, EBITDA and dividends again achieving hitherto unscaled heights, nevertheless our schemes paid minimal awards because performance was not exceptional enough to self finance them. Our incentive schemes are demanding.



Pictured: Customer service area in our refitted Stoke-on-Trent retail outlet



A refit for a successful retail store

Portmeirion Group's own retail outlets are an important part of our routes to market. Sales from our retail outlets around the UK have grown steadily by 30% over the last five years.

To support continued growth, in 2013, Portmeirion Group embarked on a project to refit one of its factory shops based in Stoke-on-Trent, England. The focus of the refurbishment was to improve navigation around the store and the overall shopping experience.

Completion of the refit was promoted in the local media including newspapers and radio, following which the store recorded increased visitor numbers and growth in sales.

Strategic Report

for the year ended 31 December 2013
continued



Pictured: Sophie Conran for Portmeirion cookware



Sophie Conran for Portmeirion Cookware Award

In 2013 Portmeirion launched its Sophie Conran for Portmeirion cookware range. A new direction for the brand, this cookware collection comprises ceramic coated cast aluminium products.

Shortly after launch and in recognition of its quality, design and competitive price points, the collection won an Excellence in Housewares Award in the Excellence in Cookware category. This prestigious industry award was judged by industry experts and leading UK retailers, further confirming the range's outstanding commercial prospects.

In 2014 new lines have been added to this award-winning collection including saucepans and frying pans.

Sales of the Sophie Conran for Portmeirion range increased by 11% over 2012.

The Environment

Energy is a key input in the manufacture of ceramics, in 2013 we spent £1.3 million on electricity and gas which was a 10.6% increase on our 2012 expenditure and compares to an 11.5% increase in the volume of products manufactured in 2013 versus 2012. During this period energy costs have risen, but our energy usage has reduced by 3% as we have continued our energy efficiency drive.

Comparing 2013 to 2001 we can demonstrate a 37.1% reduction in our carbon dioxide emissions despite huge increases in production. Our improvements in energy efficiency equate to an energy saving of over £1.1 million per annum.

Risks

Pages 12 and 13 list the principal risks to which we consider the business is subject. Five of these risks merit a little more discussion here.

Our currency risks are broadly covered given the current shape of the business, US dollar receivables are at the same level as payables. Our other net exposures, including the translation of the profit of our US business, are covered by appropriate and prudent hedging instruments.

Political and regulatory decisions are having an increasing impact on our business, in particular the recent Anti-Dumping Duty problems. We need to remain alert to these dangers and mitigate them as best we can.

Energy costs are discussed above, we are at the forefront of control of energy in ceramic manufacture.

Production of our goods for resale is from our own factory in Stoke-on-Trent and from a number of third party factories mainly in the Far East. This approach reduces our dependency on any one factory but does mean that we are subject to more individual impacts, as evidenced by the Anti-Dumping Duty.

Our long closed defined benefit pension scheme continues to overhang our balance sheet and costs us some £800,000 per annum in real cash. There are early signs that this problem, which was largely political in origination, is finally being resolved.

Corporate Governance

We are an AIM listed company but we do recognise the value of many of the corporate governance regulations which only apply to companies much larger than us. We seek to implement many of these corporate governance processes which are not mandated upon us where we can see shareholder benefit. In particular we would point to the annual re-election of Non-executive Directors and the way that we encourage shareholders to engage with us.

We will continue to be practical and forward looking in achieving effective and efficient corporate governance relative to our size, markets and business structure. The guidance provided by the Quoted Companies Alliance is a vital yardstick for companies of our size.

Outlook

We remain confident. We have taken the right steps in regard to people, product and finance to continue to build the business for the future. We are very well positioned for a recovery in the North American market.

Trading in the first two months of the current year is ahead of the comparative period in 2013, however sales in these months are low in comparison to the rest of the year and the second half in particular.

Our core values are unchanged; we believe in attentive design, assured quality, a professional sales approach, nurtured brands, conservative financing and dividends.

Our business is worldwide for sales and supply and our brands and ranges have longevity and real value.

We continue to seek out and consider acquisition opportunities against our demanding standards.

Key performance indicators

Indicator:

	2013	2012
Revenue	£58.3m	£55.5m
Operating profit margin	12.1%	12.0%
New products launched	540	360
Earnings per share	53.26p	47.28p
Dividend cover	2.2	2.1

Revenue growth is the key driver of business goals, with the ability to satisfy key markets in the United States, UK and South Korea essential, whilst seeking new opportunities for growth in export markets such as India and China. Existing key customers are serviced by targeted product launches specific to the needs and requirements of the end consumer. In the year, Group revenue grew by 5% to £58.3 million, a fifth consecutive year of record revenue.

Operating profit margin accurately reflects the Group's focus on revenue growth at a sustainable rate without eroding the gross margin or sizeable fixed cost uplifts. A prudent budgeting process helps the Group to grow revenue and profitability consistently. The ratio has improved again in 2013 despite the detrimental impact on margins of the Anti-Dumping Duty imposed by the European Commission on product imported into the EU from China.

The number of new products launched is a key measure in assessing the Group's ability to design, create, manufacture or source the product and then launch it successfully in the marketplace. New product launches are essential to drive revenue growth and thereby profit generation. They demonstrate the Group's commitment to innovation and originality.

New products include line extensions to existing ranges in order to refresh and expand the offering, as well as new ranges launched under one of the Group's four brands in order to enhance market share. The increase in products launched during the year demonstrates the Group's focus on promoting new designs.

As a listed Group, Portmeirion assess earnings per share as the overall measure of profitability and performance in the year. Earnings per share compares profit after tax for the year to the number of active shares in issue to demonstrate the ability of the Group to enhance the return on capital to shareholders. Earnings per share have grown by 12.6% over 2012, largely driven by the revenue growth described above.

Strategic Report

for the year ended 31 December 2013

continued

Dividend cover compares retained profit to the dividend per share paid and proposed for shareholder approval for the financial year. The Group considers itself to be a dividend stock and therefore maintains a progressive dividend policy where prudent forecasts allow. The dividend cover measure provides an indication as to the proportion of earnings after tax for the year paid and proposed as dividends. Dividend cover has been maintained in excess of 2 despite a 10.1% increase in dividends paid and proposed.

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:

Economic environment

Whilst there is renewed optimism regarding the general world economy and hope for an economic recovery, retail conditions remain challenging, particularly in the Eurozone, and further adverse conditions in the retail sector would have a detrimental impact on trading.

The Group monitors and maintains close relationships with its key customers and suppliers to be able to identify signs of financial difficulties early in order to prevent or limit any potential losses. Customer orders and sales trends in major markets are constantly reviewed to enable early action to be taken in the event of sales declining.

The general economic factors affecting the Group during the period are discussed further in the review of the business on pages 7 to 11.

Competitors

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.

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.

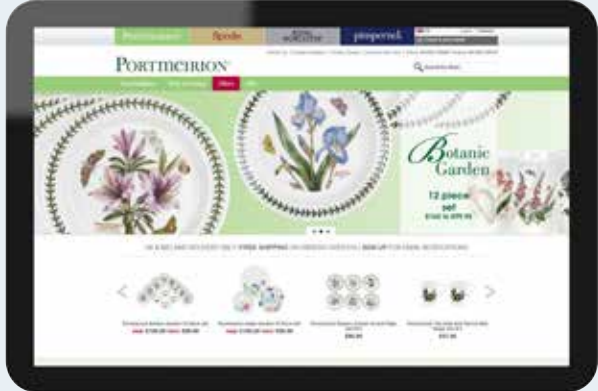
People

Skilled senior managers and personnel are essential in order to achieve the strategic objectives of the Group. Failure to recruit and retain key staff would present significant operational difficulties for the Group.


Existing staff are provided with relevant training and

career progression to improve motivation. The Group has a clearly defined recruitment policy which ensures that new employees meet the required standard and experience for each position.

Management also seek to ensure that key personnel are appropriately remunerated to ensure that good performance is recognised.



Pictured: Extract from www.portmeirion.com



Launch of USA website

Building on the continued success of the Portmeirion Group's UK website, an e-commerce site has been launched in the USA.

Mirroring the structure of the UK site, the new website features product from all four of Portmeirion Group's iconic brands. The site gives the vast American market the opportunity to buy across the Group's full product spectrum, provides specific information about each product and makes a variety of seasonal special offers available to customers.

Email campaigns and online advertising have attracted traffic to the site. A strong sales performance of \$500k was achieved in the six months to 31 December 2013.

Suppliers

The Group's purchasing activities could expose it to over reliance on certain key suppliers or markets and, as a result, inflationary pricing pressure. Production is split between our UK factory and outsourced production, which allows the Group to mitigate some of the risk presented by suppliers.

For the manufacturing process conducted in the UK, the Group ensures that key raw materials are available from more than one source to ensure continuity of supplies.

For the sourcing process, suppliers are carefully selected and the Group seeks to maintain a sufficient breadth in its supplier base such that the risk remains manageable. The Group also ensures that all intellectual property rights are retained and easily transferrable should an alternative supplier be required.

Financial risk

Financial risk is wide-ranging and covers capital management, credit risk, currency risk and liquidity risk. The risks presented in these areas include the failure to achieve business goals, potential financial losses caused by default, reduction in profitability due to currency fluctuations and insufficient funds to complete the daily business function and consequent threat to the going concern basis of the organisation.

Details of the Group's approach to management of these risks and the systems in place to mitigate them are covered in the financial risk management objectives in note 29 on pages 64 and 65.

Corporate and social responsibility

Environmental policy

The Group recognises the importance of its environmental responsibilities and monitors its impact on the environment. It designs and implements policies 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 produce 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 its 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.

Portmeirion's commitment to reducing its carbon emissions is evidenced by having been subject to a Climate Change Agreement since 2000. During 2013, compared to 2012, the Group reduced its manufacturing energy consumption by 3% and reduced its primary Specific Energy Consumption (kWh/tonne) by 9.7%.

Employees

People are key to achievement of the Group's business objectives. The Group is committed to ensuring high standards in the health and safety of employees and their working environment. The Group has established policies for recruitment, training and development, staff welfare, whistleblowing and equal opportunities. These policies are communicated to staff and updated through the Group's employee intranet and staff notice boards.

As basic standards of conduct the Group is committed to:

- maintaining a workforce where there is mutual trust and respect, free from bullying and harassment;
- respecting the rights of individuals, their customs and traditions, their right to freedom of association and the right to decide whether or not to join a trade union. The Group will continue to negotiate in good faith with properly elected representatives of its employees;
- recruiting, employing and promoting employees on the basis of objective criteria and the qualifications and abilities needed for the job to be performed, in line with the Group's Equal Opportunities Policy;
- adopting changes in policy, where business needs allow, which may improve employees' terms and conditions such as implementing flexible working where requested, providing varied shift patterns to promote a healthy work-life balance, modernising working conditions and introducing flexible holidays;
- maintaining good communications with employees through information and consultation procedures;
- providing employees with suitable training;
- ensuring the privacy and confidentiality of employees' personal information is respected;



Pictured: Engineering apprentice Ben Foster



Apprenticeship scheme

During 2013 Portmeirion established an apprenticeship programme for an initial five individuals, with a further three vacancies currently available and plans for further growth. The apprentices are employees of the Group and participate in a government funded training programme in conjunction with a suitable local training provider.

The aims of the programme are as follows:

- Widen our talent pool by providing a vocational pathway into employment;
- Build our skills capacity within the industry;
- Enhance our employer brand; and
- Motivate our highly skilled employees through a mentoring function.

The apprenticeship framework ensures that the individuals obtain a range of qualifications as they progress through their training and education.

- suitably rewarding employees for their contribution to the success of the business and providing additional welfare benefits as appropriate; and
- providing mechanisms whereby employees can raise legitimate concerns confidentially regarding malpractice in accordance with the Group's Whistleblowing Policy.

The Group's Human Resources department works closely alongside management to ensure that staff of the right calibre are recruited, developed and retained.

The Group is committed to creating and maintaining a safe and healthy working environment for its employees, customers and the community. The Group's commitment to its employees is set out in its Health & Safety policies.

Social, community 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, whistleblowing, conflicts of interest and the use of 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 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 & safety and 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 pottery industry. New contractors undergo health and safety inductions. Risk assessments are carried out on all major jobs 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 collector club newsletters and its website.

Community involvement

Portmeirion is committed to fostering good relationships with the communities in which it operates. The Group offers charitable support to the local community by initiatives including monetary donations and donations of Group products to charities and schools for fund raising purposes.

The Group is supportive of staff being involved with their local communities and charitable concerns. Staff charitable fundraising initiatives are encouraged, including collection events held in staff canteens and sales to staff of discontinued stock and samples. Where relevant and where business needs allow, employees are encouraged to work closely with local schools and colleges providing tailored work experience programmes, involvement in business enterprise schemes and tutoring lectures.

Going concern basis

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 review of the business on pages 7 to 11. In addition, note 29 to the accounts includes an analysis of the Group's financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit and liquidity risk.

The Group has a formalised process of monthly budgeting, reporting and review, and information is

provided to the Board of Directors in order to allow sufficient review to be performed to enable the Board to ensure the adequacy of resources available for the Group to achieve its business objectives.

At the year end the Group had cash balances of £6.2 million and, as disclosed in note 20, had unutilised bank facilities with available funding of £4 million. Operating cash generation was strong during the year at £5.5 million (2012: £2.9 million). Overall cash reduced by only £1.3 million despite the £3.9 million purchase of the long leasehold of a warehouse and offices previously rented by the Group.

The Group sells into over 60 countries worldwide, 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 45% 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.

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



Richard J. Steele
Non-executive Chairman
19 March 2014



Lawrence F. Bryan
Chief Executive

Board of Directors

Board Committees

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

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

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



Lawrence F. Bryan

Chief Executive

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

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



Brett W.J. Phillips

Group Finance Director and Company Secretary

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

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



Philip E. Atherton

Group Sales and Marketing Director

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

Before joining the Group, Philip spent 12 years in the drinks industry working in a number of commercial roles with Remy & Associates (UK) Limited, The Gaymer Group Limited and Allied Domecq PLC where he gained extensive experience of working with premium brands. From 1999 until February 2013, Philip was the Sales and Marketing Director of the Home Textiles Division of the John Cotton Group Limited.

Richard J. Steele

Non-executive Chairman

Dick Steele is responsible for leading the Board and ensuring that it operates in an effective manner whilst promoting communication with shareholders. He is a Fellow of the Institute of Chartered Accountants in England and Wales and also a Member of the Institute of Taxation. He is a Lay Member of Council at Keele University, a Non-executive Director of the Quoted Companies Alliance and Non-executive Chairman of four private equity backed businesses: ASL, Racoon International, Springfield Healthcare and Country Baskets.



Janis Kong OBE

Non-executive Director

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



Lady Judge CBE

Non-executive Director

Lady Judge has previously been a lawyer, international banker and entrepreneur. She is currently the Non-executive Chairman of the UK Pension Protection Fund, an arm's length UK governmental body, as well as a Non-executive Director of NetScientific PLC. Formerly she was Chairman of the UK Atomic Energy Authority, Deputy Chairman of the UK Financial Reporting Council and a Commissioner of the United States Securities and Exchange Commission.



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 2013. The Corporate Governance Statement set out on pages 31 to 34 forms part of this report.

The Company is a public limited company, registered in England and Wales and listed on the Alternative Investment Market 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.

A full review of the performance of the Group for the year is given in the Strategic Report on pages 7 to 11. Current trading and the future are commented on in the "Outlook" section of the Strategic Report on page 11.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 29 on page 64.

Dividends

On 1 October 2013 an interim dividend of 5.00p (2012: 4.50p) per share was paid on the ordinary share capital. The Directors recommend that a final dividend of 19.00p per share be paid (2012: 17.30p), making a total for the year of 24.00p (2012: 21.80p) per share. The final dividend will be paid, subject to shareholders' approval, on 23 May 2014, to shareholders on the register at the close of business on 25 April 2014.

Research and development

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

Directors and their interests

The Directors of the Company are listed on pages 16 and 17 together with biographical and committee membership details. P.E. Atherton joined the Board on 12 February 2013, following the resignation of M. Haynes as a Director on the same date. All Directors other than P.E. Atherton and M. Haynes served throughout the year.

In accordance with the Company's Articles of Association and good corporate governance practice, Lady Judge, J. Kong and R.J. Steele will retire at the Annual General Meeting to be held on 15 May 2014. These Directors, being eligible, are offering themselves for re-election. The Board has formally reviewed the performance of each Director concerned and concluded that they remain effective and are committed to their roles at Portmeirion Group PLC.

Further details on the composition of the Board and appointment of Directors are given in the Corporate Governance Statement on pages 31 to 34.

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 31 to 34.

The Directors who held office at 31 December 2013 had the following beneficial interests in the share capital of the Company:

	At 31 December 2013	At 31 December 2012
	5p ordinary shares	5p ordinary shares
	Beneficial	Beneficial
L.F. Bryan	320,177	326,523
Lady Judge	5,000	5,000
J. Kong	5,000	5,000
B.W.J. Phillips	99,807	53,880
R.J. Steele	22,000	22,000

Directors' share interests include the interests of their spouses, civil partners and infant children or stepchildren as required by Section 822 of the Companies Act 2006. There were no changes in the beneficial interests of the Directors in the Company's shares between 31 December 2013 and 19 March 2014.

Details of Directors' share options are provided in the Directors' Remuneration Report on pages 29 and 30.

Details of transactions with Directors and other related parties are to be found in note 27 on pages 60 and 61.

Directors' indemnities

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

Capital structure

Details of the share capital in issue, together with details of the movements in the Company's issued share capital during the year are shown in note 23 on page 59. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

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

Details of employee share schemes are set out in notes 23 and 30 on pages 59 and 66 to 68.

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 2013 the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following beneficial interests in 3% or more of its issued share capital excluding treasury shares:

	Percentage of voting rights and issued share capital	Number of ordinary shares
Investec Wealth & Investment Limited ⁽⁴⁾	27.00%	2,880,816
New Fortress Finance Holdings Ltd. BVI ⁽³⁾	10.88%	1,160,500
Euan Cooper-Willis	8.31%	886,150
Shahrazad Farhadi	5.93%	632,333
Kamrouz Farhadi	5.28%	562,917
Henderson UK Equity Income Fund ⁽³⁾	3.49%	372,500
L.F. Bryan, Chief Executive ⁽³⁾	3.00%	320,177

Notes:

(1) The percentages are of the total shares in issue, excluding treasury shares (10,669,534).

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

(3) Shareholding held indirectly through a nominee.

(4) Client holdings registered in the name of nominee companies 100% owned by Investec Wealth & Investment Limited. This holding includes 1,436,195 (13.46%) shares held by Trustees of Caroline Fulbright Settlement and 356,077 (3.34%) shares held by Trustees of Second Caroline Fulbright Settlement.

During the period between 31 December 2013 and 19 March 2014, the Company was advised that in accordance with notifications under chapter 5 of the Disclosure and Transparency Rules, New Fortress Finance Holdings Ltd. BVI had reduced its holding to 950,000 ordinary shares representing 8.90% of voting rights and issued share capital. There were no other notifications during this period.

Report of the Directors

continued

Annual General Meeting

The Annual General Meeting will be held at the Chestnut Suite, Lancaster London Hotel, Lancaster Terrace, London W2 2TY, on 15 May 2014 at 11.00 am (the "2014 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 2014 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 14 May 2013. The authority will allow the Directors to allot new shares up to a nominal value of £177,825, approximately equal to a third of the present issued share capital excluding treasury shares as at 19 March 2014. 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 £53,347, which is approximately equal to 10% of the present issued share capital excluding treasury shares as at 19 March 2014, and allotments of equity securities and/or sale of treasury shares in connection with a rights issue or other offer to shareholders.

Acquisition of the Company's own shares

The Company did not purchase any of its own shares during the year. The Company holds 302,620 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 14 May 2013, to purchase through the market 1,042,363 of the Company's ordinary shares. This authority expires on 30 June 2014.

The Directors believe that it is in the interests of the Company and its members to continue to have the flexibility to purchase its own shares and resolution 10 of the 2014 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 1,066,953, approximately equal to 10% of the present issued share capital of the Company excluding treasury shares as at 19 March 2014. 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.

During 2013, the Remuneration Committee approved the establishment of The Portmeirion Employees' Share Trust (the "Trust"). The Trust was set up 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 Trust purchased 94,000 ordinary shares of 5p each in the Company (4,000 on 2 May 2013 and 90,000 on 3 May 2013) representing approximately 0.88% of the issued share capital of the Company excluding treasury shares as at 3 May 2013. The shares are held in the Trust to provide for an award under an employee share option scheme. The 90,000 shares purchased on 3 May 2013 were acquired from L. F. Bryan at market value (610p).

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 2013, to complement these discussions, the Group has continued communicating information from Board level to all employees on a regular basis via a programme of team briefings and by use of the Company's intranet and notice boards.

Share option and profit related incentive schemes are operated to encourage the involvement of employees in the Group's performance. Portmeirion Group UK Limited, the employer of the Group's UK based employees, is an Investor in People. The Directors are committed to the continuing development of the Group's employees through the principles of Investors in People. Details of staff numbers and costs are set out in note 7 on page 51.

Political contributions

There were no political contributions during the year.

Auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of 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.

B.W.J. Phillips

Company Secretary
19 March 2014

Directors' Remuneration Report

This report is on the activities of the Remuneration Committee for the year ended 31 December 2013 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 2012. 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 15 May 2014 at which approval of the financial statements will be sought.

Statement by the Chairman of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2013.

Portmeirion Group has continued to deliver sustainable returns and growth for our shareholders as shown by our record results on page 1. This is not achieved without the commitment and determination of our employees and senior management team. Performance of our Executive Directors is assessed against a range of financial and operational measures ensuring value is delivered to shareholders.

There have been no structural changes to the Remuneration Policy during 2013 nor are any proposed for 2014.

Annual incentive payments are based on a demanding profit before tax and exceptional items target. The annual incentive paid to Executive Directors for the year ended 31 December 2013 is 10% of base salary. During 2013, options under the Portmeirion Deferred Incentive Share Option Plan vested for the first time, delivering the full value of shares, tax paid, to those Executive Directors participating. All current Executive Directors receiving shares as a result of that Plan have retained the shares and have thereby further aligned their interests with that of other shareholders. Details of the Directors' shareholdings are detailed on page 18.

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. I welcome any comments from shareholders regarding Directors' remuneration.



R.J. Steele

Chairman of the Remuneration Committee
19 March 2014

Remuneration Committee

The members of the Remuneration Committee during 2013 are set out on page 16. The terms of reference of the Remuneration Committee are available at www.portmeiriongroup.com/investors.

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

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

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

During 2013, 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.

During 2013, Pinsent Masons LLP provided advice on the administration of the Company's share schemes. In determining the Directors' remuneration for the year, the Committee consulted L.F. Bryan, Chief Executive, about its proposals.

Remuneration Policy

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

- Basic salary and benefits;
- Annual incentive payments;
- Share option incentives;
- Long-term incentives; and
- Pension arrangements.

The Company's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance related in order to encourage and reward 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 variable 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. B.W.J. Phillips holds directorships outside the Group which are detailed on page 16. B.W.J. Phillips retains earnings in respect of his directorship at The Stafford Railway Building Society.

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

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 2013 are set out on page 28. 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 4x 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 health care benefits are provided through third party providers and therefore the cost to the Company and the value to the director may vary from year to year. It is intended the maximum value of benefits offered will remain broadly in line with market practice.	None.
Pension			
Providing post retirement benefits.	The Group operates defined contribution pension schemes.	Dependant 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.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
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 pages 26 and 27.

Key aspects of the Remuneration Policy for the 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 2013 are set out on page 28. 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.

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

Directors' Remuneration Report

continued

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.

Lady Judge, J. Kong and R.J. Steele are proposed for re-election at the next Annual General Meeting on 15 May 2014.

Consideration of shareholders' views

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

Annual Report on Remuneration

Application of Remuneration Policy for the year ended 31 December 2013

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 health care benefits, 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 2013, the profit target was met and the Executive Directors achieved an incentive payment of 10% of basic salary.

Share options

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

The Company has three share option schemes: The Portmeirion 2002 Share Option Scheme (the "2002 Share Option Scheme"), The Portmeirion 2012 Approved Share Option Plan (the "2012 Approved Plan") and The Portmeirion 2012 Unapproved Share Option Plan (the "2012 Unapproved Plan"). These are all discretionary schemes, enabling the grant of options over ordinary shares in the Company to selected employees of the Portmeirion Group, with flexibility for the grant of tax-favoured options. For all 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.

The following performance criteria are applicable to outstanding options:

- Options granted on 29 March 2010 can be exercised as the average of the pre-tax, pre-exceptional earnings per share of the Group for each of the three years ended 31 December 2010, 31 December 2011 and 31 December 2012 exceeded 44.71p, being 113% of the pre-tax, pre-exceptional earnings per share for the year ended 31 December 2009.
- Options granted on 28 April 2011 can be exercised as the average of the pre-tax, pre-exceptional earnings per share of the Group for each of the three years ended 31 December 2011, 31 December 2012 and 31 December 2013 exceeded 61.83p, being 113% of the pre-tax, pre-exceptional earnings per share for the year ended 31 December 2010.

- Options granted in 2012 and 2013 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%. The performance criteria attaching to these options has been changed in the light of the amendment to IAS 19 which has taken effect this year to take account of changes in accounting standards and to use basic earnings per share rather than pre-tax earnings per share. Basic earnings per share is considered to be a more 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. The percentage increase required over the three year period is unchanged. The reason for the amendment to the performance criteria is to align management interests more closely with that of shareholders.

As of 20 May 2012, no further options may be granted under the 2002 Share Option Scheme.

Long-term incentive schemes

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

The 2010 Deferred Incentive Plan permits the grant of an option to a participant in any year over shares with a market value not exceeding 20% of the gross incentive earned by the relevant employee in respect of the previous financial year. Options are exercisable normally only after the third anniversary of the date of grant. On exercise, provided that the participant is still employed by the Group (or has left due to limited good leaver provisions as specified in the rules of the 2010 Deferred Incentive Plan) the participant will be entitled to receive a "grossed-up" payment (i.e. a payment which after discharge of necessary taxes (including National Insurance contributions) leaves a net amount) sufficient to pay the taxes (including National Insurance contributions) due in respect of the exercise of the option (subject to a cap on the maximum tax and National Insurance rates covered). The Remuneration Committee believes this payment is appropriate so as to ensure that the shares are acquired without any need to sell the shares to generate cash to cover tax liabilities. Options may be satisfied by an issue of shares (including out of treasury).

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

Pensions

P.E. Atherton and B.W.J. Phillips are members of the Portmeirion Group UK Limited Group Personal Pension Plan, a money purchase pension scheme. During the year their membership was transferred to this plan from the Portmeirion Group UK Limited Group Stakeholder Pension Plan. M. Haynes received contributions for a personal pension plan. L.F. Bryan receives pension contributions for a money purchase pension operated by the Group in the United States. Annual performance related incentives are not subject to contributions by the Group to the money purchase pension arrangements maintained for the Directors. Details of contributions paid by the Group for the benefit of the Directors are shown in the Directors' emoluments table that follows.

Directors' Remuneration Report

continued

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

Non-executive Directors

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

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2013 £'000	2012 £'000
Emoluments	971	978
Long term incentive plan (LTIP)	394	–
Gains made on exercise of share options	450	370
Money purchase pension contributions	63	63
	1,878	1,411

Directors' emoluments

	Salary & fees £'000	Taxable benefits £'000	Incentive £'000	LTIP ⁽⁶⁾ £'000	Gains made on exercise of share options £'000	Pension contribu- tions £'000	2013 Total £'000	2012 Total £'000
Executive								
P. E. Atherton ⁽¹⁾	151	14	15	–	–	17	197	–
L.F. Bryan ⁽²⁾	320	21	32	183	158	17	731	600
M. Haynes ⁽³⁾	51	5	–	114	–	3	173	358
B.W.J. Phillips	196	8	20	97	292	26	639	315
Non-executive								
Lady Judge ⁽⁴⁾	28	–	–	–	–	–	28	28
J. Kong	28	–	–	–	–	–	28	28
R.J. Steele ⁽⁵⁾	82	–	–	–	–	–	82	82
	856	48	67	394	450	63	1,878	1,411

Notes

- P. E. Atherton joined the Group on 4 February 2013 and was appointed as a Director on 12 February 2013. Amounts above reflect emoluments from 4 February 2013.
- L.F. Bryan is remunerated in US dollars and his remuneration is translated into sterling at the average exchange rate for the year. In 2013, this was \$1.5641 /£ (2012: \$1.5849 /£).
- M. Haynes resigned from the Board on 12 February 2013. Amounts disclosed above reflect salary, taxable benefits and pension contributions to 12 February 2013. Included within the amount for salary and fees is £30,000 in respect of a payment for loss of office.
- The remuneration for Lady Judge was made to either BTJ Consulting Limited or to Lady Judge personally in respect of her services.
- The remuneration for R.J. Steele was made to Adsum Limited in respect of his services.
- On 28 May 2013 options granted in 2010 under the 2010 Deferred Incentive Plan vested. The mid market closing price of the Company's shares on 28 May 2013 was 675.0p. L. F. Bryan and B.W.J. Phillips exercised options granted in 2010 on 6 August 2013. In addition, under good leaver provisions of the Plan, M. Haynes exercised 10,494 options granted to him in 2010 and 2011. The amounts in the table above include the value of the shares on exercise in reference to the mid market closing price of the Company's shares on the day before exercise and the amount paid in accordance with the rules of the Plan such that after discharge of necessary taxes a net amount was left sufficient to pay the taxes due in respect of the exercise of the options. Further details on the exercises are shown under the long-term incentive schemes section of this report on page 30.

Directors' pension entitlements

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

	Accrued pension at 01.01.2013 £'000	Increase in accrued pension in the year £'000	Accrued pension at 31.12.2013 £'000
B.W.J. Phillips	26	-	26

Notes

- (1) Inflation has been taken to be 2.15% for the purposes of adjusting last year's accrued pension.
- (2) The pension accrued to 31 December 2013 allows for the cessation of benefit accrual on 5 April 1999. Only statutory revaluation has been allowed from that date.

His accrued benefits under the scheme were as follows:

	Transfer value at 01.01.2013 £'000	Decrease in transfer value in the year £'000	Transfer value at 31.12.2013 £'000
B.W.J. Phillips	572	(20)	552

Note

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

Directors' share options and long-term incentives

Aggregate emoluments disclosed on page 28 do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors.

Share Option Schemes

The Company has three share option schemes, the 2002 Share Option Scheme, the 2012 Approved Plan and the 2012 Unapproved Plan as described on pages 26 and 27. Details of options held under these schemes by Directors who served during the year are as follows:

	At 01.01.2013	Number of options		At 31.12.2013	Exercise price (pence)	Dates on which exercisable	
		Granted	Exercised			Earliest	Latest
P.E. Atherton	-	30,000	-	30,000	610.0	03.05.2016	01.05.2023
L.F. Bryan	70,000	-	(70,000)	-	374.5	30.03.2013	28.03.2020
L.F. Bryan	15,000	-	-	15,000	487.5	21.04.2015	19.04.2022
L.F. Bryan	-	45,000	-	45,000	610.0	03.05.2016	01.05.2023
B.W.J. Phillips	45,000	-	(45,000)	-	197.5	29.05.2012	27.05.2019
B.W.J. Phillips	45,000	-	(45,000)	-	374.5	30.03.2013	28.03.2020
B.W.J. Phillips	10,000	-	-	10,000	487.5	21.04.2015	19.04.2022
B.W.J. Phillips	-	30,000	-	30,000	610.0	03.05.2016	01.05.2023

Notes

- (1) The performance criteria attaching to share options are detailed on pages 26 and 27.
- (2) The Company's share price reached a high of 725.0p and a low of 530.0p during 2013. The average share price during 2013 was 639.2p. The share price on 31 December 2013 was 707.5p.
- (3) There have been no changes to the Directors' interests in the shares or options over shares of the Company between 31 December 2013 and 19 March 2014.

Directors' Remuneration Report

continued

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

Director	Date of exercise	Number of options exercised	Exercise price per share (pence)	Market price on exercise per share (pence)	Gains on exercise £'000	Total gains on exercise 2013 £'000	Total gains on exercise 2012 £'000
L. F. Bryan	09.04.2013	70,000	374.5	600.0	158	158	191
B.W.J. Phillips	17.04.2013	45,000	197.5	610.0	186		
B.W.J. Phillips	17.04.2013	45,000	374.5	610.0	106	292	62

Long-term incentive schemes

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

Director	At 01.01.2013	Number of options			At 31.12.2013	Dates on which exercisable	
		Granted	Exercised	Lapsed		Earliest	Latest
L.F. Bryan	13,654	-	(13,654)	-	-	28.05.2013	25.08.2013
L.F. Bryan	11,730	-	-	-	11,730	15.04.2014	13.07.2014
L.F. Bryan	7,369	-	-	-	7,369	21.04.2015	19.07.2015
L.F. Bryan	-	2,106	-	-	2,106	20.04.2016	18.07.2016
M. Haynes	6,948	-	(6,948)	-	-	01.04.2013	30.06.2013
M. Haynes	5,911	-	(3,546)	(2,365)	-	01.04.2013	30.06.2013
B.W.J. Phillips	7,750	-	(7,750)	-	-	28.05.2013	25.08.2013
B.W.J. Phillips	6,502	-	-	-	6,502	15.04.2014	13.07.2014
B.W.J. Phillips	4,239	-	-	-	4,239	21.04.2015	19.07.2015
B.W.J. Phillips	-	1,197	-	-	1,197	20.04.2016	18.07.2016

Notes

- (1) The exercise price payable by the option holder to acquire shares upon the exercise of a 2010 Deferred Incentive Plan option is £1 in respect of all of the shares under option for that particular award.
- (2) When M Haynes left the Group in March 2013, the Remuneration Committee had determined that 6,948 options granted on 27 May 2010 and 3,546 options granted on 14 April 2011 were exercisable by 30 June 2013.

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 (pence)	Market price on exercise per share (pence)	Gains on exercise £'000	Total gains on exercise 2013 £'000	Total gains on exercise 2012 £'000
L. F. Bryan	06.08.2013	13,654	100.0	662.5	90	90	-
M. Haynes	11.04.2013	6,948	100.0	595.0	41		
M. Haynes	11.04.2013	3,546	100.0	595.0	21	62	-
B.W.J. Phillips	06.08.2013	7,750	100.0	662.5	51	51	-

Consultations with shareholders and statement of voting at general meeting

At the Annual General Meeting of the Company held on 14 May 2013, a resolution to approve the Directors' Remuneration Report for the year ended 31 December 2012 was passed with 5,721,461 proxy votes lodged of which 79.63% were in favour, 20.15% gave discretion and 0.22% were against.

In February 2014, the Chairman wrote to significant institutional shareholders offering a meeting to discuss corporate governance matters. The Chairman is in regular contact with all other significant shareholders in the Company.

Approval

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

B.W.J. Phillips

Company Secretary
19 March 2014

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 September 2012 (the "Code"). The Company has regard to the Code as best practice guidance and has sought to comply with a number of its provisions in so far as it considers them to be appropriate to a company of its size.

The Board

The Company is controlled by the Board of Directors. The Board comprises three Executive and three Non-executive Directors. The Board considers, after careful review, that the Non-executive Directors bring an independent judgement to bear notwithstanding their length of service. The Board has considered the need for progressive refreshing of the Board in formulating this view. All Non-executive Directors have contracts which expire on the completion of one year's notice. These are available for inspection at the Company's registered office and at the Annual General Meeting. All Directors retire no later than at the third Annual General Meeting of the Company after the general meeting at which he/she was appointed or last reappointed in accordance with the Company's Articles of Association and the principles of the Code. All Non-executive Directors of the Company who have served for more than nine years offer themselves for re-election annually. All Directors undergo a performance evaluation before being proposed for re-election to ensure their performance continues to be effective, that where appropriate they maintain their independence and that they are demonstrating continued commitment to the role.

R.J. Steele, the Non-executive Chairman, is responsible for the running of the Board and L.F. Bryan, the Chief Executive, has executive responsibility for running the Group's business and implementing Group strategy. The Board has not appointed a Senior Non-executive Director. The Board believes that, given its size, there is sufficient opportunity for shareholders to raise any concerns they may have with the Non-executive Chairman, Chief Executive, Group Finance Director or the other two Non-executive Directors. The Board meets at least five times each year and has a formal schedule of matters reserved to it. It is responsible for overall Group strategy, approval of major capital expenditure projects, approval of the annual and interim results, annual budgets, dividend policy, and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of all trading subsidiaries, their annual budgets, their performance in relation to those budgets and their capital expenditure.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. In addition, minutes of the meetings of the Directors of the main UK subsidiary are circulated to the Group Board of Directors. All Directors have direct access to the advice and services of the Company Secretary and are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

The following table shows the attendance of the Directors at meetings of the Board and its principal committees during 2013:

	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.F. Bryan (Chief Executive)	5	3 ⁽²⁾	2 ⁽²⁾	1
P. E. Atherton (Group Sales and Marketing Director)	5	3 ⁽²⁾	n/a	n/a
M. Haynes (Group Sales and Marketing Director) ⁽³⁾	1	n/a	n/a	n/a
Lady Judge (Non-executive)	5	3	3	1
J. Kong (Non-executive)	4	2	3	1
B.W.J. Phillips (Group Finance Director and Company Secretary)	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.
- (3) M. Haynes resigned on 12 February 2013.

Corporate Governance Statement

continued

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

Nomination Committee

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

Remuneration Committee

The Remuneration Committee is chaired by R.J. Steele and comprises all the Non-executive Directors. The Board considers it appropriate that R.J. Steele with his experience in this area chairs this committee. The Remuneration Committee is responsible for making recommendations to the Board in relation to all aspects of remuneration for Executive Directors. The Remuneration Committee believes that the presence of the Chief Executive is important when determining the remuneration of the other Executive Directors. The Chief Executive does not participate in discussions relating to his personal remuneration. In framing its policy the Remuneration Committee takes into account any factors which it deems necessary, including industry standard executive remuneration, differentials between executive and employee remuneration and differentials between executives. When designing schemes of performance related remuneration the Remuneration Committee considers the provisions in Schedule A to the Code. The remuneration of the Non-executive Directors is determined by the Executive Directors.

Audit Committee

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

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

Internal control

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

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

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

As might be expected in a Group of this size, a key control procedure is the day to day supervision of the business by the Executive Directors, supported by the senior managers with responsibility for key operations.

The Executive Directors are involved in the budget setting process, constantly monitor key performance indicators and review management accounts on a monthly basis, noting and investigating major variances. All significant capital expenditure decisions are approved by the Board as a whole.

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

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

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

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 auditor in the provision of non-audit services. Fees paid to the auditors for non-audit services are disclosed in note 8 on page 52.

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

Conflicts of interest

In line with the requirements of the Companies Act 2006, the Directors have put in place a policy and process for notifying and recording the nature and extent of their interests, together with those of connected persons, in organisations and companies outside the Group. Each Director must formally notify the Company if there is the potential for these interests to conflict with their duties as a Director of the Company. All such notifications are regularly reviewed by the Board.

Corporate Governance Statement

continued

Relations with shareholders

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

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

Financial reporting

The Board seeks to present a balanced and understandable assessment of the Group's position and prospects. Details are given in the Strategic Report on pages 6 to 15.

R.J. Steele

Non-executive Chairman

19 March 2014

Statement of Directors' Responsibilities

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

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

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

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

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

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

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

Independent Auditors' Report

Independent auditors' report to the members of Portmeirion Group PLC

We have audited the financial statements of Portmeirion Group PLC for the year ended 31 December 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Reconciliation of Movements in Shareholders' Equity and the related notes. The financial reporting framework that has been applied in the preparation of the Group's financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 35, 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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



P. Lucas (Senior Statutory Auditor)

for and on behalf of Mazars LLP,
Chartered Accountants and Statutory Auditors
45 Church Street
Birmingham
19 March 2014

Consolidated Income Statement

for the year ended 31 December 2013

	Notes	2013 £'000	*2012 £'000
Revenue	4, 5	58,295	55,525
Operating costs	6	(51,233)	(48,870)
Operating profit		7,062	6,655
Investment revenue	4, 9	52	39
Finance costs	10	(246)	(261)
Share of profit of associated undertakings		141	162
Profit before tax		7,009	6,595
Tax	11	(1,400)	(1,709)
Profit for the year attributable to equity holders		5,609	4,886
Earnings per share	13	53.26p	47.28p
Diluted earnings per share	13	52.84p	46.60p
Dividends paid and proposed per share	12	24.00p	21.80p

All the above figures relate to continuing operations.

* Restated - see note 1.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	Notes	2013 £'000	*2012 £'000
Profit for the year		5,609	4,886
Exchange differences on translation of foreign operations		(156)	(304)
Actuarial gain/(loss) on defined benefit pension scheme	28	1,947	(677)
Deferred tax on other comprehensive income	22	(688)	(43)
Other comprehensive income for the year		1,103	(1,024)
Total comprehensive income for the year attributable to equity holders		6,712	3,862

* Restated – see note 1.

Consolidated Balance Sheet

31 December 2013

	Notes	2013 £'000	2012 £'000
Non-current assets			
Intangible assets	14	1,419	1,609
Property, plant and equipment	15	9,285	5,662
Interests in associates	16	1,778	1,687
Deferred tax asset	22	222	816
Total non-current assets		12,704	9,774
Current assets			
Inventories	17	11,713	11,622
Trade and other receivables	18	10,889	9,611
Cash and cash equivalents	19	6,205	7,450
Total current assets		28,807	28,683
Total assets		41,511	38,457
Current liabilities			
Trade and other payables	21	(6,465)	(5,697)
Current income tax liabilities		(1,141)	(940)
Total current liabilities		(7,606)	(6,637)
Non-current liabilities			
Pension scheme deficit	28	(2,404)	(4,955)
Grant received		-	(18)
Total non-current liabilities		(2,404)	(4,973)
Total liabilities		(10,010)	(11,610)
Net assets		31,501	26,847
Equity			
Called up share capital	23	548	541
Share premium account		6,375	5,802
Investment in own shares	24	(1,139)	(767)
Share-based payment reserve		742	601
Translation reserve		599	783
Retained earnings		24,376	19,887
Total equity		31,501	26,847

These financial statements were approved by the Board of Directors and authorised for issue on 19 March 2014.

They were signed on its behalf by:

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

	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 2012	536	5,542	(931)	429	1,122	17,699	24,397
*Profit for the year	-	-	-	-	-	4,886	4,886
*Other comprehensive income for the year	-	-	-	-	(339)	(685)	(1,024)
Total comprehensive income for the year	-	-	-	-	(339)	4,201	3,862
Dividends paid	-	-	-	-	-	(2,078)	(2,078)
Increase in share-based payment reserve	-	-	-	172	-	-	172
Shares issued under employee share schemes	5	260	164	-	-	-	429
Deferred tax on share- based payment	-	-	-	-	-	65	65
At 1 January 2013	541	5,802	(767)	601	783	19,887	26,847
Profit for the year	-	-	-	-	-	5,609	5,609
Other comprehensive income for the year	-	-	-	-	(184)	1,287	1,103
Total comprehensive income for the year	-	-	-	-	(184)	6,896	6,712
Dividends paid	-	-	-	-	-	(2,376)	(2,376)
Increase in share-based payment reserve	-	-	-	141	-	-	141
Shares issued under employee share schemes	7	573	202	-	-	(60)	722
Purchase of own shares	-	-	(574)	-	-	(3)	(577)
Deferred tax on share- based payment	-	-	-	-	-	32	32
At 31 December 2013	548	6,375	(1,139)	742	599	24,376	31,501

* Restated - see note 1.

Consolidated Statement of Cash Flows

for the year ended 31 December 2013

	2013 £'000	2012 £'000
Operating profit	7,062	6,655
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	906	881
Amortisation of intangible assets	289	267
Contributions to defined benefit pension scheme	(800)	(800)
Charge for share-based payments	141	172
Exchange gain/(loss)	37	(53)
Profit on sale of tangible fixed assets	(9)	(36)
Operating cash flows before movements in working capital	7,626	7,086
(Increase)/decrease in inventories	(200)	692
Increase in receivables	(1,369)	(2,165)
Increase/(decrease) in payables	771	(1,086)
Cash generated from operations	6,828	4,527
Interest paid	(30)	(52)
Income taxes paid	(1,261)	(1,527)
Net cash from operating activities	5,537	2,948
Investing activities		
Interest received	76	15
Proceeds on disposal of property, plant and equipment	46	56
Purchase of property, plant and equipment	(4,579)	(626)
Purchase of intangible assets	(99)	(57)
Net cash outflow from investing activities	(4,556)	(612)
Financing activities		
Equity dividends paid	(2,376)	(2,078)
Shares issued under employee share schemes	722	429
Purchase of own shares	(577)	-
Net cash outflow from financing activities	(2,231)	(1,649)
Net (decrease)/increase in cash and cash equivalents	(1,250)	687
Cash and cash equivalents at beginning of year	7,450	6,777
Effect of foreign exchange rate changes	5	(14)
Cash and cash equivalents at end of year	6,205	7,450

Notes to the Consolidated Financial Statements

1. Basis of preparation

Portmeirion Group PLC is a Company incorporated in England and Wales. The address of the registered office is given on page 75. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 6 to 15.

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 going concern basis has been considered in the Strategic Report on page 15.

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

In the current year, there are a number of new accounting standards, amendments to existing standards and interpretations which are mandatory. No changes arising from new or revised accounting standards have had a material impact on the consolidated financial statements of the Group other than the adoption of IAS 19 (2011).

IAS 19 (2011) requires the return on defined benefit pension plan assets recognised in the income statement to be calculated by applying the same rate as that used to discount the plan's liabilities, rather than using the long-term expected rate of return. The impact of adopting this amended standard is a reduction in profit after tax for the year ended 31 December 2012 of £119,000 and an increase in other comprehensive income of the same amount. The comparative financial information has been amended accordingly and is indicated with '*' where adjusted.

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:

IFRS 7 (amended)	<i>Financial Instruments: Disclosures</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 13	<i>Fair Value Measurement</i>
IAS 1 (amended)	<i>Presentation of financial statements</i>
IAS 27 (revised)	<i>Separate Financial Statements</i>
IAS 28 (revised)	<i>Investments in Associates and Joint Ventures</i>

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

IFRS 9	<i>Financial Instruments</i>
IFRS 10, IFRS 12 and IAS 27 (amendments)	<i>Investment Entities</i>
IAS 36 (amendments)	<i>Recoverable Amount Disclosures for Non-Financial Assets</i>
IAS 39 (amendments)	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC Interpretation 21	<i>Levies</i>

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies

The accounting policies which follow set out those policies which were applied in preparing the financial statements for the year ended 31 December 2013.

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 2013 except for the accounts of Portmeirion Finance Limited which have been prepared for the year ended 7 January 2014 and the accounts of Portmeirion Canada Inc. which have a year end of 30 June 2013. The Group accounts include interim financial information to 31 December 2013 for Portmeirion Finance Limited and Portmeirion Canada Inc.

2.2 Investment in associated undertakings ("associates")

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

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

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

2.3 Revenue recognition

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

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

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

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

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

2.4 Operating leases

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

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

2. Significant accounting policies continued

2.5 Foreign currencies

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

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

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

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

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

2.6 Operating profit

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

2.7 Group pension schemes

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

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

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

2.8 Taxation

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

Current tax

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

Deferred tax

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

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies continued

2.8 Taxation continued

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

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

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

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

2.9 Property, plant and equipment

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

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

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

2.10 Intangible assets

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

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

2.11 Impairment of tangible and intangible assets

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

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

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

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

2. Significant accounting policies continued

2.12 Inventories

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

2.13 Research and development

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

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

2.14 Purchase of own shares

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.

2.15 Financial instruments

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

Derivative financial instruments

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

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

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

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

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies continued

2.15 Financial instruments continued

Receivables

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

Cash and cash equivalents

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

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 29.

2.16 Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 30.

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

2.17 Grant income

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the Group's accounting policies

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

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

Impairment of inventory

Provision is made for the impairment of slow-moving and obsolete inventory based on historical and forecast sales and estimates of net realisable value. The carrying value of inventory at the year end was £11,713,000 (2012: £11,622,000).

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, salary, mortality and pension increases. The carrying value of the scheme liability at the year end was £2,404,000 (2012: £4,955,000).

4. Revenue

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

	2013 £'000	2012 £'000
Continuing operations		
Sale of goods	57,931	55,301
Royalties	364	224
	58,295	55,525
Investment income	52	39
	58,347	55,564

5. Segmental analysis

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

	Total sales £'000	2013 Inter- segment sales £'000	Sales to third parties £'000	Total sales £'000	2012 Inter- segment sales £'000	Sales to third parties £'000
Revenue by origin						
United Kingdom	42,590	(3,900)	38,690	38,163	(2,671)	35,492
United States	19,605	-	19,605	20,033	-	20,033
	62,195	(3,900)	58,295	58,196	(2,671)	55,525

Included in revenues arising from the United Kingdom are revenues of £14,783,000 (2012: £12,135,000) which arose from sales to the Group's largest customer in South Korea.

Notes to the Consolidated 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	2013 £'000	2012 £'000
United Kingdom	15,435	14,915
United States	19,854	20,215
South Korea	14,783	12,135
Rest of the World	8,223	8,260
	58,295	55,525

Operating profit by origin	2013 £'000	*2012 £'000
United Kingdom	6,746	5,527
United States	316	1,128
Operating profit	7,062	6,655
Unallocated items:		
Share of profit of associated undertakings	141	162
Investment revenue	52	39
Finance costs	(246)	(261)
Profit before tax	7,009	6,595
Tax	(1,400)	(1,709)
Profit after tax	5,609	4,886

Other information	2013			2012		
	United Kingdom	United States	Con-solidated	United Kingdom	United States	Con-solidated
	£'000	£'000	£'000	£'000	£'000	£'000
Capital additions	4,486	192	4,678	606	77	683
Depreciation and amortisation	1,031	164	1,195	990	158	1,148
<i>Balance sheet</i>						
Assets						
Segment assets	30,967	8,405	39,372	29,379	7,091	36,470
Interests in associates			1,778			1,687
Other assets			361			300
Consolidated total assets			41,511			38,457
Liabilities						
Segment liabilities	8,676	1,334	10,010	10,495	1,115	11,610

There are no unallocated corporate liabilities in 2013 and 2012.

Reconciliation of earnings before interest, tax, depreciation and amortisation (EBITDA)	2013 £'000	2012 £'000
Operating profit	7,062	6,655
Add back:		
Depreciation	906	881
Amortisation	289	267
Earnings before interest, tax, depreciation and amortisation	8,257	7,803

6. Operating costs

	2013 £'000	2012 £'000
Cost of inventories recognised as an expense	23,993	22,885
Movement on inventory impairment provision	(316)	(434)
Other external charges	9,794	10,037
Staff costs (note 7)	16,130	15,102
Depreciation of property, plant and equipment	906	881
Amortisation of intangible assets	289	267
Impairment of trade receivables	37	(81)
Cost of research and development	265	232
Net foreign exchange losses	154	-
Government grants	(19)	(19)
	51,233	48,870

7. Staff numbers and costs

	2013 Number	2012 Number
<i>The average number of persons employed during the year, including Directors:</i>		
Operatives	341	351
Salaried employees	237	236
	578	587
	£'000	£'000
Staff costs:		
Wages and salaries	13,524	12,678
Social security costs	1,177	1,081
Defined contribution pension costs	1,052	971
Non-monetary benefits	377	372
	16,130	15,102

The Company had no employees throughout 2013 or 2012.

Details of individual Directors' remuneration, pension contributions and pension entitlements required by the Companies Act 2006 are shown in the Directors' Remuneration Report on pages 22 to 30, together with details of Directors' current share options.

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8. Auditors' remuneration

	2013 £'000	2012 £'000
Fees payable to the Group's auditors for the audit of the Group's annual accounts	47	45
Other audit related services – interim review	6	6
Total audit related fees	53	51
Fees payable to the Group's auditors and their associates for other services to the Group		
Tax compliance services	8	8
Other taxation advisory services [†]	7	24
All other services	4	6
Total non-audit fees	19	38
Fees payable to the Group's auditors and their associates in respect of associated pension schemes		
Audit of the Portmeirion Potteries Limited Retirement Benefits Scheme	4	4
	4	4

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

The audit fee for the Company was £1,600 (2012: £1,500).

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

9. Investment revenue

	2013 £'000	2012 £'000
Bank deposits	24	14
Realised gains on financial derivatives	28	–
Unrealised gains on financial derivatives	–	24
Other interest receivable	–	1
	52	39

10. Finance costs

	2013 £'000	*2012 £'000
Interest paid	43	26
Realised losses on financial derivatives	7	25
Defined benefit pension scheme – other finance costs	196	210
	246	261

11. Taxation on profit on ordinary activities

	2013 £'000	*2012 £'000
<i>Current taxation</i>		
United Kingdom corporation tax at 23.25% (2012: 24.5%)	1,346	1,263
Overseas taxation	116	379
	1,462	1,642
<i>Deferred taxation</i>		
Origination and reversal of temporary differences	(61)	(2)
Pension scheme	(1)	69
	(62)	67
	1,400	1,709

UK Corporation tax is calculated at 23.25% (2012: 24.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2013 £'000	*2012 £'000
Profit on ordinary activities before taxation	7,009	6,595
Tax on profit on ordinary activities at standard rate of 23.25% (2012: 24.5%)	1,630	1,616
<i>Factors affecting charge for the year:</i>		
Expenses not deductible for tax purposes and other adjustments	(245)	21
Small companies tax relief	(2)	(3)
Foreign tax charged at higher rates than UK standard rate	41	103
Difference relating to associates tax charge	(24)	(28)
Total tax on profit on ordinary activities	1,400	1,709

12. Dividends paid

	2013 £'000	2012 £'000
Final dividend of 17.30p per share paid in respect of the year ended 31 December 2012 (2012: final dividend of 15.70p per share paid in respect of the year ended 31 December 2011)	1,842	1,610
Interim dividend of 5.00p per share paid in respect of the year ended 31 December 2013 (2012: interim dividend of 4.50p per share paid in respect of the year ended 31 December 2012)	534	468
Total dividends paid in the year	2,376	2,078

The Directors recommend that a final dividend for 2013 of 19.00p (2012: 17.30p) per ordinary share be paid, making a total for the year of 24.00p (2012: 21.80p) per share. The final dividend will be paid, subject to shareholders' approval, on 23 May 2014, to shareholders on the register at the close of business on 25 April 2014. This dividend has not been included as a liability in these financial statements.

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13. Earnings per share

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

	Earnings £'000	2013 Weighted average number of shares	Earnings per share (pence)	Earnings £'000	*2012 Weighted average number of shares	Earnings per share (pence)
Basic earnings per share	5,609	10,531,715	53.26	4,886	10,334,605	47.28
Effect of dilutive securities: employee share options	-	82,372	-	-	151,083	-
Diluted earnings per share	5,609	10,614,087	52.84	4,886	10,485,688	46.60

14. Intangible assets

	Development costs £'000	Computer software £'000	Intellectual property £'000	Total £'000
<i>Cost</i>				
At 1 January 2012	-	506	2,693	3,199
Additions	-	57	-	57
At 1 January 2013	-	563	2,693	3,256
Additions	41	58	-	99
Disposals	-	(100)	-	(100)
At 31 December 2013	41	521	2,693	3,255
<i>Amortisation</i>				
At 1 January 2012	-	278	1,102	1,380
Charge for the year	-	50	217	267
At 1 January 2013	-	328	1,319	1,647
Charge for the year	4	68	217	289
On disposals	-	(100)	-	(100)
At 31 December 2013	4	296	1,536	1,836
<i>Net book value</i>				
At 31 December 2013	37	225	1,157	1,419
At 31 December 2012	-	235	1,374	1,609

Included within intellectual property are the rights to certain intellectual property and the trade names of Spode and Royal Worcester, purchased in April 2009. At the year end this had a carrying value of £1,157,000 (2012: £1,374,000). The remaining amortisation period is five years and four months.

At 31 December 2013, the Group had entered into contractual commitments for the acquisition of intangible assets amounting to £nil (2012: £15,000).

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

15. Property, plant and equipment

	Land and buildings			Plant and vehicles £'000	Total £'000
	Freehold £'000	Leasehold £'000	Leasehold improvements £'000		
<i>Cost</i>					
At 1 January 2012	3,857	-	1,273	12,909	18,039
Additions	-	-	32	594	626
Disposals	-	-	-	(152)	(152)
Exchange rate adjustments	-	-	(24)	(44)	(68)
At 1 January 2013	3,857	-	1,281	13,307	18,445
Additions	-	3,874	14	691	4,579
Disposals	-	-	-	(1,079)	(1,079)
Exchange rate adjustments	-	-	(10)	(21)	(31)
At 31 December 2013	3,857	3,874	1,285	12,898	21,914
<i>Depreciation</i>					
At 1 January 2012	1,612	-	569	9,883	12,064
Charge for the year	70	-	82	729	881
On disposals	-	-	-	(132)	(132)
Exchange rate adjustments	-	-	(5)	(25)	(30)
At 1 January 2013	1,682	-	646	10,455	12,783
Charge for the year	70	21	89	726	906
On disposals	-	-	-	(1,042)	(1,042)
Exchange rate adjustments	-	-	(6)	(12)	(18)
At 31 December 2013	1,752	21	729	10,127	12,629
<i>Net book value</i>					
At 31 December 2013	2,105	3,853	556	2,771	9,285
At 31 December 2012	2,175	-	635	2,852	5,662

During the year the Group acquired the long leasehold interest, to expire in May 2156, of a 64,000 sq. ft. warehouse and offices, which it currently occupies, located in Stoke-on-Trent for £3.9 million.

At 31 December 2013, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £nil (2012: £nil).

16. Interests in associates

	2013 £'000	2012 £'000
<i>Associated undertakings</i>		
Furlong Mills Limited		
2,080 ordinary shares of £1 each, representing 27.58% of the issued share capital		
Share of net assets	1,171	1,065
Discount on acquisition	(13)	(13)
Impairment of investment in Furlong Mills Limited	(309)	(309)
	849	743
Portmeirion Canada Inc.		
100 common shares representing 50% of the issued share capital		
Share of net assets	929	944
	1,778	1,687

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16. Interests in associates continued

	2013	2012
	£'000	£'000
Aggregated amounts relating to associates		
Total assets	7,526	7,544
Total liabilities	(1,354)	(1,585)
Revenues	11,063	11,038
Profit before tax	638	492

A list of the significant investments in subsidiaries and associates, including the name, country of incorporation and proportion of ownership interest is given in note c to the Company's separate financial statements on pages 71 and 72.

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

17. Inventories

	2013	2012
	£'000	£'000
Raw materials and other consumables	1,588	1,733
Work in progress	610	420
Finished goods	9,515	9,469
	11,713	11,622

18. Trade and other receivables

	2013	2012
	£'000	£'000
Amounts receivable for the sale of goods	9,924	8,761
Allowance for doubtful debts	(272)	(249)
Trade receivables	9,652	8,512
Amounts owed by associated undertakings	494	221
Other receivables	27	78
Prepayments and accrued income	716	800
	10,889	9,611

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

Included in the Group's trade receivable balance are debtors with a carrying amount of £1,538,000 (2012: £1,486,000) 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 51 days (2012: 52 days).

	2013	2012
	£'000	£'000
Ageing of past due but not impaired receivables		
31-60 days	1,248	1,195
61-90 days	227	209
91+ days	63	82
Total	1,538	1,486

18. Trade and other receivables continued

	2013	2012
	£'000	£'000
Movement in the allowance for doubtful debts		
Balance at the beginning of the year	249	326
Impairment losses recognised/(reversed)	37	(81)
Amounts (written off as uncollectable)/recovered	(14)	4
Balance at the end of the year	272	249

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.

	2013	2012
	£'000	£'000
Ageing of individually impaired trade receivables		
120+ days	122	76

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £20,000 (2012: £17,000) which have been placed into liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

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

19. Cash and cash equivalents

	2013	2012
	£'000	£'000
Cash and cash equivalents	6,205	7,450

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

20. Borrowings

The Group has two facilities:

- a) A £2,000,000 overdraft facility available until 31 May 2014. Interest is payable at 2.25% on the net pooled fund balance, plus bank base rate on net sterling borrowings.
- b) A £2,000,000 revolving credit facility available until 30 June 2016. Interest is payable at 2.3% above three month LIBOR.

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

Neither of these facilities were being utilised at 31 December 2013.

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21. Trade and other payables

	2013 £'000	2012 £'000
Trade payables and accruals	5,041	4,645
Amounts owed to associated undertakings	128	72
Other taxation and social security	489	334
Other payables	807	646
	6,465	5,697

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 36 days (2012: 35 days). For most suppliers no interest is charged on the trade payables from the date of invoice to the end of the following month. Thereafter, interest may be charged on the outstanding balances at various interest rates. The Group's policy is to pay all payables within the credit timeframe.

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

22. Deferred tax

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

	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Share- based payment £'000	Capital gain held over £'000	Other temporary differences £'000	Total £'000
At 1 January 2012	(637)	1,217	136	(346)	491	861
*Credit/(charge) to income	63	(69)	(47)	28	(42)	(67)
Credit to equity	-	-	65	-	-	65
*Charge to other comprehensive income	-	(8)	-	-	(35)	(43)
At 1 January 2013	(574)	1,140	154	(318)	414	816
Credit/(charge) to income	57	1	(127)	41	90	62
Credit to equity	-	-	32	-	-	32
Charge to other comprehensive income	-	(660)	-	-	(28)	(688)
At 31 December 2013	(517)	481	59	(277)	476	222

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

	2013 £'000	2012 £'000
Deferred tax liabilities	(794)	(892)
Deferred tax assets	1,016	1,708
	222	816

At the balance sheet date, the Group had no unused tax trading or capital losses (2012: £nil) available for offset against future profits.

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

23. Share capital

	2013		2012	
	Number '000	£'000	Number '000	£'000
Allotted, called up and fully paid share capital: ordinary shares of 5p each	10,972	548	10,834	541

The market price of the Company's shares at 31 December 2013 was 707.5p per share. During the year the price ranged between 530.0p and 725.0p per share.

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

During the year the Company issued 138,000 new ordinary shares of 5p each for a total of £437,000 in order to satisfy the exercise of share options.

Options granted to Directors and employees (note 30) to acquire ordinary shares of 5p in the Company and still outstanding at 31 December 2013 were as follows:

	Number of shares	Exercise price per share (p)	Dates on which exercisable	
			Earliest	Latest
2002 Share Option Scheme	2,000	374.5	30.03.2013	28.03.2020
2002 Share Option Scheme	16,000	489.0	29.04.2014	27.04.2021
2002 Share Option Scheme	43,000	487.5	21.04.2015	19.04.2022
2010 Deferred Incentive Plan	18,232	-	15.04.2014	13.07.2014
2010 Deferred Incentive Plan	11,608	-	21.04.2015	19.07.2015
2010 Deferred Incentive Plan	3,303	-	20.04.2016	18.07.2016
2012 Approved Share Option Plan	32,902	610.0	03.05.2016	01.05.2023
2012 Unapproved Share Option Plan	118,098	610.0	03.05.2016	01.05.2023

Options held by the Directors are shown in the Directors' Remuneration Report on pages 29 and 30.

24. Own shares

	2013 £'000	2012 £'000
Treasury shares		
At 1 January	767	931
Shares purchased	-	-
Shares issued under employee share schemes	(202)	(164)
At 31 December	565	767
ESOP shares		
At 1 January	-	-
Shares purchased	574	-
Shares issued under employee share schemes	-	-
At 31 December	574	-
Total at 31 December	1,139	767

The Group currently holds 302,620 (2012: 410,518) ordinary shares of 5p each in treasury.

The ESOP shares 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 30). The number of ordinary shares held by the Employees' Share Trust at 31 December 2013 was 94,000 (2012: Nil).

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25. Commitments

Operating lease arrangements

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

The Group as lessee

	2013	2012
	£'000	£'000
Minimum lease payments under operating leases recognised as an expense in the year	1,334	1,428

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:

	2013	2012
	£'000	£'000
Within one year	1,203	1,517
In the second to fifth years inclusive	3,541	5,128
After five years	469	2,281
	5,213	8,926

The Group as lessor

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

	2013	2012
	£'000	£'000
Within one year	117	117
In the second to fifth years inclusive	88	205
After five years	-	-
	205	322

26. Contingent liabilities

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

27. Related party transactions

Transactions between the Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below. Transactions between the Company and its subsidiaries and associates are disclosed in note g of the Company's financial statements on page 73.

The transactions during the year with associated undertakings were:

	Purchases	Purchases	Sales	Sales
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Portmeirion Canada Inc.	-	-	2,247	2,405
Furlong Mills Limited	720	507	-	-

27. Related party transactions continued

The outstanding balances at 31 December 2013, with associated undertakings were:

	Debtor 2013 £'000	Debtor 2012 £'000	Creditor 2013 £'000	Creditor 2012 £'000
Portmeirion Canada Inc.	494	221	-	-
Furlong Mills Limited	-	-	128	72

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.

During the year The Portmeirion Employees' Share Trust purchased 90,000 shares from L.F. Bryan at market value.

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

The key management personnel of the Group are considered to be the Directors, the remuneration of whom is set out in the Directors' Remuneration Report on page 28.

28. Pensions

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

The total cost charged to income of £1,052,000 (2012: £971,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes, as well as payments to a personal pension plan for M. Haynes as shown in the Directors' Remuneration Report on page 28.

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.

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

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

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

The actuarial valuation of the scheme was updated at 31 December 2013 in accordance with IAS 19 by qualified actuaries.

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28. Pensions continued

The major assumptions used by the actuaries were:

	2013	2012	2011
Rate of increase in pensions in payment:			
Post 06.04.88 GMP	3.00%	3.00%	3.00%
Pre 06.04.97 excess over GMP	5.00%	5.00%	5.00%
Post 06.04.97 pension	3.50%	2.90%	2.95%
Rate of revaluation of pensions in deferment	2.60%	2.10%	2.20%
Rate used to discount scheme liabilities	4.70%	4.30%	4.70%
Inflation assumption			
RPI	3.70%	2.90%	3.00%
CPI	2.60%	2.10%	2.20%

The most significant actuarial assumption for the determination of the defined benefit obligation is the discount rate. If the discount rate was 0.1% higher, the defined benefit obligation would reduce by £410,000.

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

	2013 Fair value £'000	2012 Fair value £'000
Scheme assets		
Equities	3,886	12,670
Bonds	4,918	4,133
Gilts	6,783	-
Diversified growth funds	3,637	-
Insured annuities	5,878	6,358
Cash	106	497
Total fair value of assets	25,208	23,658
Present value of defined benefit obligations	(27,612)	(28,613)
Deficit in the scheme	(2,404)	(4,955)

Analysis of the amount charged to operating profit:

	2013 £'000	2012 £'000
Current service cost	-	-
Past service cost	-	-
	-	-

Analysis of the amount included in the income statement:

	2013 £'000	* 2012 £'000
Interest on pension scheme assets	1,015	1,003
Interest on pension scheme liabilities	(1,211)	(1,213)
Amount charged to other finance costs	(196)	(210)

The cumulative amount of actuarial gains and losses recognised in the Consolidated Statement of Comprehensive Income since adoption of IFRS is a loss of £2,507,000 (2012: loss of £4,454,000).

28. Pensions continued

Analysis of the actuarial gain/(loss) recognised in the Consolidated Statement of Comprehensive Income:

	2013 £'000	*2012 £'000
Return on plan assets (excluding amounts included in net interest expense)	639	1,415
Actuarial gains and losses arising from changes in financial assumptions	1,308	(2,092)
Actuarial gain/(loss) recognised in the Consolidated Statement of Comprehensive Income	1,947	(677)

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

	2013 £'000	2012 £'000
At 1 January	28,613	26,286
Service cost	-	-
Interest cost	1,211	1,213
Remeasurements (financial)	(1,308)	2,092
Benefits paid	(904)	(978)
At 31 December	27,612	28,613

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

	2013 £'000	*2012 £'000
At 1 January	23,658	21,418
Interest on assets	1,015	1,003
Remeasurement of assets	639	1,415
Contributions by the employer	800	800
Benefits paid	(904)	(978)
At 31 December	25,208	23,658

The history of experience adjustments is as follows:

	2013 £'000	*2012 £'000	2011 £'000	2010 £'000	2009 £'000
Present value of defined benefits	(27,612)	(28,613)	(26,286)	(25,464)	(23,272)
Fair value of scheme assets	25,208	23,658	21,418	21,162	19,635
Deficit in the scheme	(2,404)	(4,955)	(4,868)	(4,302)	(3,637)
<i>Experience adjustment on scheme liabilities</i>					
Amount	-	(326)	427	-	-
Percentage of scheme liabilities (%)	-	1%	2%	-	-
<i>Experience adjustment on scheme assets</i>					
Amount	639	1,415	(1,384)	40	2,211
Percentage of scheme assets (%)	3%	6%	6%	0%	11%

The estimated amount of contributions expected to be paid to the scheme during the current financial year is £800,000 (2013: £800,000).

At 31 December 2013, contributions of £232,000 (2012: £76,000) 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 £124,000 (2012: £80,000) at 31 December 2013.

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29. Financial instruments

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

Financial risk management objectives

Capital management

The Group manages its capital to ensure that all entities in the Group will be able to continue as a going concern while maximising the return to stakeholders. The capital structure of the Group consists of cash and cash equivalents, borrowings and equity attributable to equity holders, comprising capital, reserves and retained earnings.

Credit risk

The Group's principal financial assets are cash, short-term deposits and trade receivables. The Group's policy is to place funds on short-term deposit with highly rated institutions. Accounts receivable are monitored closely and provisions are made for bad and doubtful debts where appropriate. The creditworthiness of customers is assessed prior to opening new accounts and on a regular basis for significant customers. The assessment of credit quality of trade receivables is outlined in note 18.

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

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

Foreign currency risk management

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

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

The Group undertakes certain trading transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts when considered appropriate.

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

	Liabilities		Assets	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Euro	31	13	606	346
US Dollar	1,671	1,698	4,712	4,011
Canadian Dollar	-	-	317	22
Swedish Krona	4	6	78	55
Norwegian Krone	3	8	40	58

29. Financial instruments continued

Foreign currency sensitivity analysis

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

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

	Euro impact		US Dollar impact		Canadian Dollar impact		Swedish Krona impact		Norwegian Krone impact	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Profit or loss	(52)	(31)	(192)	(11)	(29)	(2)	(7)	(4)	(4)	(5)

Liquidity risk management

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

Liquidity and interest risk tables

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	Over 3 months	Non-financial assets/ (liabilities)	Total
At 31 December 2013	%	£'000	£'000	£'000	£'000	£'000
Financial assets	-	4,981	5,165	-	-	10,146
Other assets	-	-	-	-	25,160	25,160
Cash and cash equivalents	0.5%	6,205	-	-	-	6,205
Total assets		11,186	5,165	-	25,160	41,511
Shareholders' funds	-	-	-	-	(31,501)	(31,501)
Financial liabilities	-	(5,481)	(718)	(266)	-	(6,465)
Other liabilities	-	(407)	-	(734)	-	(1,141)
Pension scheme deficit	-	-	-	-	(2,404)	(2,404)
Total liabilities and shareholders' funds		(5,888)	(718)	(1,000)	(33,905)	(41,511)
Cumulative gap		5,298	9,745	8,745	-	-

Notes to the Consolidated Financial Statements

continued

29. Financial instruments continued

At 31 December 2012	Weighted average effective interest rate	Less than 1 month	1-3 months	Over 3 months	Non-financial assets/(liabilities)	Total
	%	£'000	£'000	£'000	£'000	£'000
Financial assets	-	5,297	3,436	-	-	8,733
Other assets	-	-	-	-	22,274	22,274
Cash and cash equivalents	0.5%	7,450	-	-	-	7,450
Total assets		12,747	3,436	-	22,274	38,457
Shareholders' funds	-	-	-	-	(26,847)	(26,847)
Financial liabilities	-	(4,669)	(489)	(539)	-	(5,697)
Other liabilities	-	(294)	-	(664)	-	(958)
Pension scheme deficit	-	-	-	-	(4,955)	(4,955)
Total liabilities and shareholders' funds		(4,963)	(489)	(1,203)	(31,802)	(38,457)
Cumulative gap		7,784	10,731	9,528	-	-

30. Share-based payments

Equity-settled share option schemes

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

The Group recognised total expenses of £141,000 and £172,000 related to equity share-based payment transactions in 2013 and 2012 respectively.

a) The Portmeirion 2002 Share Option Scheme

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

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

	2013		2012	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at 1 January	292,500	3.770	458,000	3.016
Granted during the year	-	-	55,500	4.875
Lapsed during the year	(17,500)	4.884	(27,320)	4.409
Surrendered during the year	-	-	-	-
Exercised during the year	(214,000)	3.373	(193,680)	2.214
Outstanding at 31 December	61,000	4.842	292,500	3.770
Exercisable at 31 December	2,000	3.745	45,000	1.975

The options outstanding at 31 December 2013 had a weighted average remaining contractual life of 8.0 years (2012: 7.6 years). In 2012, options were granted on 20 April. The aggregate of the estimated fair value of those options is £62,292.

The range of exercise prices for the options outstanding at 31 December is from £3.745 to £4.890.

30. Share-based payments continued

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

	2013	2012
Weighted average share price at date of grant	-	£4.750
Weighted average exercise price	-	£4.875
Expected volatility	-	38%
Expected life	-	6.5 years
Risk-free rate	-	1.37%
Expected dividend rate	-	4.13%

Expected volatility was determined by calculating the historical volatility over the previous 6.5 years. The expected life used in the model assumes that the options will be exercised on average halfway through the period during which they can be exercised.

b) The Portmeirion Group 2010 Deferred Incentive Share Option Plan

Options are granted to Executive Directors in a year over shares with a market value not exceeding 20% of the gross incentive earned by the relevant employee in respect of the previous financial year. Options are exercisable at £1 per individual as the total exercise price. The vesting period is three years. If the options remain unexercised after a period of three years and three months from the date of grant the options expire.

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

	2013		2012	
	Number of share options	Total exercise price £	Number of share options	Total exercise price £
Outstanding at 1 January	64,103	£8	52,495	£6
Granted during the year	3,303	£2	11,608	£2
Lapsed during the year	(2,365)	-	-	-
Surrendered during the year	-	-	-	-
Exercised during the year	(31,898)	£4	-	-
Outstanding at 31 December	33,143	£6	64,103	£8
Exercisable at 31 December	-	-	-	-

The options outstanding at 31 December 2013 had a weighted average remaining contractual life of 1.1 years (2012: 1.3 years). In 2013, options were granted on 19 April. The aggregate of the estimated fair value of those options is £17,855. In 2012, options were granted on 20 April. The aggregate of the estimated fair value of those options is £48,467.

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

	2013	2012
Weighted average share price at date of grant	£6.050	£4.750
Weighted average exercise price	Nil	Nil
Expected volatility	30%	44%
Expected life	3.125 years	3.125 years
Risk-free rate	0.42%	0.77%
Expected dividend rate	3.60%	4.13%

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

Notes to the Consolidated Financial Statements

continued

30. Share-based payments 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:

	2013		2012	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at 1 January	-	-	-	-
Granted during the year	155,000	6.100	-	-
Lapsed during the year	(4,000)	6.100	-	-
Surrendered during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at 31 December	151,000	6.100	-	-
Exercisable at 31 December	-	-	-	-

The options outstanding at 31 December 2013 had a weighted average remaining contractual life of 9.3 years. In 2013, options were granted on 2 May. The aggregate of the estimated fair value of those options is £235,132.

All options outstanding at 31 December have an exercise price of £6.100.

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

	2013	2012
Weighted average share price at date of grant	£6.050	-
Weighted average exercise price	£6.100	-
Expected volatility	38%	-
Expected life	6.5 years	-
Risk-free rate	0.98%	-
Expected dividend rate	3.60%	-

Expected volatility was determined by calculating the historical volatility over the previous 6.5 years. The expected life used in the model assumes that the options will be exercised on average halfway through the period during which they can be exercised.

Company Balance Sheet

31 December 2013

	Notes	2013		2012	
		£'000	£'000	£'000	£'000
Fixed assets					
Investment in subsidiary undertakings	c		1,455		1,455
Current assets					
Debtors: amounts owed by subsidiary undertakings falling due within one year		40		-	
Debtors: amounts which fall due after more than one year	d	10,911		10,911	
Creditors: amounts falling due within one year	e	(45)		(1,152)	
Net current assets			10,906		9,759
Net assets			12,361		11,214
Capital and reserves					
Called up share capital	f		548		541
Share premium account	f		6,375		5,802
Other reserves	f		197		197
Investment in own shares	f		(1,139)		(767)
Share-based payment reserve	f		742		601
Retained earnings	f		5,638		4,840
Shareholders' funds			12,361		11,214

The financial statements of Portmeirion Group PLC, company registration number 124842, were approved by the Board of Directors and authorised for issue on 19 March 2014. They were signed on its behalf by:

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

Company Reconciliation of Movements in Shareholders' Equity for the year ended 31 December 2013

	2013 £'000	2012 £'000
Opening balance	11,214	9,779
Profit for the financial year	3,237	2,912
Dividends paid	(2,376)	(2,078)
Shares issued under employee share schemes	722	429
Purchase of own shares	(577)	-
Increase in share-based payment reserve	141	172
Closing balance	12,361	11,214

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

Notes to the Company Financial Statements

a. Significant accounting policies

Basis of accounting

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

Investments

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

Cash flow statement

The Company has taken advantage of the exemption available under FRS 1 (revised) not to prepare a cash flow statement as the company is a member of a group and a consolidated cash flow statement is published.

Going Concern

The going concern basis for the Company and Group has been considered in the Strategic Report on page 15.

Purchase of own shares

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.

b. Profit for the year

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. The Company reported a profit for the financial year of £3,237,000 (2012: £2,912,000). The auditors' remuneration for audit and other services is disclosed in note 8 to the consolidated financial statements.

c. Fixed asset investment

Subsidiary undertaking:

	2013 £'000	2012 £'000
30,100 ordinary shares of £1 each in Portmeirion Group UK Limited representing 100% of the issued share capital at cost	1,455	1,455

Notes to the Company Financial Statements

continued

c. Fixed asset investment continued

At 31 December 2013 the Company had the following subsidiary and associated undertakings:

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

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

* Wholly owned by Portmeirion Group UK Limited.

† Wholly owned by Portmeirion Enterprises Limited.

^ Wholly owned by Portmeirion Group USA, Inc.

~ Wholly owned by Portmeirion Group Hong Kong Limited.

d. Debtors

	2013	2012
	£'000	£'000
Loans owed by subsidiary undertakings falling due after more than one year:		
Portmeirion Group UK Limited	10,146	10,146
Portmeirion Enterprises Limited	705	705
Portmeirion Distribution Limited	60	60
	10,911	10,911

e. Creditors

	2013	2012
	£'000	£'000
Amounts falling due within one year:		
Amounts owed to subsidiary undertaking, Portmeirion Group UK Limited	-	1,088
Other taxation and social security	-	6
Other creditors	-	43
Corporation tax	45	15
	45	1,152

f. Share capital, share premium account and reserves

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

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

	Share premium account £'000	Other reserves £'000	Investment in own shares £'000	Share- based payment reserve £'000	Retained earnings £'000
At 1 January 2012	5,542	197	(931)	429	4,006
Profit for the financial year	-	-	-	-	2,912
Dividends paid	-	-	-	-	(2,078)
Increase in share-based payment reserve	-	-	-	172	-
Shares issued under employee share schemes	260	-	164	-	-
At 1 January 2013	5,802	197	(767)	601	4,840
Profit for the financial year	-	-	-	-	3,237
Dividends paid	-	-	-	-	(2,376)
Increase in share-based payment reserve	-	-	-	141	-
Purchase of own shares	-	-	(574)	-	(3)
Shares issued under employee share schemes	573	-	202	-	(60)
At 31 December 2013	6,375	197	(1,139)	742	5,638

g. Related party transactions

During 2013 net transactions totalling £1,128,000 were debited (2012: £1,426,000 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 Company arranged an intercompany loan with The Portmeirion Employees' Share Trust for £577,000 (2012: £nil) for the purpose of acquiring shares to satisfy Group share option exercises.

The outstanding balances with subsidiary undertakings at 31 December 2013 and 31 December 2012 are shown in notes d and e above. The loans owed by subsidiary undertakings are not considered to be repayable within one year.

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

h. Contingent liabilities

The Company is a party to the landlord guarantee referred to in note 26, and the finance liability disclosed in note 20 to the consolidated financial statements.

Five Year Summary

CONSOLIDATED INCOME STATEMENT INFORMATION

Years ended 31 December

	2013 £'000	*2012 £'000	2011 £'000	2010 £'000	2009 £'000
Revenue	58,295	55,525	53,610	51,243	43,165
Profit before tax	7,009	6,595	6,330	5,249	3,718
Tax	(1,400)	(1,709)	(1,861)	(1,774)	(1,265)
Profit attributable to equity holders	5,609	4,886	4,469	3,475	2,453
Earnings per share	53.26p	47.28p	43.94p	34.91p	24.73p
Diluted earnings per share	52.84p	46.60p	43.12p	34.39p	24.66p
Dividends paid and proposed per share	24.00p	21.80p	19.60p	17.40p	15.80p

CONSOLIDATED BALANCE SHEET INFORMATION

At 31 December

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Assets employed					
Non-current assets	12,704	9,774	10,189	10,379	9,622
Current assets	28,807	28,683	26,762	23,606	21,258
Current liabilities	(7,606)	(6,637)	(7,647)	(7,504)	(5,920)
Non-current liabilities	(2,404)	(4,973)	(4,907)	(4,359)	(4,474)
	31,501	26,847	24,397	22,122	20,486
Financed by					
Called up share capital	548	541	536	528	528
Share premium account and reserves	30,953	26,306	23,861	21,594	19,958
	31,501	26,847	24,397	22,122	20,486

Company Information

Board of Directors

Richard J. Steele BCOM FCA CTA
Lawrence F. Bryan BA
Brett W.J. Phillips BSc ACA
Philip E. Atherton
Barbara Thomas Judge CBE BA JD
Janis Kong OBE BSc

Non-executive Chairman
Chief Executive
Group Finance Director
Group Sales and Marketing Director
Non-executive Director
Non-executive Director

Company Secretary

Brett W.J. Phillips BSc ACA

Registered Office and Number

London Road
Stoke-on-Trent
ST4 7QQ

Tel: +44 (0) 1782 744721

Fax: +44 (0) 1782 744061

www.portmeiriongroup.com

Registered number: 124842

Auditors

Mazars LLP
45 Church Street
Birmingham
B3 2RT

Nominated Adviser and Stockbroker

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

Registrars

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

Tel: 0871 664 0300* (UK)

+44 (0) 208 639 3399 (Outside UK)

Fax: +44 (0) 208 639 2220

Email: shareholderenquiries@capita.co.uk

www.capitaassetservices.com

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

Solicitors

Pinsent Masons LLP
3 Colmore Circus
Birmingham
B4 6BH

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

Financial PR Advisers

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

Tel: +44 (0) 20 7861 3232

Fax: +44 (0) 20 7861 3233

Email: pr@bell-pottinger.com

Financial Calendar

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

Portmeirion Group Patterns

Details of Portmeirion Group patterns are shown on pages 2 to 3. Porcelain Garden by Sanderson for Portmeirion and the Sanderson for Pimpernel ranges are produced under licence from Abaris Holdings Limited. Portmeirion The Very Hungry Caterpillar™ is produced under licence from Eric Carle LLC. Portmeirion Vintage Kellogg's™ range is produced under licence from Kellogg Company. Portmeirion Thomas & Friends™ is produced under licence from Gullane (Thomas) Limited. Portmeirion Peppa Pig™ is produced under licence from Entertainment One UK Limited. Spode's Paddington Bear™ range is produced under licence from The Copyrights Group Limited. Paddington Bear™, Paddington™ and PB™ are trademarks of Paddington and Company Limited, licensed on behalf of Studiocanal S. A. by Copyrights Group. The Royal Worcester RHS Roses range is produced under licence from RHS Enterprises Limited and the Wrendale Designs range from Wrendale Designs Limited. The Morris & Co. for Pimpernel designs are reproduced courtesy of Morris & Co. A number of other Pimpernel and Royal Worcester designs are licensed from third parties; details of which can be obtained from the Company's registered office.

Retail Outlets

Bridgend Shop

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

Cheshire Oaks Shop

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

Colne Shop 'Boundary Mill'

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

Longton Shop

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

Rotherham Shop 'Boundary Mill'

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

Stoke Shop

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

Street Shop

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

Swindon Shop 'Style Your Home'

Swindon Designer Outlet
Kemble Drive
Swindon
Wiltshire
SN2 2DY
Tel: +44 (0)1793 422910

Trentham Shop

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

Walsall Shop 'Boundary Mill'

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

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

www.portmeiriongroupfactoryshops.co.uk

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Portmeirion Group PLC

London Road
Stoke-on-Trent
ST4 7QQ

Tel: +44 (0) 1782 744721

Fax: +44 (0) 1782 744061

www.portmeiriongroup.com



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