

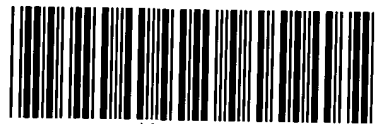
Porvair plc Annual Report & Accounts 2015

Delivering solutions

Performing strongly

Creating sustainable value

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Overview


Inside this report

We are committed to delivering value to all our stakeholders – our customers, employees and shareholders. This report demonstrates how our strategy, people, performance and governance combine to create value and sustain growth.

Contents


Our business

Porvair is a specialist filtration and environmental technology group with two operating divisions; Metals Filtration and Microfiltration. We employ around 700 people, with operations in the UK, US, Germany and China.

 Porvair at a glance: pages 02 and 03


Our markets

The Group serves a range of markets of which aviation, energy and industrial process, environmental laboratories and molten metals are the most important.

 The markets we serve: pages 07 to 11

Our strategy

Our consistent strategy focuses on generating shareholder value through the development of specialist filtration and environmental technology businesses, both organically and by acquisition.

 Strategy and business model: pages 12 and 13

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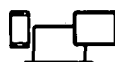
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Stay informed

To find out more about Porvair, its operations, investor relations and to view and download a pdf version of this Annual Report: www.porvair.com.



Guide to further reading

We have used an icon symbol throughout this Annual Report to guide you to further reading, links to other relevant information or to find out more online.



Overview

Key performance highlights in 2015

Strong financial performance with good underlying growth in the year

Financial highlights

Strong financial performance:

- **Profit before tax up 9%** to a record £9.2 million (2014: £8.4 million).
- **Basic earnings per share up 8%** to 15.5 pence (2014: 14.4 pence).
- **Strong cash generation:** net cash doubled to £10.7 million at 30 November 2015 (2014: £5.3 million).
- **Underlying revenue⁽¹⁾ growth of 7%.**
 - As previously announced, large project revenue was £14.0 million lower in 2015 so total reported revenue is 8% lower at £95.8 million (2014: £104.0 million).
- **Final dividend of 2.2 pence per share** (2014: 2.0 pence per share) recommended, an increase of 10%.

Note⁽¹⁾ Underlying revenue: Revenue excluding the impact of four specific large projects, as previously announced and reported.

Operating highlights

Metals Filtration division:

- **Revenue up 3% to a record £31.0 million** (2014: £30.1 million). 4% lower in constant currency.
- **Acquisition of Fiber Ceramics** to enhance offering in steel filtration.
- **Production of a new aluminium filter** started in Porvair's expanded facility in China.

Microfiltration division:

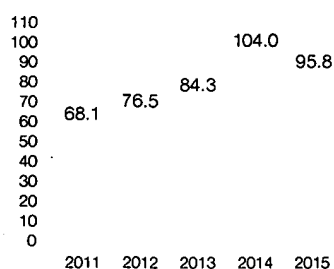
- **9% underlying revenue⁽¹⁾ growth** and record operating profit.
- **Revenue was £64.8 million** (2014: £73.9 million).
- **Building and commissioning work** for the large projects is going well.
- **Seal Analytical had a record year.**

Outlook:

- **Healthy order position** going into 2016.
- **Further capital investment** planned to allow for further organic growth.
- **TEM acquired in December 2015** to expand into specialist filtration in microelectronics.

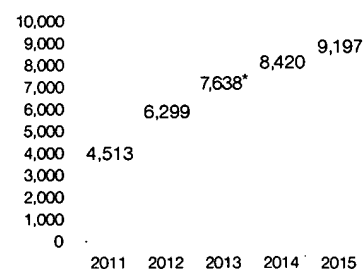
Turnover (£m)

£95.8m



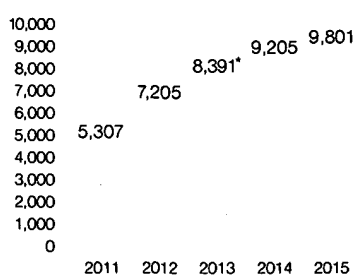
Profit before tax (£'000)

£9.2m



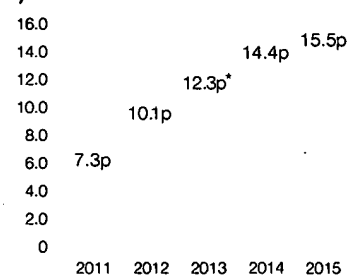
Operating profit (£'000)

£9.8m



Basic earnings per share (pence)

15.5p



Chief Executive's report: page 05

Divisional performance: pages 14 to 17

Financial review: pages 18 to 20

*2013 figures restated following the adoption of IAS 19 Revised. Earlier years not adjusted.

Overview

Porvair at a glance

Specialist filtration and environmental technology

Microfiltration division


The Microfiltration division provides bespoke filtration solutions to a diverse range of customers and markets. It has operations in the UK, US, China and Germany and employs about 500 people. Its sales are global.

Where we operate

Markets served:

- Aviation
- Energy & Industrial Process
- Environmental Laboratory Supplies

 Our geographic footprint: page 06

 The markets we serve: pages 07 to 11

Main operating companies

- Porvair Filtration Group
- Seal Analytical
- Porvair Sciences

What we do:

Bespoke, complex filtration systems for many uses. Examples include:

- Porvair's aviation filters are specified on almost all commercial airframes.
- Filter systems and spares to the gasification and nuclear remediation markets.
- Water quality laboratories across the world use Seal Analytical's systems.

Divisional growth drivers

- US industrial filtration growth.
- New aerospace programmes.
- Further gasification projects.
- Global water quality.

2015 Performance

£64.8m

Revenue

£9.7m

Operating profit

Approximate share of Group sales

Aviation



Energy & Industrial Process




Environmental Laboratory Supplies



Divisional highlights 2015

- 9% underlying revenue⁽¹⁾ growth and record operating profit.
- Revenue was £64.8 million (2014: £73.9 million).
- Building and commissioning work for the large projects is going well.
- Seal Analytical had a record year.

Note⁽¹⁾ Underlying revenue: Revenue excluding the impact of four specific large projects, as previously announced and reported.

 Read more on pages: 16 and 17

Metals Filtration division


The Metals Filtration division serves the market for the filtration and handling of molten metal. It has operations in the US and China and employs about 200 people. Its sales are global.

Where we operate

Markets served:

- Aluminium
- Iron foundry
- Super alloys

 Our geographic footprint: [page 06](#)

 The markets we serve: [pages 07 and 11](#)

Main operating companies

- Selee USA
- Selee China

What we do:

Provide 'melt-quality' products – filters, refractories, coatings – to molten metal customers around the world:

- Patent protected filters for the aluminium cast house industry.
- Patent protected filters for the filtration of gray and ductile iron, mainly for the US auto and light truck market.
- Patent protected super alloy filters used in the manufacture of turbine blades.

Divisional growth drivers

- Expansion in China.
- New product development.
- Growth in aluminium production.

2015 Performance

£31.0m

Revenue

£2.4m

Operating profit


Approximate share
of Group sales

Molten Metals



Divisional highlights 2015

- Revenue up 3% to a record £31.0 million (2014: £30.1 million). 4% lower in constant currency.
- Acquisition of Fiber Ceramics to enhance offering in steel filtration.
- Production of a new aluminium filter started in Porvair's expanded facility in China.

 Read more on pages: [14 and 15](#)

Chairman's statement

Continued progress
against our financial and
strategic objectives

Charles Matthews, Chairman

Summary

- Good financial progress.
- Progressive dividend.
- Positive outlook.

+9%Profit before tax up 9%
to £9.2 million.**15.5p**Basic earnings per share
up 8% to 15.5 pence per
share.**3.5p**Dividend increased by 9%
to 3.5 pence per share.

Introduction

I am pleased to report that Porvair continues to make progress against its financial and strategic objectives.

Results

Revenue in the year to 30 November 2015 was £95.8 million (2014: £104.0 million) and operating profit rose by 6% to £9.8 million (2014: £9.2 million). Basic earnings per share were 15.5 pence (2014: 14.4 pence), an increase of 8%. These are record results for the Group.

Demand from key markets remained good and several large projects continued to progress well, whilst contributing less revenue than in 2014. 2015 continued the investment programme undertaken by the Group and included new facilities in the UK, US and China. Further investments are planned in 2016.

After interest and tax, net cash generated from operating activities was £11.3 million (2014: £11.6 million). At 30 November 2015 the Group had net cash on hand of £10.7 million (2014: £5.3 million).

Dividends

The Board re-affirms its preference for a progressive dividend and recommends an improved final dividend of 2.2 pence per share (2014: 2.0 pence), making the full year dividend 3.5 pence per share (2014: 3.2 pence), an increase of 9%.

Governance

The Board sets high standards for its corporate governance and expects steady and continuous improvement in the Group's governance procedures. It has in place monitoring systems to ensure that standards are upheld throughout the Group. The Board complied with all aspects of the UK Corporate Governance code throughout the year ended 30 November 2015, with the exception of fixed terms of employment for Non-Executive Directors. However, all of the Directors offer themselves for re-election at each Annual General Meeting.

In 2015 the Group thoroughly revised its approach to risk management in response to the new Corporate Governance guidance. A robust assessment of principal risks facing the Group has been carried out.

The new process has, so far, proved worthwhile and has led to a number of projects to improve the security and sustainability of the business.

In 2015, the shareholders approved the introduction of an Employee Benefit Trust. Future awards of Long Term Incentive Plan Shares will be funded through this Trust reducing the dilution impact on shareholders of the share incentives offered to our senior executives.

Staff

Porvair has doubled in size over the last six years, a testament to our staff and their commitment. In 2016 we welcome those who have joined us from Fiber Ceramics and TEM. The Board recognises that the Group's success is due to the skills and hard work of its staff, to whom we offer our thanks.

Current trading and outlook

2015 finished with a strong final quarter and healthy order books. Over the last two years significant investments have been made in capacity with new production lines being brought into operation. A promising new product development pipeline offers plenty of opportunity for organic growth. The two recent acquisitions should start to contribute in 2016. The Group is in a strong financial position and a good start has been made to the year.

Charles Matthews OBE

Chairman

22 January 2016

Strategic report

Chief Executive's report

Delivering a strong operating performance in our underlying business

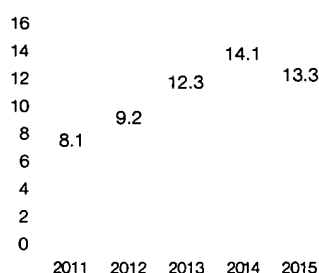
Ben Stocks, Group Chief Executive

Performance highlights

- Good financial progress.
- Strong cash generation.
- Further investment.
- Exciting product development.

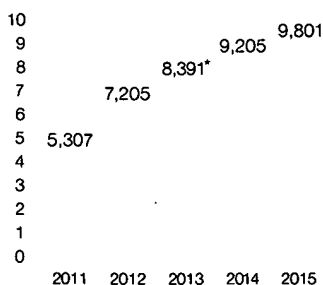
£13.3m

Cash generated from operations (£m)



£9.8m

Operating profit (£'000)



*2013 figures restated following the adoption of IAS 19 Revised. Earlier years not adjusted.

Overview of 2015

Financial highlights 2015

	2015 £m	2014 £m	2013 £m
Revenue	95.8	104.0	84.3
Profit before tax	9.2	8.4	7.6
Earnings per share	15.5p	14.4p	12.3p
Cash generated from operations	13.3	14.2	12.3
Net cash	10.7	5.3	0.6

2015 was a strong year for the Group and positive progress was achieved. Profit before tax in the year ended 30 November 2015 was up 9% to a record £9.2 million (2014: £8.4 million). Earnings per share grew 8% to 15.5 pence (2014: 14.4 pence). Cash generation was again strong, enabling the Group to invest £3.8 million in capital expenditure and finish the year with £10.7 million of net cash.

As anticipated in previous statements, revenue at £95.8 million (2014: £104.0 million) was 8% lower due to revenue from large projects dropping by £14.0 million compared with the previous year. Underlying revenue growth was 7%.

Demand for gasification spares, bioscience materials, aluminium filters and water analysis consumables continued to grow, driven by the new product introductions, new installations and account wins of recent years. With 48% of our products manufactured in the USA, this was balanced by the negative commercial effects of a strong US dollar.

2015 was another year of capital investment for organic growth with facility expansion and production equipment upgrades in the UK, USA and China. In recent years, seven of our ten manufacturing plants have been extended and upgraded. 2016 will see a continuation of this programme.

Shortly after the year end we acquired the business and trading assets of TEM Filter Company ("TEM"), a filter business serving the microelectronics industry. It offers the Group entry into a niche market where technical specifications are challenging and quality requirements high. TEM offers a well-designed product range and an experienced distribution network. Porvair can bring a broader range of filtration media, wider sales reach, and funds for investment. Plans to expand the range, develop new products and widen the distribution network will roll out through 2016.

Over the last five years the Group has delivered revenue growth of 50% (9% CAGR) and cash from operations of £57.0 million. Over the same period, £21.8 million has been invested in capital expenditure and acquisitions, and net debt of £9.7 million has moved into a net cash position of £10.7 million. In 2015, the Group's after tax operating profit return on operating capital was 49% (2014: 47%).

Looking ahead, an exciting range of organic growth and capital projects are underway and the benefits of integrating Fiber Ceramics and TEM will start to flow through. Order books at the start of 2016 were healthy.

Investment and future development

2015 was a year of continued investment with capital expenditure of £3.8 million.

- In the UK, the Microfiltration facility at New Milton moved into a larger site to increase capacity for aviation and industrial filtration growth. Further investment in production capacity at our UK sites is planned for 2016.
- In the US, the manufacturing footprint in Maine was expanded, with further investments in production equipment to follow in 2016. We are in the process of fitting out a new facility in Virginia which will open in early 2016.
- A second factory in China, sited alongside the one opened in 2013, was built, fitted out and commissioned. Further investments on this site are planned for 2016.
- The gasification projects are going well. The first of these to reach the commissioning stage is in South Korea, and early indications of its start-up are promising. In India, investments are planned in service and maintenance equipment to support the filtration systems that are due for commissioning towards the end of 2016. We continue to work on other such projects.
- Investments in the Metals Filtration plant in North Carolina have focussed on productivity, new product development and the integration of Fiber Ceramics, acquired earlier in the year.
- Following the acquisition of TEM in early December 2015, investments are planned in sales and marketing, product development and production equipment upgrades.

New product development remains core to Porvair's strategy, with investments in range extensions and product differentiation being the driving force behind our plans for organic growth:

- Adoption of our proprietary aluminium lithium filter increased during the year.
- We will launch a patented aluminium filter formulation in our Chinese operation.
- We are evaluating a new formulation for the filtration of steel.
- In Bioscience we have almost finished the development of our DNA filtration product range and will be seeking commercial partners in 2016.
- Seal Analytical will bring two new platforms to market in the course of the year.
- A host of new products will be launched in the microelectronics filtration market as we combine the expertise we have in Maine with the newly acquired TEM in Idaho.

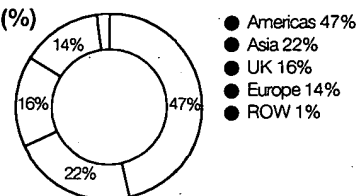
- The markets we serve: pages 07 to 11
- Strategy and business model: pages 12 and 13
- Divisional performance: pages 14 to 17

Strategic report

Our geographic footprint

Investing in our geographic operations to support our growth and the markets we serve

Revenue by destination (%)

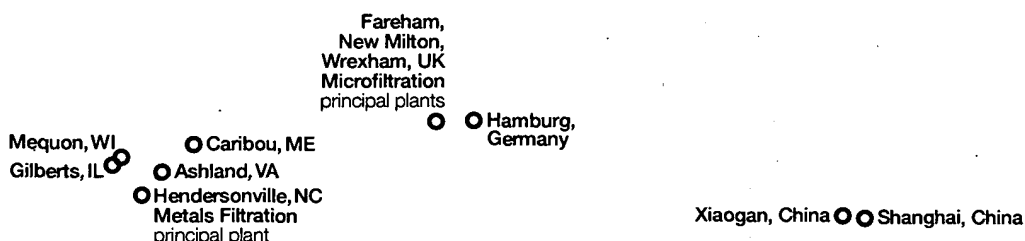
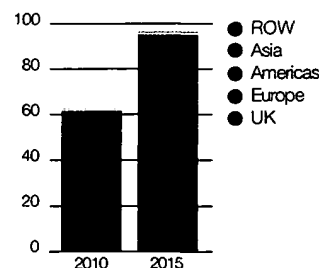


Our Group operations:

The Group has manufacturing operations in the UK, US, Germany and China and sells its products throughout the world. Our strategy is to expand geographically to support our chosen markets.

Revenue growth coming from US & Asia (£m)

Revenue growth since 2010 has predominantly been in the US and Asia.



Leveraging a strong global presence

Key:

- Microfiltration
- Metals Filtration

Resources and relationships

Operating in close proximity to our customers helps us optimise our positions in major supply chains and is an important factor in developing solutions in partnership with our customers.

Experience in particular markets or applications is valuable in building customer confidence. Domain knowledge is important, as is deciding where to focus resources.

Americas

47%

Revenue

Developments

The Group continues to expand its footprint in North America:

- The Group invested in an extension of the plant in Caribou, ME, to create capacity for growth. The new plant was operational in spring 2015.
- The Group has leased a new facility in Ashland, VA. It will be operational by the end of the first half of 2016.
- The Group acquired the business of Fiber Ceramics and moved its operations to the Group's Hendersonville, NC, plant.

UK and Europe

16% 14%

UK Revenue Europe Revenue

Developments

Phased investments in the UK Microfiltration business will increase capacity:

- A new plant in New Milton was opened in 2015.

Asia

22%

Revenue

Developments

A new plant in Xiaogan, China has increased capacity for Metals Filtration:

- The second phase of the Xiaogan expansion was completed in the final quarter of 2015. Production began at the end of the year.

The markets we serve

Focused on specialist filtration markets which have long term growth potential

Porvair focuses on markets which have long term growth potential; clear product regulation requirements; and require strong engineering or technical skills.

Our businesses are either market leaders in their sectors or well placed in attractive niches. At the heart of what we do is filtration and engineering expertise, which allows us to solve customer problems across all the markets we serve.

The markets we serve have robust demand drivers with strong barriers to entry. Many of the Group's products are consumable, have long lifecycles and are essential to the safe and reliable operation of respective systems and processes. Our products and services are often bespoke and are critical to meeting our customers often complex challenges. Our proprietary IP and technology solutions, expertise and high service commitment help to create our competitive strength.

We continue to identify opportunities for growth where we have commercial, reputational or technological advantage that enables us to maintain our strong market leading positions.

- Chief Executive's report: page 05
- Divisional performance: pages 14 to 17
- Financial review: pages 18 to 20

Pictured:
An employee at our Selee business in Hendersonville, NC, inspects a range of Tun Dishes on the production line.

The markets we serve continued

Aviation

The Group is a leading specialist in the design and manufacture of filtration components and assemblies for the aviation industry. Its components are specified on most of the world's passenger airlines in fuel systems, hydraulic systems and coolant systems.

Key market trends and growth drivers

The Group's aviation business supplies parts for new aircraft and for maintenance spares. Activity in this market is driven by:

- Aircraft build rates and development
- The frequency of maintenance schedules

Both are driven by the global demand for air travel, measured in passenger miles flown. Long term growth rates for passenger miles flown are around 5% per annum.

Our niche positions

The Group provides a wide range of aviation filters but has particularly strong niche positions in:

- Fuel tank inerting
- Coolant systems for aircraft control systems
- Fuel line and hydraulic filters

Our competitive advantage

The Group has a long track record of design engineering skills using a wide range of filter media. It has a large installed base of bespoke filters, whose designs are owned by the Group.

Our recent new products

The Group's larger new aviation products include filters for:

- Airbus and Boeing fuel tank inerting
- Airbus A380 and Boeing 787 coolant systems
- A range of Airbus A350 applications
- A range of Airbus New Engine Option applications

Key facts and figures


+5%

Long term growth rates for passenger miles flown are increasing by around 5% per annum.

Source: Boeing



15% 2014: 15%
Approximate share of Group sales

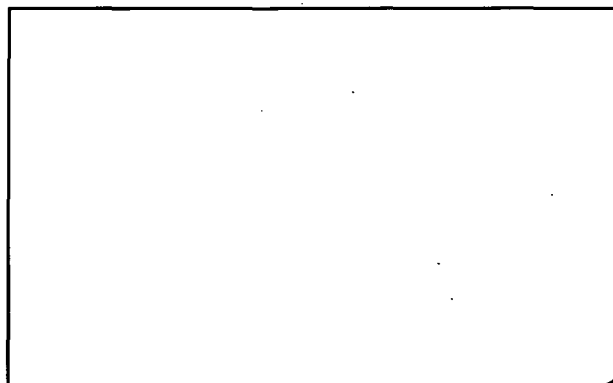
 Read more on pages: 16 and 17

Quality and accreditation remain critical

Effective filtration within aircraft equipment is vital to ensure that all systems are free from contaminants and to guarantee safety, long service life, reliability and cost effective operation. The Porvair Filtration Group designs and manufactures specialist filtration solutions, under the strict regulations that apply to all aerospace manufacturing, to meet the challenges for contamination control in hydraulic, fuel, lubrication and air systems.

Opportunities for growth

- Growth in aircraft use and production.
- New applications such as the next generation fuel tank inerting filter.



Energy & Industrial Process

The Group provides filtration solutions for energy and industrial process applications. Its filters are to be found in many of the harshest industrial environments. Applications are diverse, including high temperature gas filtration and the containment of waste nuclear material.

Key market trends and growth drivers

The Group has a wide industrial filtration range, with a particular expertise in nuclear containment and gasification filtration. The US Department of Energy estimates that gasification output is growing at 11.5% per annum.

Our niche positions

The Group has niche expertise in:

- Hot gas and gasification filtration
- Pulse jet filtration systems
- Nuclear containment filtration
- Polymer production filtration

Our competitive advantage

The Group has a long track record of design engineering skills using a wide range of filter media. It has a large installed base of bespoke filters, whose designs are owned by the Group.

Our recent new products

The Group's large projects described throughout these results are included in this market segment. They include:

- Three large gasification contracts
- An £11.0 million UK nuclear remediation contract

Nuclear containment and gasification are demanding filtration environments

The Group designs and manufactures filters suited to operating in harsh environments. Its nuclear containment filters are required to operate reliably at very high levels of filtration efficiency to ensure that no nuclear material escapes from controlled environments. Its gasification filters operate at high temperatures and are required to capture high contaminant loads during long continuous operating periods. The skills involved in designing, manufacturing and testing these filters can be applied to a wide range of industrial filtration processes.

Opportunities for growth

- Servicing the installed base of gasifiers.
- Further gasification projects.
- Nuclear power and clean up projects.
- Other industrial processes.


Key facts and figures

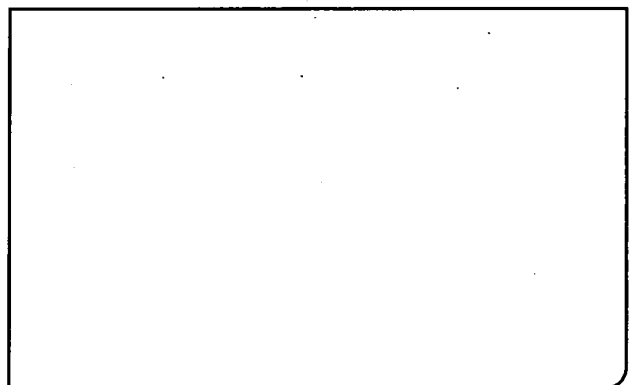
17 gasifiers

When the Group's current contracts are completed its filters will be fitted to 17 gasifiers.



35% 2014: 35%
Approximate share
of Group sales

 Read more on pages: 16 and 17



Strategic report

The markets we serve continued

Environmental Laboratory Supplies

The Group designs and manufactures a range of equipment for use in laboratories. Its Seal Analytical business is a global leader in the manufacture of laboratory based equipment for testing the inorganic contaminants in water. The Group also produces a broad range of laboratory microplates for storage and experimentation in the pharmaceutical and biotechnology markets.

Key market trends and growth drivers

The market for clean water testing is growing throughout the world as more of the world's population seeks access to clean water and water regulations tighten. It is estimated that the market for water analysis consumables is growing between 5% and 6% per annum.

Our niche positions

The Group has a particular expertise in the development and manufacture of laboratory based equipment for testing the inorganic contaminants in water. It manufactures equipment, develops testing methodologies and supplies equipment consumables.

It also develops functionalised porous plastics used for a variety of filtration applications in the bioscience market.

Our competitive advantage

The Group's water analysis business benefits from design protections on its equipment, its broad range of approved methods and a large and loyal customer base.

Its porous plastics are protected by intellectual property and related patents.

Our recent new products

The Group continues to broaden its range of water analysis equipment with upgrades to its QuAAtro range and new AQ models, more methods introduced to its new AA1 machine and a range of block digesters from its recent acquisitions.

Its functionalised porous plastics now include a range licensed to Thermo Fisher and a novel patented epigenetics product, Chromatrap™.

Key facts and figures

+5-6%

It is estimated that the market for water analysis consumables is growing between 5% and 6% per annum.

Source: SDI Research




20% 2014: 20%
Approximate share of Group sales

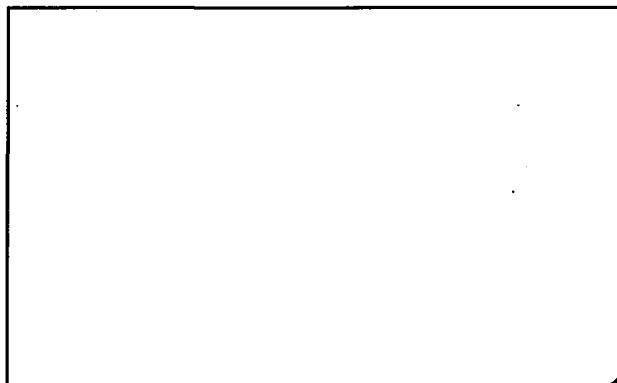
Growing worldwide populations and regulatory requirements for clean water

Seal is a market leading supplier of equipment and consumables for the detection of inorganic contamination in water, a well defined niche market that is expected to continue to grow as water quality standards improve across the world.

Opportunities for growth

- Water scarcity and cleanliness.
- Increasing the installed base of instruments.
- Broadening the portfolio of products and methods.

 Read more on pages: 16 and 17



Molten Metals

The Group's Metals Filtration division specialises in the design and manufacture of filters for molten metal. The Group provides patent protected filters for: the aluminium cast house industry; the filtration of gray and ductile iron, mainly for the US auto and light truck market; and the filtration of super alloys used in the manufacture of turbine blades.

Key market trends and growth drivers

Alcoa estimates that annual production of aluminium is growing at about 6% per annum. US car and light truck production, a proxy for the rate of use of iron foundry filters, grew by 6% in 2015. China's car production has grown rapidly and China is now the largest car producer in the world.

Our niche positions

The Group has a high market share of:

- The global market for cast house aluminium filters
- The NAFTA market for gray and ductile iron filters
- The global market for high grade and exotic alloy filters

Our competitive advantage

The Group's competitive advantage comes from its metallurgical and ceramics expertise, which enables the Group to develop differentiated and patent protected filters.

Our recent new products

The division's principal products are all relatively new and patented.

The principal products are:

- Selee CSX™ for aluminium filtration
- Selee IC™ for gray and ductile iron filtration
- Selee SA™ for high grade alloys

The division continues to develop range extensions of these products including a new formulation specifically for the Chinese aluminium filtration market.

Key facts and figures

6%

Global demand for aluminium is expected to increase by about 6% per annum.

Source: Alcoa



30% 2014: 30%
Approximate share of Group sales

Read more on pages: 14 and 15

Meeting the rising demand for clean metals

The Group's molten metal business grows as the demand for clean metal increases. The Group's world leading expertise enables the Group to develop differentiated and patent protected filters.

Opportunities for growth

- Increasing aluminium production.
- Foundry: US passenger car growth.
- Increased use of high quality aluminium alloys.
- Market penetration in China.

Strategic report

Strategy and business model

A clear and consistent strategy

The way that we operate and manage our development and growth through our consistent strategy and business model continues to underpin our performance and supports our business goal of delivering long term value to all our stakeholders.

Our strategy

Porvair's strategy has remained consistent for a number of years. It is to generate shareholder value through the development of specialist filtration and environmental technology businesses, both organically and by acquisition. Such businesses have certain key characteristics in common:

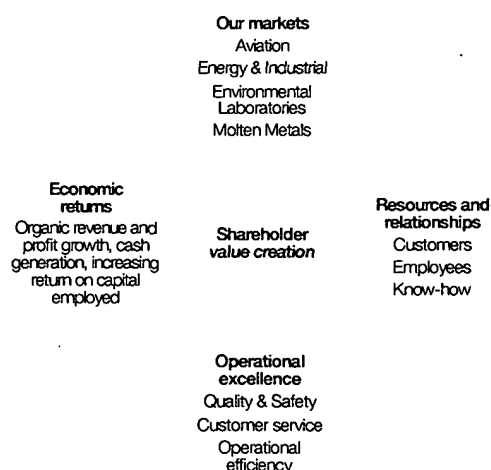
- specialist design or engineering skills are required;
- product use and replacement is mandated by regulation, quality accreditation or a maintenance cycle; and
- products are often designed into a specification and will typically have long life cycles.

Over the last five years this strategy has worked for the Group, which moves into 2016 in a position of financial strength, able to invest in both organic and acquired growth as appropriate.

Business model outline

Porvair's extensive industry know-how, engineering capabilities and strong customer relationships are central to our value proposition and ensure we are well positioned to sustain growth and deliver strong financial returns.

Our customers require filtration or emission control products that perform to a given specification; for a minimum amount of time; and often with prescribed physical attributes such as size or weight. We win business by offering the best technical solutions for these requirements at an acceptable commercial cost. Filtration expertise is applicable across all markets with new products generally being adaptations of existing designs. Experience in particular markets or applications is valuable in building customer confidence. Domain knowledge is important, as is deciding where to direct resources.



Operating structure

- The Group has two divisions. The Microfiltration division serves the aviation, environmental laboratory and energy/industrial markets. The Metals Filtration division focuses on filtration of molten metals, principally aluminium.
- The Group has plants in the US, UK, Germany and China. 48% of revenue is manufactured in the US, 42% in the UK, 8% in Germany and 2% in China.

Strategic objectives:

Our five strategic objectives provide a clear focus both in running our core operations and in developing new opportunities.

1 Focus on end-markets where we see long term growth potential.

- We focus on four end-markets: aviation; energy and industrial; environmental laboratories; and molten metals. All have clear structural growth drivers.

2 Look for applications where product use is mandated and replacement demand is therefore regular.

- Our products are specialist in nature and typically protect costly or complex downstream systems. As a result they are replaced regularly. A high proportion of our annual revenue is from repeat orders.

3 Make new product development a core business activity.

- We encourage new product development in order to generate growth rates in excess of the underlying market. Where possible we build robust intellectual property around our product developments. About 30% of our revenues is derived from patent protected products.

4 Establish geographic presence where end-markets require.

- Our geographic presence follows the markets we serve. 47% of revenue is in the Americas, where aviation and metals filtration are strong. 22% of revenue is in Asia, where sales into water analysis markets are growing and the demand for gasification plants is strongest.

5 Invest in both organic and acquired growth.

- We aim to meet dividend and investment needs from free cash flow and modest borrowing facilities. In recent years we have expanded manufacturing capacity in the UK, Germany, US and China and made several small acquisitions. All investments are subject to a careful investment hurdle rate analysis based on strategic and financial priorities.

Follow our strategy through this report

Our strategic objectives underpin and integrate our global business activities and you will see numerous references and examples of our strategy in action throughout this report. Where we discuss a part of our business which is directly linked to one or more of our strategic objectives, we have referenced this as below.

1 2 3 4 5

Porvair's strong market positions, organic growth momentum and potential to acquire new businesses positions us well to continue to create shareholder value.

A strong and sustainable business

Capital investment supporting growth and geographic expansion

Since 2010 Porvair has delivered 9% CAGR revenue growth.

During that period:

- New products have driven sales and margin growth;
- The Group has won over US\$70 million of large contracts; and
- Debt has been eliminated.

In 2015, the Group completed new facilities in New Milton, UK, Caribou, ME, US and Xiaogan, China. It is currently fitting out a new plant in Ashland, VA, US.

Our investment priorities for 2016 are:

- Further investments in production capacity in the UK.
- To fit out the new plant in Ashland, VA and bring it into operation.
- To complete the investment in Xiaogan, China and increase production from the plant.
- To invest in gasification maintenance and services for Reliance in India.
- Investments focused on productivity and the integration of Fiber Ceramics in Metals Filtration in Hendersonville, NC.

New product development drives organic growth

New product development is a core activity for the Group. We undertake it to generate growth rates in excess of the underlying market. We try to build good intellectual property positions around our product developments through patents and know-how.

In Metals Filtration we have three main patented product ranges:

- Selee CSX™ for aluminium filtration, where we have a high global market share;
- Selee IC™ for gray and ductile iron filtration; and
- Selee SA™ for the filtration of nickel-cobalt alloys.

In Microfiltration there are development projects in bioscience filtration, water analysis, nuclear filtration, aviation filtration and new filter media development.

Our priorities for 2016 include:

- Adoption of our proprietary aluminium lithium filter.
- Launch of a patented aluminium filter formulation in our Chinese operation.
- Evaluate a new formulation for the filtration of steel.
- Finish the development of our DNA filtration product range and seek commercial partners.
- Bring two new platforms to market for the water analysis market.
- Launch a host of new products in the microelectronics filtration market as we combine the expertise we have in Caribou, ME, US with the newly acquired TEM in Idaho.

Adding value through targeted acquisitions

We buy businesses that add complementary technologies and products, expand our geographic footprint, or allow us to leverage our existing scale and infrastructure.

In 2015 we acquired:

- Fiber Ceramics, which has been moved to the Metals Filtration plant in Hendersonville, NC, brings technical capability, a shorter production cycle and stronger formulation for steel filtration.
- TEM, a filter business serving the microelectronics industry with a well designed product range and an experienced distribution network.

Organic growth generates the financial and business resources we need to fund acquisitions.

Generating shareholder returns through dividend payments and capital appreciation

Our focus on cash generation enables us to reinvest in the business to drive growth and to generate attractive shareholder returns through a progressive dividend policy.

KPIs

Success of the strategy is measured by growth and cash generated from operations over the short and long term.

 Read more on pages: 21 to 23

Risk management

The Group has a well established governance structure with internal control and risk management systems. The risk management process provides a framework to identify, assess and manage risks to the Group's overall strategy and the contribution of its divisions.

 Read more on pages: 24 to 28

Corporate governance

The Porvair Board sets high standards for its corporate governance and expects steady and continuous improvement in the Group's governance procedures.

 Read more on pages: 37 to 44

Divisional performance

Metals Filtration division

Strategy in action:

Manufacturing aluminium filters in China

More than half the world's production of and demand for aluminium is now in China. Porvair has invested in a new aluminium cast shop filter production facility in Xiaogan, China to address this demand. In 2016 the Group will launch a new proprietary patented filter manufactured in the plant specifically for the Chinese market.

Superior performance of patented products continues to support growth

Lithium Aluminium is a high grade lightweight alloy designed particularly for the aerospace market. In its molten state it is highly corrosive. Porvair has developed a new corrosion resistant filter to service the growing demand for Lithium Aluminium.

Financial highlights 2015

	2015 £m	2014 £m	2013 £m
Revenue	31.0	30.1	28.5
Operating profit	2.4	2.6	2.4

Performance

- **Revenue up 3% to a record £31.0 million** (2014: £30.1 million). 4% lower in constant currency.
- **Acquisition of Fiber Ceramics** to enhance offering in steel filtration.
- **Production of a new aluminium filter** started in Porvair's expanded facility in China.

Recent developments

- Fiber Ceramics acquired and moved to Hendersonville, NC.
- Second plant built and commissioned in Xiaogan, China.

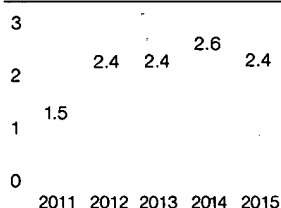
2016 outlook

- Positive start to 2016.
- Good early results from Chinese customer trials.

Operating profit (£m)

£2.4m

Operating profit



2015 Revenue (£m)

£31.0m

Revenue

Divisional review – Metals Filtration

Performance in 2015

Revenue from the Metals Filtration division was at a record £31.0 million, although this benefited from currency movements. At constant currency, revenue fell by 4%. Foundry filtration in the US agricultural sector held back sales by around 2%, whilst the prior year was boosted by a one-off aluminium equipment order to Nanshan, China, that accounted for a further 3% of sales.

Additional costs associated with the start-up in China and the lower constant currency revenue led to a small drop in operating profit.

41% of this division's sales were exported from the US, and given the strength of the US dollar the Board was pleased with this performance overall. Market conditions were not straightforward and these results show a certain resilience, driven by continued market share wins from our range of patented and differentiated products, mainly:


- **Selee CSX™** for aluminium cast house filtration. This product has a unique environmental footprint in being free of phosphates and ceramic fibres.
- **Selee IC™** for gray and ductile iron filtration. This range is sold principally in the US and offers excellent filtration efficiency.
- **Selee SA™** for the filtration of nickel-cobalt alloys. This niche application requires exceptional filtration performance and uses a highly proprietary additive manufacturing technique.

We are increasingly asked to run competitive trials by customers to demonstrate environmental or filtration performance in the field. Again this year we have performed well, notably in aluminium where our products clearly out-perform the competition. Over recent years, while metal quality requirements in the market have increased, customers have often cut back on their technical overheads. In response, we have launched Selee Metallurgical Services, a business unit that offers confidential technical support and advice to aluminium cast houses, investment casters and foundries. Backed by excellent laboratory resources and extensive metallurgical experience, Selee Metallurgical Services has been busy from its inception.

Two events dominated the year in this division: the acquisition of Fiber Ceramics and the commissioning of a new line in China. Fiber Ceramics has now been moved into the main plant in Hendersonville and has made a modest contribution to results in the year. The product line was acquired mainly for its technical capability, and we expect to take advantage of a shorter production cycle and stronger formulation for steel filtration in 2016.

Significant management and engineering resource was directed to commissioning the new aluminium filtration line in China, which started production in November. Good quality filters are now being made, using a new proprietary formulation that we expect to be attractive in this market. Customer trials are underway and thus far have gone well. Current market conditions in China are not easy; but the market opportunity is substantial; we have an excellent differentiated product; and our cost base is competitive. We expect the Chinese operation to grow in 2016.

 Our geographic footprint: [page 06](#)

 The markets we serve: [pages 07 and 11](#)

Divisional performance continued

Microfiltration division

Strategy in action:

AQ400 Discrete Analyser

Seal Analytical has launched a new discrete analyser, the AQ400. Aimed at large private and government testing laboratories, it offers a large sample capacity, faster sample throughput and lower detection limits and incorporates a number of unique features to improve performance.

Strong growth in the US

Porvair continues to invest in its US Microfiltration facilities and capabilities. Over the last five years Porvair Filtration Group Inc., has grown at a compound rate of over 25% per annum.

Financial highlights 2015

	2015 £m	2014 £m	2013 £m
Revenue	64.8	73.9	55.8
Operating profit	9.7	8.7	8.6

Performance

- **9% underlying revenue⁽¹⁾ growth** and record operating profit.
- **Building and commissioning work** for the large projects is going well.
- **Seal Analytical had a record year.**

Recent developments

- New UK plant to expand capacity.
- US plant extended in Caribou, ME.
- Record year for Seal: more product releases planned.

2016 outlook

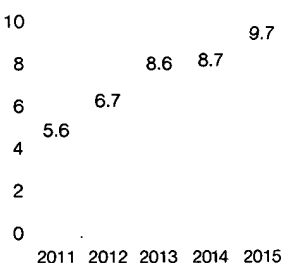
- Healthy order books going into 2016.
- Return to growth for aerospace and nuclear.

Note⁽¹⁾ Underlying revenue: Revenue excluding the impact of four specific large projects, as previously announced and reported.

Operating profit (£m)

£9.7m

Operating profit



2015 Revenue (£m)

£64.8m

Revenue

Divisional review – Microfiltration

Performance in 2015

Revenue in the Microfiltration division was 12% lower, with revenue from large projects £14.0 million less than in the prior year, as expected. Allowing for this, underlying revenue growth was 9%. Operating profit grew 11% to a record £9.7 million.

The underlying performance of the division was just above its five year average of 8% revenue growth with gasification spares, US general industrial and bioscience filtration all performing well. Aviation had a quieter year, but our exposure to the newer Boeing and Airbus airframes means we expect a return to growth in 2016. As our reputation in the industry grows we are approached from time to time to manufacture products for other filter companies. This is a growing part of our industrial portfolio.

The UK based filtration facilities in this division were the proud recipients of a Queen's Award for Enterprise in International Trade in 2015, which recognised their work in aerospace and industrial filtration growth since 2012.

The large projects are progressing well. The installation in South Korea is complete and commissioning is underway. The project in India is much larger and will be built through 2016. Manufacturing for the project in China started during 2015 and shipment will commence in the first quarter of 2016. Shipments to the UK nuclear project are underway. Orders for filter spares for the commissioning process were received early in the year and shipped on time. We are developing a service and maintenance capability for the Indian installation, which due to its size will require constant cleaning and filter replacement. We expect final contract negotiations for this to be complete in the first half of 2016.

As discussed in previous statements, the Group has adopted long term contract accounting for these large contracts. Revenue is recognised through the manufacturing and shipping phase of each project, leading to the unusually high revenue of £19.5 million reported in 2014. Revenue in 2015 was £5.5 million. There is expected to be further revenue in 2016 and 2017. Allowance is made for potential future costs arising during the commissioning and warranty stages of the projects. Profit is therefore recognised over the life of the projects, which is likely to run into 2017 and 2018.

Seal Analytical posted a record result with revenue growing by 4% in constant currency. Seal is a market leading supplier of equipment and consumables for the detection of inorganic contamination in water. This well defined niche market grows as water quality standards improve and we have again been successful in exporting to China. Seal has a good track record of product development and places particular emphasis on technical training of its skilled workforce. These initiatives are showing through in results. Seal's five year compound annual revenue growth is 7%. Another new analysis platform was introduced during the year, and a further two are planned for 2016.

Ben Stocks

Group Chief Executive
22 January 2016

Our geographic footprint: page 06

The markets we serve: pages 07 to 10

Finance Director's review

A robust financial performance with good underlying growth

Chris Tyler, Group Finance Director

Performance highlights

- Operating margin increased to 10.2% (2014: 8.9%).
- Operating profit up 6% to £9.8 million (2014: £9.2 million).
- £3.8 million invested in capital expenditure.
- Return on capital employed increased to 16% (2014: 15%).
- Return on operating capital employed increased to 49% (2014: 47%).
- Tax charge reduced to 24% (2014: 25%).

+9%

Profit before tax increased by 9% to £9.2 million.

Financial highlights 2015

	2015 £m	2014 £m	2013 £m
Revenue	95.8	104.0	84.3
Operating profit	9.8	9.2	8.4
Profit before tax	9.2	8.4	7.6
	2015 £m	2014 £m	2013 £m
Underlying revenue	90.3	84.5	78.3
Large projects revenue (Microfiltration)	5.5	19.5	6.0
Revenue	95.8	104.0	84.3

Group operating performance

Underlying revenue, which excludes the impact of large contracts, grew 7% (4% at constant currency). Reported revenue fell by 8% as a result of large contract revenue in Microfiltration being £14.0 million lower than 2014. Operating profit was up 6% and profit before tax grew 9%. Operating profit margins were 10.2% (2014: 8.9%), the improvement resulting from the phasing of profits on the large contracts and an improvement in the underlying margin in the Microfiltration division.

The operating performance of the Microfiltration and Metals Filtration divisions are described in detail in the Chief Executive's report and below. The operating loss associated with the Other Unallocated segment was £2.4 million (2014: £2.1 million), which mainly comprises Group corporate expenditure such as head office and Board costs, new business development and general financial costs.

The operating profit includes amortisation charges on intangible assets arising on acquisition of £0.2 million (2014: £0.2 million), a credit of £0.1 million (2014: credit of £0.3 million) arising on the reassessment of acquisition consideration, acquisition expenses of £0.1 million (2014: £nil) and share based payment charges of £0.5 million (2014: £0.5 million).

Impact of exchange rate movements on performance

The international nature of the Group's business means that relative movements in exchange rates can have a significant impact on reported performance. The average rate used for translating the results of US operations into Sterling was US\$1.53:£1 (2014: US\$1.65:£1) and the Group's Euro denominated operations were translated at €1.37:£1 (2014: €1.24:£1). The stronger dollar offset by the weaker Euro improved revenue growth by 2% and operating profit growth by 2% on translating the Group's foreign subsidiaries compared with 2014.

The Group sold its UK business' 2015 US dollar receipts during the financial year and achieved an average rate of US\$1.54:£1 (2014: US\$1.57:£1).

At 30 November 2015 the Group has US\$8.8 million of outstanding forward foreign exchange contracts taken out to translate the future revenue on the Group's underlying dollar revenue generated by the UK operations and on the Group's large contracts. The Group has applied hedge accounting to US\$4.0 million of these transactions. The reduction in the value of the hedge in the year of £0.2 million (2014: reduction of £0.9 million) is shown in the consolidated statement of comprehensive income.

Finance costs

Net interest payable reduced to £0.6 million (2014: £0.8 million). Included within interest payable are finance costs in relation to the defined benefit pension scheme, which were £0.4 million (2014: £0.5 million) in the year. Other net interest payable reduced as a result of lower gross borrowings in the year. The Group suffers non-utilisation fees on its unused borrowing facilities at a rate of half the margin on the facility. Consequently, the interest payments have not fallen in line with the elimination of gross borrowings.

Interest cover was 16 times (2014: 12 times); excluding the impact of the pension finance charge the interest cover is 61 times (2014: 30 times).

Tax

The Group tax charge was £2.2 million (2014: £2.1 million). This is an effective rate of 24% (2014: 25%), which is higher than the UK standard corporate tax rate of 20.3% (2014: 21.7%). Tax in the UK was reduced by the benefit of tax relief on the exercise of share options but the rates of tax are higher on profits made in Germany and the US. The tax charge comprises current tax of £2.3 million (2014: £2.1 million) and a deferred tax credit of £0.1 million (2014: £nil).

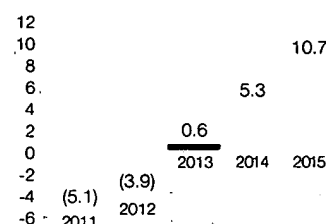
The Group carries a deferred tax asset of £2.5 million (2014: £3.2 million) and a deferred tax liability of £1.5 million (2014: £1.5 million). The deferred tax asset relates principally to the deficit on the pension fund and share-based payments. The deferred tax liability relates to accelerated capital allowances, capitalised development costs and other timing differences, arising in the US.

- Key performance indicators: pages 21 to 23
- Principal risks and uncertainties: pages 24 to 28
- Remuneration report: pages 47 to 58

Net cash/(debt) (£m)

£10.7m

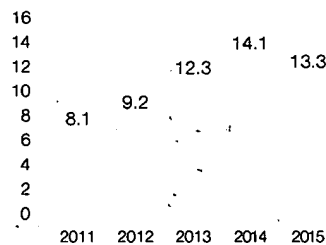
Net cash increased to £10.7 million.



Cash generation (£m)

£13.3m

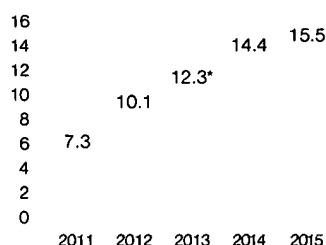
Cash generated from operations.



EPS growth trend (pence)

15.5p

Basic earnings per share.



*2013 figures restated following the adoption of IAS 19 Revised. Earlier years not adjusted.

Total equity

Total equity at 30 November 2015 was £59.1 million (2014: £52.1 million), an increase of 13% over the prior year. Increases in total equity arose from profit after tax of £7.3 million (2014: £6.4 million), after adding back the charge for employee share option schemes net of tax of £0.3 million (2014: £nil); exchange gains on translation of £0.9 million (2014: £1.1 million); actuarial gains of £0.4 million (2014: loss of £1.1 million); and £nil (2014: £0.2 million) arising on the issue of shares on share option exercises. Dividends paid of £1.5 million (2014: £1.3 million); and a reduction of £0.1 million (2014: reduction of £0.9 million) in the value of hedge accounting instruments reduced total equity.

Return on capital employed

The increase in the profits of the Group compared with lower capital employed led to an increase in the return on capital employed to 16% (2014: 15%). Excluding the impact of goodwill and the net pension liability, the return on operating capital employed increased to 49% (2014: 47%).

Cash flow

The table below summarises the key elements of the cash flow for the year:

	2015 £m	2014 £m
Operating cash flow before working capital	12.5	11.9
Working capital movement	0.8	2.2
Cash generated from operating activities	13.3	14.1
Interest	(0.2)	(0.3)
Tax	(1.8)	(2.2)
Capital expenditure net of disposals	(3.3)	(5.1)
	8.0	6.5
Acquisitions	(1.1)	(0.7)
Dividends	(1.5)	(1.3)
Share issue proceeds	-	0.2
Net cash increase in the year	5.4	4.7
Net cash at 1 December	5.3	0.6
Net cash at 30 November	10.7	5.3

Net working capital reduced by £0.8 million (2014: £2.2 million). Cash was received from large contracts in excess of the revenue recognised in the year ended 30 November 2015, mainly as a result of the collection in 2015 of a receivable outstanding at the end of 2014 of £2.6 million. Inventories in Microfiltration and the China plant of Metals Filtration increased to support growth and payables at the year end were lower than the prior year.

Net interest paid represents the bank interest and non-utilisation fees charged in the year. It reduced as bank borrowings fell in the year.

Tax payments in the year are lower than the current tax charge as a result of recoveries in relation to prior years.

£0.8 million was paid in deferred consideration for acquisitions completed in 2012 and 2013 and £0.3 million was paid in relation to an acquisition in 2015. A maximum of a further £0.1 million is payable in 2016.

Construction contracts and performance bonds

The income statement impact of the large contracts is described in the Divisional review on page 17. At 30 November 2015, the Group had no amounts due from contract customers and amounts due to contract customers of £7.7 million, representing the amount by which cash received at 30 November 2015 exceeds revenue recognised to date on these large contracts.

The contract customers generally provide advance payments to fund the initial stages of the contracts and the Group provides advance payment bonds to the customer as security. The bonds are cancellable after up to six months following the shipment of goods. At 30 November 2015 the Group held US\$3.7 million (£2.5 million) of advanced payments against future shipments and there were US\$5.3 million (£3.5 million) of advance payment bonds outstanding.

The contract customers also generally require performance bonds to cover risks arising during the contract warranty periods. At 30 November 2015 the Group had US\$9.7 million (£6.5 million) of performance bonds outstanding.

Capital expenditure

Capital expenditure was £3.3 million (2014: £5.1 million) net of £0.5 million disposal proceeds. The principal investments in 2015 related to the completion of a new plant in New Milton, UK, which was fully operational in February 2015; completion of the extension to the plant in Caribou, Maine, which was opened in May 2015; and a new cast shop filtration line in China, which began production in November 2015.

Looking forward to 2016 the Board is planning further investments: facilities in the US; gasification service and maintenance in India; and upgraded production capability in the UK, US and China. Capital expenditure in 2016 is expected to be up to £5.0 million.

Finance Director's review continued**Pension schemes**

The Group continues to support its defined benefit pension scheme in the UK, which is closed to new members, and to provide access to defined contribution schemes for its US employees and other UK employees.

The Group total pension cost was £2.2 million (2014: £2.2 million). £1.8 million (2014: £1.7 million) was recorded as an operating cost: £1.2 million (2014: £1.2 million) related to funding defined contributions schemes; and £0.6 million (2014: £0.5 million) related to the charge for the Group's defined benefit scheme. £0.4 million (2014: £0.5 million) was charged as a finance cost in relation to the defined benefit scheme.

The Group's net retirement benefit obligation was £12.0 million (2014: £12.8 million). The contributions paid to the defined benefit scheme in the UK were £1.0 million (2014: £0.9 million). The service cost, administrative expenses and finance cost were £1.0 million (2014: £1.0 million) and the actuarial gain in the year was £0.8 million (2014: loss of £0.9 million). All of the assumptions adopted were broadly in line with the previous year.

The defined benefit scheme had 48 (2014: 53) active members, 271 (2014: 281) deferred members and 249 (2014: 271) pensioners at 30 November 2015. The life expectancy of members of the scheme reaching age 65 at 30 November 2015 is assumed to be 21.6 years (2014: 21.6 years) for men and 23.6 years (2014: 23.8 years) for women. The weighted average duration of the plan scheme liabilities at the end of the period is 20 years (2014: 18 years).

A full triennial actuarial valuation of the assets and liabilities of the defined benefit scheme was completed in 2013, based on data at 31 March 2012. As a result of this review, the Group and the Trustees agreed to alter the employer's contributions from 8.2% of salary to 13.3% of salary. Additionally, the Group committed to making a £194,000 annual contribution towards the running costs of the scheme from March 2014, increasing by 3.25% per annum thereafter. The Group also committed to make additional annual contributions, to cover the past service deficit, of £456,000 per annum commencing in December 2013, increasing by 5% per annum thereafter. The next full actuarial valuation of the scheme will be based on the pension scheme's position at 31 March 2015 and is expected to be completed before June 2016.

Borrowings and bank finance

At the year end, the Group had cash balances of £10.7 million (2014: net cash of £5.3 million) comprising cash balances of £10.7 million (2014: £7.9 million) offset by gross borrowings of £nil (2014: £2.6 million).

The Group signed a five year borrowing facility agreement on 25 January 2013 comprising a five year US\$20 million revolving credit facility, a £2.5 million term loan (reduced to £nil at 30 November 2015) and a £2.5 million overdraft facility. These facilities have margins over LIBOR ranging between 1.95% and 2.25%.

At 30 November 2015, the Group had £13.3 million (2014: £10.8 million) of unused loan facilities, an unused overdraft facility of £2.5 million (2014: £2.5 million) and net cash balances of £10.7 million (2014: £7.9 million).

Finance and treasury policy

The treasury function at Porvair is managed centrally, under Board supervision. It is not a profit centre and does not undertake speculative transactions. It seeks to limit the Group's trading exposure to currency movements. The Group does not hedge against the impact of exchange rate movements on the translation of profits and losses of overseas operations.

The Group finances its operations through share capital, retained profits and, when required, bank debt. It has adequate facilities to finance its current operations and capital plans for the foreseeable future.

Chris Tyler

Group Finance Director
22 January 2016

Key performance indicators

We use the following Key Performance Indicators (KPIs) to measure the performance of our business and progress against our strategic objectives.

KPI description

Revenue growth captures our performance in the main tenets of our business model: meeting customer requirements; developing new products; expanding geographically; and making acquisitions.

Revenue growth in constant currency is a good measure of the growth in the predominantly overseas division – Metals Filtration.

Underlying growth captures the growth excluding the impact of the large projects which as a result of their size mask the underlying performance of the rest of business.

Performance in 2015

The performance of the Group, which was broadly in line with management's expectations, and that of each division is explained in full in the Chief Executive's report.

Following the unusually large revenue recorded in 2014 from the large projects, revenue in 2015 fell back from its highs of 2014. Excluding the impact of the large contracts, the underlying revenue has continued to grow steadily.

In constant currency the Metals Filtration revenue was down 4%, however this still represents a strong performance following an 11% increase in 2014.

Over a five year period the underlying revenue growth in Microfiltration is 8% and in Metals Filtration it is 6%.

REVENUE GROWTH

1 2 3 4 5

(8)%	2011	7%			
	2012		12%		
	2013	10%			
	2014				23%
2015 (8)%					00%

Revenue growth at constant currency

(10)%	2011	9%			
	2012		12%		
	2013	9%			
	2014				27%
2015 (10)%					

Underlying revenue growth

7%	2011			7%	
	2012		6%		
	2013				8%
	2014				8%
	2015			7%	

Revenue growth – Metals Filtration

3%	2011				15%
	2012		8%		
	2013	2%	9%		
	2014		6%		
	2015	3%			

Revenue growth at constant currency – Metals Filtration

(4)%	2011				15%
	2012		7%		
	2013	1%	9%		
	2014			11%	
2015 (4)%					

Revenue growth – Microfiltration

(12)%	2011	4%			
	2012		15%		
	2013		15%		
	2014				33%
2015 (12)%					

Underlying revenue growth – Microfiltration

9%	2011	4%			
	2012		5%		
	2013				12%
	2014			9%	
	2015			9%	

Key and links to strategy:

- 1 Focus on end-markets where we see long term growth potential.
- 2 Look for applications where product use is mandated and replacement demand is therefore regular.
- 3 Make new product development a core business activity.
- 4 Establish geographic presence where end-markets require.
- 5 Invest in both organic and acquired growth.

Key performance indicators continued

KPI description	OPERATING MARGIN – GROUP			1	2	3
Operating margins demonstrate the Group's propensity to turn revenue into profits.	10%	2011		8%		
		2012		9%		
		2013		10%		
		2014		9%		
		2015		10%		
Performance in 2015 Operating margin in Metals Filtration reduced to 8% as a result of lower constant currency revenues and the impact of startup costs of the new Chinese plant. In Microfiltration the operating margin increased to 15%. The benefits of a cost reduction exercise at the end of 2014 and a higher margin from the large projects account for the improvement. The details of the revenue and profit profile of the large projects are explained in the Chief Executive's report.	Operating margin – Metals Filtration					
	8%	2011		6%		
		2012			9%	
		2013			8%	
		2014			9%	
		2015			8%	
	Operating margin – Microfiltration					
	15%	2011		13%		
		2012		14%		
		2013			15%	
		2014		12%		
		2015			15%	

KPI description	PROFIT BEFORE TAX GROWTH			1	2	3
A measure of the profits of the business after all costs and finance charges have been taken into account but before corporation tax.	9%	2011			44%	
		2012			40%	
Performance in 2015 The performance is described in full in the Chief Executive's report and the Finance Director's review.		2013	25%			
		2014	10%			
		2015	9%			

KPI description	BASIC EARNINGS PER SHARE GROWTH			1	2	3
Basic earnings per share growth gives a measure of our ability to deliver earnings growth for our shareholders.	8%	2011			40%	
		2012			38%	
Performance in 2015 Basic earnings per share growth is lower than the profit before tax growth as a result of a small increase in the shares in issue during the year.		2013	26%			
		2014	17%			
		2015	8%			

KPI description	CASH GENERATED FROM OPERATIONS LESS INTEREST			5
Cash generated from operations less interest gives a measure of the cash generating capabilities of the underlying operations.	£13.2m	2011		£7.6m
		2012		£8.6m
Performance in 2015 Cash generated from operations less interest has been high since 2013 as a result of the good performance of the Group, and the cash received on the large projects being in excess of the revenues recognised on these projects.		2013		£11.8m
		2014		£13.8m
		2015		£13.2m

KPI description	INTEREST COVER	5
Interest cover is a measure of the number of times our operating profits could pay our finance costs. The Board considers a figure higher than five times indicates that the Group can comfortably service its debt.	16 times	2011 7
Performance in 2015		2012 8
Interest cover is high as a result of the Group having very low gross borrowings throughout the year and a manageable pension deficit.		2013 11
		2014 12
		2015 16

KPI description	POST TAX RETURN ON CAPITAL EMPLOYED	5
Post tax return on capital employed gives a measure of financial return from all of the invested capital in the business. A return higher than the Group's weighted average cost of capital is satisfactory.	16%	2011 7%
Performance in 2015		2012 10%
The Group's return on capital employed improved in 2015 as a result of higher profits and a lower capital employed arising from an increase in the Group's net cash position. It exceeded the Group's weighted average cost of capital of 9%.		2013 12%
		2014 15%
		2015 16%

KPI description	POST TAX RETURN ON OPERATING CAPITAL EMPLOYED	5
The post tax return on operating capital employed gives a measure of the Group's ability to make financial returns from the fixed assets and working capital employed in its operations. It ignores the goodwill arising on acquisitions and the impact of the pension deficit.	49%	2011 21%
It gives a simple measure of the Group's ability to make returns from its investments in plant and equipment and working capital.		2012 30%
Performance in 2015		2013 38%
The Group's return on operating capital employed improved in 2015 as a result of higher profits and a lower capital employed arising from an increase in the Group's net cash position.		2014 47%
		2015 49%

Principal risks and uncertainties**Committed to managing risk effectively and robustly****Our approach to risk management**

Risk management is embedded in the management processes of the Group. These processes have been extensively revised as a result of the September 2014 issue of the UK Corporate Governance Code and the Guidance on Risk Management, Internal Controls and Related Financial and Business Reporting. The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and has implemented a new risk management process with specific steps scheduled throughout the financial year. The process adopted by the Group to embed risk management in the Group's operations is outlined below.

- The key risks are identified by the management team of each operation facilitated by the Group Chief Executive and Group Finance Director.
- Operations management teams maintain a register of risks, mitigations and weaknesses, which:
 - Makes an initial assessment of the risks identified;
 - Provides specific details on the key risks identified;
 - Identifies the mitigation processes that are already in place; and
 - Highlights weaknesses that currently exist.
- Operations management teams with the Group Chief Executive and Group Finance Director review the work undertaken by each management team and consider the steps needed to improve mitigation. This process leads to a number of projects to mitigate weaknesses that are then incorporated in each operation's annual plans.
- The budget and strategy planning process then incorporates:
 - Capital or staff cost implications of improving the mitigation and reducing current weaknesses; and
 - Any other budget implications of improving risk management.
- Internal audit peer reviews analyse the risk registers kept by each business and ensure that:
 - The mitigation steps identified are in place; and
 - Any commitments made in the planning process have been actioned.
- The process is refined in the following year.

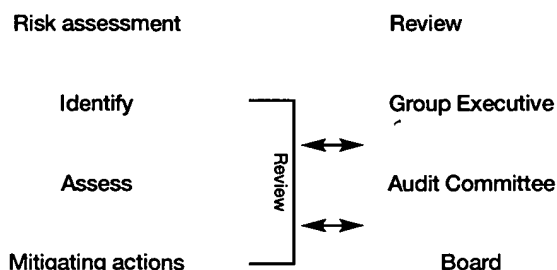
Risk Governance

The Board has overall responsibility for ensuring that the Group maintains an effective risk management system and actively monitors the risk management process, specifically the Board:

- Defines a process for ongoing monitoring of risk management taking into account:
 - The Group's risk appetite;
 - Any known incidence of significant control failure or weakness;
- Reviews the risk register and mitigation processes ahead of the strategy and budget process;
- Reviews the approach adopted to the ongoing monitoring of risk;
- Considers presentations on strategy and risk management from the operations management as part of the strategy and budget process;
- Considers the findings of the internal audit reviews in relation to risk management; and
- Conducts a robust annual effectiveness review of the process.

Principal risks and uncertainties




The Group maintains a comprehensive register which identifies risks and uncertainties that could impact the operations, the mitigation processes in place and outlines the weaknesses that should be addressed by the operations. The risk register includes over 140 individual risks and associated mitigation processes. The principal risks and uncertainties described on pages 25 to 28 are those which individually or collectively might be expected to have the most significant impact on the Group's long term performance and prospects.

Risk assessment review




Key and links to strategy:

- 1 Focus on end-markets where we see long term growth potential.
- 2 Look for applications where product use is mandated and replacement demand is therefore regular.
- 3 Make new product development a core business activity.
- 4 Establish geographic presence where end-markets require.
- 5 Invest in both organic and acquired growth.

Change in level of risk:



 No change to risk
  Risk exposure reduced
  Risk exposure increased

REVENUE RISKS



Risk description and impact	1	2	Mitigation	Change 
<p>Existing market risk The Group serves the needs of a range of specialist filtration markets, such that it is not dependent upon any one market. The Group's four main markets are as follows:</p> <ul style="list-style-type: none"> • aviation filtration, where quality and accreditation of products are critical. Although product lifecycles are long there are occasional periods of reduced demand as a result of global impacts on commercial flying; • energy and industrial process filtration, where projects tend to be large and demand would be affected by a sustained economic downturn or a long period of low oil prices; • environmental laboratory supplies, where revenue can be affected by access to capital in customers' markets (municipal/utilities and industrial labs); and • aluminium filtration, where demand for aluminium can fluctuate, producers have consolidated and recent demand growth has been driven by Chinese industrial production. <p>Each of the above contribute more than 10% of the Group's revenue and the Group would be exposed to a significant decline in any of these markets.</p>			<p>Many of the Group's products are consumable and are essential to the safe operation of their respective systems and processes, so whilst volumes are impacted by changes in economic circumstances significant fluctuations for other reasons are rare.</p> <p>The aviation market has traditionally been a very steady business as the product cycles are very long and the Group offers a broad range of products split evenly between after-market and new build. The outlook for the aviation market is for steady growth and the Group has a good pipeline of new programmes coming on stream and there is unlikely to be such a rapid decline in the aviation market that the Group could not manage the consequences over time.</p> <p>The energy and industrial process products serve a range of customers who use filters as an integral part of processes in their plants. Sales are both for new build and after market spares. The after market spares business should ensure that there is a regular revenue stream from the installations that the Group serves.</p> <p>Environmental laboratory supplies are chiefly sold to laboratories engaged in meeting the regulatory requirements for clean water. It is expected that the regulated nature of this market will mitigate cyclical changes. The market is expected to grow as water regulations tighten throughout the world and demand for clean water in the developing world increases. The Group is steadily increasing its consumable revenue into this market and reducing its reliance on original equipment sales.</p> <p>The Group's revenue is affected by the levels of aluminium production, however the Group now has a stronger market position having successfully converted its customers to a new improved filter formulation. The production of aluminium is consolidating, gradually moving to larger smelters in regions of low cost energy and additional capacity is being brought on in China. The Group is developing its sales and production capability accordingly.</p>	
Risk description and impact	1	2	Mitigation	Change 
<p>New products and markets risk The Group invests significant amounts into the development of new products often driven by environmental imperatives, regulation or pressure for continuous improvement in quality and performance. There is a risk that the Group's products will be superseded or that new products will not meet the quality and performance specifications required.</p>			<p>The Group's new product development is focused on solving specific challenges identified by the Group's customers. This focus on specific developments improves the adoption rate of the Group's designs. The Group has brought a number of these products to market recently and is now much less exposed to the risks of new products. The Group continues to invest in new products, new capacity and new skills to retain and serve its customers better.</p>	
Risk description and impact	1	2	Mitigation	Change 
<p>Large contracts risk The Group has a number of large contracts for the installation of filtration systems. The Group's future results will be affected by the outcome of these contracts and the potential future revenue from the installations. Significant delays or engineering challenges with these contracts could impact the Group's expected performance.</p> <p>The Group also has a number of long term supply agreements for filters and agreements with key distributors for certain of its products. Its results will be affected should it lose a significant customer or distributor.</p>			<p>The large contracts have direct senior management involvement on a day to day basis. The Group makes every effort to ensure that its commitments are met on time and in full. Detailed engineering and financial work plans, risk assessments and forecasts are maintained for each of these projects. The financial impact of reasonably foreseeable risks are included in these plans. Reports are produced every month which detail project progress and changes to planned schedules and assessment of risk.</p> <p>The Group maintains close contact with each of its long-term customers and major distributors and has a long history of working with them. In each case the Group provides unique or patented products to the customers or distributors which provide additional permanence to the relationships.</p>	

Principal risks and uncertainties continued

REVENUE RISKS continued

Risk description and impact	1 2	Mitigation	Change 
<p>Regulation risk Certain of the Group's products are subject to regulatory regimes including compliance with aviation and environmental standards and individual customers' quality standards. A failure to maintain robust systems and processes to demonstrate compliance with the appropriate standards could result in the Group losing business and may open the Group to product liability risks.</p>		<p>The Group has internal control systems designed to meet the compliance requirements of each regulated product it manufactures. These systems are overseen by experienced quality teams and are reviewed both internally and externally to ensure that they remain suitable and up to date.</p> <p>The Group maintains product liability and aviation liability insurance to cover the financial consequences of a product failure.</p>	
<p>Competitive risk Porvair operates in competitive global markets. The Group's achievement of its objectives is reliant on its ability to respond to many competitive factors including, but not limited to, new entrants, pricing pressures, technological innovations, product quality, customer service, currency movements, manufacturing capabilities and the employment and retention of qualified personnel. If the Group does not continue to compete in its markets effectively by developing innovative solutions for its customers and delivering high quality customer service, it could lose them and its results could be adversely affected.</p>	1 2	<p>The Group recognises that certain of its competitors are larger and have greater financial resources. This may enable them to deliver products on more attractive terms than the Group or to invest more resources, including research and development. The Group seeks to maintain its competitive advantage through technical differentiation and product quality rather than price.</p> <p>Through the development of a strategy that focuses on micro niches within the Group's chosen markets, the Group seeks to identify specific opportunities where it has a commercial, reputational or technological advantage that enables it to compete successfully.</p>	Change 

MANUFACTURING AND OPERATIONAL RISKS

Risk description and impact	1 2 5	Mitigation	Change 
<p>Raw materials, resources and production risk The Group uses a wide variety of different raw materials and subcontracted processes. In certain cases critical components or processes are single sourced either for regulatory or availability and performance reasons. In the event that supplies of these materials or processes become unavailable, the Group's ability to produce certain products could be delayed or products may need to be redesigned.</p> <p>Prices for raw materials can be volatile and are affected by the cyclical movement in commodity prices such as oil, alumina, gas and steel. The Group's ability to pass on these price fluctuations to its customers is to some extent dependent on the contracts it has entered into and the prevailing market conditions. There may be times when the Group's results are adversely affected by an inability to recover increases in raw material prices.</p> <p>Not all of the Group's equipment is duplicated generally for cost and efficiency reasons. A significant failure of any of these pieces of equipment can result in production delays and a potential for loss of revenue.</p>		<p>Wherever possible the Group seeks to dual source all of its supplies and processes. Where this is not possible the Group has in place long term agreements, or significant buffer stocks. It has an active programme of close monitoring of its suppliers including assisting them with improvements in quality and continuity.</p> <p>Where practical the Group seeks to fix its raw material prices in long term contracts with suppliers and in certain cases uses forward contracts to manage its exposure to fluctuating prices.</p> <p>The Group has regular planned shutdowns for maintenance and equipment is maintained to a high standard. Failures of critical equipment are therefore rare.</p>	
<p>Facilities and IT risk The Group operates a number of production facilities, the largest facility generating approximately one third of the Group's revenue. A disaster, such as a fire or flood, at any of the Group's facilities could have a material impact on the Group's performance.</p> <p>The Group relies on IT systems for all its record maintenance and is dependent upon good bandwidth connections between its sites. A loss of servers or bandwidth, could interrupt the operations and result in a loss of data.</p>	1 2	<p>The Group maintains insurance of its equipment and facilities and carries business interruption insurance to cover loss of profits. In addition, the Group has ISO 9001 and other industry specific quality control systems which reduce the risk that a disaster will occur.</p> <p>The Group has resilient IT systems and invests in new servers, software and bandwidth to improve the resilience of its systems. It has comprehensive IT disaster recovery plans, which are periodically tested.</p>	Change 

MANUFACTURING AND OPERATIONAL RISKS continued

Risk description and impact	1 2	Mitigation	Change ↗
Cyber-attack risk The Group has experienced a number of cyber-attacks and the frequency of these attacks is increasing. A cyber-attack could cause loss or corruption of data or interrupt the operation of systems.		The Group's systems have been tested against actual cyber-attacks and in each case systems have been out of action for less than 24 hours and only minimal data loss has been suffered. The Group has distributed systems. Each operation's system is largely independent from the systems of the other operations, such that a virus or concerted cyber-attack could be contained within one operation. The Group continues to remain vigilant to attack and ensures that its systems are regularly improved to make them more secure and resilient. So far its systems have proved resilient to cyber-attack.	

Risk description and impact	2 3	Mitigation	Change ↔
Health and safety and environmental risk The Group handles hazardous chemicals and waste in certain of its production processes. If they are not properly handled and managed, these chemicals can give rise to health and safety risks for the employees and environmental risks if they are allowed to leak. In addition, hazardous chemicals are subject to strict regulation, which can include phasing out their use. Failure to manage the chemicals and waste safely and plan for any changes in regulation could expose the Group to claims and inability to manufacture certain of its products.		Rigorous risk assessments and standard operating procedures are in place to handle hazardous chemicals and waste. Health and safety teams monitor compliance with the Group's procedures and, as necessary, report to the appropriate regulatory authorities. Each plant operates to ISO 9001 standards which ensures a high level of safety and standard procedures.	

FINANCE AND MANAGEMENT RISKS

Risk description and impact	4 5	Mitigation	Change ↔
Acquisitions risk The Group is actively involved in searching for complementary acquisitions. A poorly executed acquisition could severely constrain the Group.		The Group engages in thorough due diligence on its target companies and adopts a cautious approach in its selection and completion of acquisitions. In the case of each completed acquisition it develops and implements an integration plan.	


Risk description and impact	5	Mitigation	Change ↔
Pensions risk The Group operates a defined benefit pension scheme which is closed to new members but remains open for future accrual for the existing active members. The Group retains the ultimate responsibility for ensuring that the trust has sufficient funds to ensure that all current and future pensions can be paid in full. A significant shortfall in the value of the assets of the scheme, compared with its liabilities, could require the Group to make additional payments to the scheme.		The Pension scheme is financed through a separate trust fund and administered by a Board of Trustees with an independent Chairman. The Group maintains a close oversight of the pension scheme through appointment of its own trustees to ensure that the scheme is properly administered and that sound investment advice is obtained. The Board regularly reviews the performance of the scheme with a focus on reducing risk to the Group. The Group has a deficit recovery plan in place that is affordable for the Group and expected to reduce the current deficit. The deficit contribution is reviewed every three years as part of the triennial valuation.	

Risk description and impact	1 2 3	Mitigation	Change ↔
Product liability risk The Group manufactures products that are potentially vital to the safe operation of its customers' products or processes. A failure of the Group's products could expose the Group to loss as a result of claims made by the Group's customers or users of their products.		The Group seeks to minimise this risk through limitations of liability in its contracts and carries insurance cover in the event that claims are made.	

Risk description and impact	5	Mitigation	Change ↘
Financing risk At certain times the Group uses borrowings to finance its operations. Damage to, or loss of, its banking relationships could have a material impact on the Group's ability to do this, which could damage the operations and profitability of the Group.		To mitigate this risk, the Group maintains sufficient long-term facilities in place for its expected requirements and has progressively reduced its gearing. The Group currently has no borrowings. It maintains a close relationship with its bankers and carefully monitors the restrictions in its borrowing facilities.	

Principal risks and uncertainties continued

FINANCE AND MANAGEMENT RISKS continued

Risk description and impact	5	Mitigation	Change 
<p>Financial risk management The Group's operations expose it to a variety of financial risks that include the effects of:</p> <ul style="list-style-type: none"> • price risk; • foreign exchange risk; • credit risk; • liquidity risk; and • interest rate cash flow risk. 		<p>The Group has in place financial risk management procedures that seek to limit the adverse effects on the financial performance of financial risks. The principal procedures are described below:</p> <p>Price risk The Group is exposed to commodity price risk as a result of its operations. The Group buys certain raw materials and energy on long term contracts to minimise its exposure to fluctuation in commodity prices. In all cases these contracts result in the ultimate delivery and use by the Group of the commodity. The Group has no exposure to equity securities price risk as it holds no listed or other equity investments.</p> <p>Foreign exchange risk The Group seeks to manage its exposure to the impact of exchange rate movements on its net investments by maintaining some borrowings in US dollars. Previously it sought to maintain borrowings in US dollars equivalent to around 60% of the carrying value of its US dollar net tangible assets in its US operations. However, as the Group's overall borrowings have reduced, so the US dollar borrowings have reduced.</p> <p>The UK operations of the business generate significant revenues in US dollars and the Group seeks to minimise the impact of movements in the US dollar exchange rate on the value of these US dollar flows by using financial instruments to fix the future value of the US dollars. The Group does not apply hedge accounting to these transactions. In the case of large contracts where the future currency income is in a different currency from the operation's functional currency, is certain, and can be specifically assigned to individual transactions, the Group takes out forward foreign exchange contracts to minimize the impact of currency fluctuations. The Group applies hedge accounting to these transactions.</p> <p>Credit risk The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. Debtor finance is very rarely used and is reviewed on a case by case basis by the Board of Directors. The Group monitors the level of deposits held with overseas banks and financial institutions and repatriates cash as part of its treasury management.</p> <p>Liquidity risk The Group actively maintains a mixture of long term and short term debt finance facilities that are designed to ensure the Group has sufficient available funds for operations and planned expansions.</p> <p>Interest rate cash flow risk The Group has only interest bearing liabilities. The Group seeks to maintain between 40% and 60% of its borrowings at a fixed interest rate, typically through fixed rate swap agreements. The Group applies hedge accounting to these instruments.</p> <p>For the time being, while the Group has no gross borrowings, the Board has concluded that further interest rate swaps need not be taken out.</p>	

Viability and going concern

The Group has an annual Strategic Planning process, which comprises a strategic plan, a financial forecast for the current year and financial projections for the next three years. The strategic planning process is integrated with the risk management and reporting processes designed to produce consolidated and operating unit level business objectives, risk management plans and operating budgets.

The plans are reviewed each year by the Board as part of its strategy review process. Once approved by the Board, the plans are adopted throughout the operations and provide the basis for strategic decision making and objective setting. Progress towards these objectives and financial performance compared with plans are monitored by the Board throughout the year.

In undertaking its strategic review in 2015, the Board considered the prospects of the Group over the one and three year periods to 30 November 2016 and 2018, respectively. The one-year planning period has a greater level of certainty and is, therefore, used to set detailed budgetary targets throughout the Group – it is also used by the Remuneration Committee to set targets for annual incentives. The three-year period provides less certainty of outcome, but sets out the medium term objectives of the Group and the investment plans and financial targets associated with those objectives. It is also used by the Remuneration Committee for setting the performance targets for the long term incentive plans.

The Group has significant revenue streams of bespoke consumable parts that as a result of either quality accreditation or regulatory requirements are expected to continue for many years. However, the Board considers that a review of the Group's plans over a three year period is reasonable because:

- Its specific investment plans can be reasonably foreseen and will be implemented within the period covered;
- There is a reasonable expectation that changes to current market trends can be anticipated over the period;
- To the extent that the Group has long term supply contracts with its key customers these usually have three year renewal periods;
- The Group's contributions to its pension scheme deficit are settled over the period; and
- Completion of the Group's existing large contracts is expected within the period.

On the basis of this and other matters considered by the Board during the year, including a review of the potential financial impact of various scenarios arising from the risks identified on pages 25 to 28, including a severe economic recession, a forced plant shutdown and sourcing risks, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period assessed. In doing so, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty.

After having made appropriate enquiries, including all the information presented in its strategic review of the business, the Directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these accounts.

Corporate and social responsibility report

Growing our business responsibly and sustainably

2015 WINNER: **Queen's Award**
for Enterprise in International Trade

porvair
filtration group



Introduction

We believe that operating sustainably and behaving responsibly are fundamental to creating long term value.

The Board's policy is to enhance shareholder value in an ethical and socially responsible manner. The Board believes that operating efficiently with high quality standards includes promoting high standards of health and safety and helping to protect the environment. As a minimum, the Group operations are required to meet the legal and regulatory requirements of operating in their local jurisdiction.

We recognise that our corporate responsibility activities are an important way for us to deliver upon our strategic objectives. During 2015, the Board reconfirmed its commitment to the five components of our CSR programme and we have continued to make good progress in these areas.

Our CSR commitments

Business integrity and ethics

Our commitment to high ethical standards strengthens our reputation with customers, suppliers and other stakeholders.

Our people

Porvair prides itself on its people and their ability to provide innovative solutions for its customers.

Health & Safety

Porvair recognises its clear responsibilities for the health and safety of its employees and to the communities in which it operates.

Environmental performance

Many of the products developed by Porvair are used to the benefit of the environment.

Building strong relationships

Porvair is committed to building relationships with its customers, its suppliers and the local communities in which it operates.

Our people

Porvair prides itself on its staff's ability to provide innovative solutions for its customers. Porvair is committed to employing talented people and enabling them to reach their full potential. Porvair provides employment in a wide range of disciplines associated with the design and manufacture of filtration and separation equipment.

Employee engagement

The Group involves employees through both formal and informal systems of communication and consultation. Managers have a responsibility to communicate effectively and to promote a better understanding by employees of the activities and performance of the Group. Information relating to trading, company strategy and any other matters of significance are communicated to all employees through local briefings.

The Group has regular consultations with staff so that their views can be taken into account in matters that affect their interests. Employees are actively encouraged to contribute to improvements in the Group's operations. The Group has a UK share save scheme that encourages employees to save and share in the Group's performance.

Diversity

It is the Group's policy to recruit, train, promote and treat all personnel on grounds solely based on individual ability and performance. These principles are applied regardless of sex, sexual orientation, religion, age, nationality or ethnic origin.

The Group's split between male and female employees is shown below.

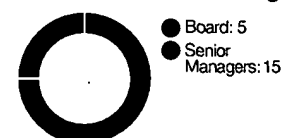
	Female	Male	Total
Directors	–	5	5
Senior managers (statutory directors of subsidiary entities)	1	14	15
Employees	191	466	657
Total at 30 November 2015	192	485	677

Applications for employment by disabled persons are always considered in full, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, so far as possible, be identical to that of all other employees.

Employee diversity



Board and Senior Managers



R&D

The Group continues to undertake an R&D programme with the objective of identifying new materials and products which have the potential to contribute to the growth of the Group.

Experienced, innovative and customer focused

An essential component of our success is having the right people, with the right skills and experience to deliver high quality solutions to our customers.

Investing in our people

We are committed to investing in our people, making sure we attract, retain, develop and engage them in a consistent way around the world.

Training and development and growing our talent

We recognise that our competitive advantage can only be maintained by developing our own talent internally as well as recruiting the best skills from outside of our organisation. Our challenging work environment inspires innovation with continuous learning and improvement as an essential part of our human resources philosophy.

Training and development programmes are important both for our employees to fulfil their potential and to help our business achieve its goals. Much of our training however is by experience within our own operations. The Group has delivered a particularly successful training programme to broaden the experience and knowledge of the Seal Analytical team.

In Metals Filtration our new staff in China have received on the job training from their counterparts in the US both by formal secondments to the US and specific training on the cast shop filtration line in China.

We offer our staff modern apprenticeships and provide external technical updates, funded professional examinations and training release days.

Corporate and social responsibility report continued

Health and safety

Our approach

The Group recognises its clear responsibilities for the health and safety of its employees and to the communities in which the Group operates. By managing and controlling health and safety, and reducing accidents and injuries, the Group benefits from increased productivity, lower absenteeism, reduced insurance and healthcare premiums and ultimately a safety record which holds the Group in good stead for securing future projects.

Health and safety responsibility is delegated to senior managers within each business. These officers perform regular reviews and inspect the conditions in which the Group's employees work. Discretionary health and safety benefits for employees include the availability of gyms and onsite nursing and counselling staff at certain operations. The Group's regular reporting procedures include a review by the Board of accidents in the workplace.

The Group's insurers and insurance brokers carry out a rolling programme of reviews of the Group's operations as part of their risk assessments and the recommendations of the consultants are generally implemented in full.

Progress against our objectives in 2015

Health and safety progress in the year has included:

- Porvair Filtration Group completed an IOSH (Institution of Occupational Safety and Health) accredited training programme in December 2014 with a mix of 46 managers and supervisors awarded IOSH Certificates. The new health and safety skills attained on the training course are now being deployed and used across all UK locations and operations.
- Annual health surveillance has been established for all Porvair Filtration Group staff at risk from welding and soldering processes.
- Equipment in the Porvair Filtration Group machining centre has been subjected to a health and safety review. Dust extraction and gas ventilation has been improved, pressure testing equipment has been upgraded and additional safety devices fitted.
- In the Metals Filtration business, we opened our new plant in 2014 in Xiaogan, which improved the environment for the employees. Compared with the former plant, the new plant has improved dust extraction providing a cleaner and safer working environment; better lay out of equipment and materials, reducing safety hazards; and provided the employees with kitchen, social room and dormitory facilities. In 2015, the plant was expanded and further improvements were made to the working environment. The plant now has sealed flooring to reduce dust further and working practices have been greatly improved.

Staff now have to adhere to strict safety practices including:

- Rules for safety glasses, safety shoes and safety gloves;
- Mandated use of dust masks; and
- Requirements for harnesses and hard hats to be worn for above ground operations. A man-lift and safety ladders were introduced to improve above ground access.

A clear responsibility for the health and safety of our employees and to the communities in which the Group operates

A robust health & safety programme protects our workforce, improves productivity by reducing the number of days lost to injury and enhances profitability by reducing our liabilities.

Training and embedding safety in the workplace

In 2015 there has been a specific focus on bringing our new Chinese plant up to western standards of health and safety.

These improvements are reinforced at morning meetings and at regular safety training sessions.

- The Metals Filtration division has begun a programme to achieve Carolina Star status in Hendersonville. This programme is a ISO style programme run by the North Carolina Department of Labor and emphasises and recognises a good safety culture. Once awarded it will reduce the requirement for OSHA inspections of the plant. Hendersonville has reorganised its safety leadership team and established a safety steering team and introduced regular training on job safety analysis, accident investigation, and emergency response activities.

The environment – our products

Many of the products developed by Porvair are used to the benefit of the environment. Examples include:

- Seal water analysis equipment, which is used, inter alia, to ensure drinking water is fit for consumption, and to analyse sea and river water for signs of pollution or changes to normal mineral composition;
- The patented Selee CSX™ aluminium filter, which is manufactured without phosphates or ceramic fibres, has improved filtration and manual handling benefits over competitor products;
- The patented Selee IC™ iron and aluminum filter uses raw materials produced from clay bodies. These raw materials replace silicon carbide, which is produced using an energy intensive and polluting process;
- The Group's nuclear filters, which have been fitted to a range of demonstration plants being assessed as part of the decontamination and decommissioning work being carried out at the major US and UK nuclear waste sites;
- The Group has begun to introduce filters which will filter lithium alloys. These alloys are less dense and stronger than aluminium and will allow aircraft of the future to be made lighter and more fuel efficient; and
- Acquisition of Fiber Ceramics. The Fiber Ceramics process will produce a high fired product for steel filtration in four hours compared with the current practice of 44 hours. This results in a reduction in the use of natural gas to fire an equivalent amount of product.

The Group consistently considers methods of improving its environmental profile. Environmental impacts are managed in conformity with local regulatory requirements. The Group's manufacturing processes have only a limited potential emissions impact. The Group uses solvents in certain of its processes, and has procedures in place for their control. Its Metals Filtration division manages the emissions from its kiln firing operations within agreed regulatory parameters.

The environment – our operations

Improved performance in carbon and waste reduction

The reduced consumption of energy, fuel and water and production of less waste reduces costs, improves operational efficiencies and helps to improve profit margins.

Developments at Metals Filtration in the US

Metals Filtration in the US runs gas powered furnaces to fire its ceramic filters. The gas to run these furnaces is the largest component of the Group's emissions. Electricity provides heat, light and power for the Group's premises and other plant and equipment.

The acquisition of Fiber Ceramics will enable us to reduce the firing cycle of our steel foundry filters from 44 hours to 4 hours.

Strategic report

Corporate and social responsibility report
continued

Recent environmental changes we have made include:

Microfiltration

- The Group opened a new facility in New Milton, UK, in February 2015 to rehouse its existing New Milton operations and to provide additional space for growth. It has been extensively refurbished. It has been re-roofed and the external walls re-clad with high insulation cladding. New thermally efficient double glazing has been installed throughout. Thermally efficient boilers have been installed to heat the facility. The building has environmentally friendly lighting: LED lighting has been installed in lower ceiling office areas with an expected life of 60,000 hours and induction lighting has been installed in the high bay which has an expected life of 100,000 hours. These improvements provide a high quality work space for the employees, reduce energy consumption and will lower the heating and lighting costs.
- The Group has opened an extension on the plant in Caribou, ME, US and similar insulation and lighting standards are being introduced there as have been introduced in New Milton.
- Our UK operations offer the cycle to work scheme and in some cases car sharing initiatives.

Metals Filtration

- Metals Filtration has started to reuse the slurry in cuttings generated during the processing of our aluminium filters. These cuttings are the single largest portion of the waste stream, and represents approximately 12% of the raw materials used in production.
- The division has established a recycling team and a goal of

eliminating all waste to landfill from its US plant by 2018.

Greenhouse gas emissions

The Group has implemented the UK Government's guidance on measuring and reporting greenhouse gas emissions, in line with DEFRA guidelines, using conversion units published by Carbon Trust. The Group reports 'Scope 1 and 2' emissions in tonnes of carbon dioxide. Scope 1 covers direct emissions: those that emanate directly from Group operations. This is principally natural gas burned in manufacturing and fuel used in company owned vehicles. Scope 2 covers indirect emissions, those generated by key suppliers, which is principally electricity.

Metals Filtration in the US runs gas powered furnaces to fire its ceramic filters. The gas to run these furnaces is the largest component of the Group's emissions. Electricity provides heat, light and power for the Group's premises and other plant and equipment. The plant and equipment is mainly light manufacturing equipment but does include some high pressure presses and electric furnaces.

2010 is used as a base year and 'kilogrammes of CO₂ emission per pound sterling of revenue' as a measure of intensity. The Group aims to reduce its total intensity ratio over time. Intensity rose in 2015 primarily as a result of the lower revenue in the year, and the additional gas used with the acquisition of Fiber Ceramics.

Greenhouse gas (GHG) emissions

	Year ended 30 November 2015 tCO ₂	Year ended 30 November 2014 tCO ₂	Year ended 30 November 2010 tCO ₂
Scope 1 - Direct GHG Emissions			
Gas	9,742	9,311	8,571
Owned vehicles	299	366	368
Total scope 1 gross emissions	10,041	9,677	8,939
Scope 2 - Indirect GHG Emissions			
Electricity	6,380	6,352	5,204
Total scope 2 gross emissions	6,380	6,352	5,204
Total gross emissions	16,421	16,029	14,143
	kCO ₂ /£	kCO ₂ /£	kCO ₂ /£
Scope 1 intensity ratio	0.105	0.092	0.142
Scope 2 intensity ratio	0.067	0.061	0.082
Total intensity ratio	0.172	0.153	0.224

Geographical breakdown (tonnes of CO₂)

	Year ended 30 November 2015			Year ended 30 November 2014			Year ended 30 November 2010		
	Scope 1 tCO ₂	Scope 2 tCO ₂	Total tCO ₂	Scope 1 tCO ₂	Scope 2 tCO ₂	Total tCO ₂	Scope 1 tCO ₂	Scope 2 tCO ₂	Total tCO ₂
UK	425	2,030	2,455	400	2,066	2,466	479	1,497	1,976
US	9,345	4,227	13,572	9,044	4,173	13,217	8,350	3,639	11,989
ROW	271	123	394	233	113	346	110	68	178
Total	10,041	6,380	16,421	9,677	6,352	16,029	8,939	5,204	14,143

Water filtration system for Kenyan School

The Group provided a water filtration system for the Olpalagilagi School in the Maasai Mara in Kenya. The filtration system, which enables the school to filter its tank of spring water, was installed by the pupils of Gresham's school as part of a school trip.

ENERGY SAVING OPPORTUNITY SCHEME (ESOS)

The UK Government established ESOS to implement Article 8 (4-6) of the EU Energy Efficiency Directive (2012/27/EU). ESOS is the mandatory energy assessment scheme for larger organisations in the UK meeting the qualification criteria. The Environment Agency (EA) is the UK scheme administrator.

Porvair has completed all of the first audits and complied with the EA's 5 December 2015 submission deadline. Porvair will then be required to carry out further ESOS assessments every 4 years. Reports by the auditors will incorporate and include recommendations identifying opportunities for cost saving energy measures.

REACH

The first significant impacts of REACH (the European Union regulation concerning the Registration, Evaluation, Authorisation & restriction of Chemicals) will have an impact on some Porvair processes in 2016.

In preparation Porvair Filtration Group's Segensworth site has begun identifying and re-qualifying engineering approved replacement products for existing processes using Trichloroethylene (chlorinated solvent) and Alocrom 1200 (contains Chrome 6) both of which appear on the ECHA Annex XIV list and both products are due to be phased out within the next three years. New de-greasing equipment and cleaning product (Vertrel Sion) has been identified and is currently going through the procurement process. An alternative non Chrome 6 coating has been identified by some customers as being an acceptable alternative or replacement for Alocrom 1200 (SURTEC). In the Metals Filtration Division work has commenced on removing boric acid from the CSX formulation to meet the REACH regulations for product shipped to Europe.

Relationships with customers

The Group's products are generally bespoke for specific customers and generally have a very long product lifecycle. This naturally requires the Group to build close relationships with its customers. A high percentage of the Group's annual revenue comes from repeat business from existing customers. Most new product introductions are developed with existing customers and when new customers are gained it is often after a long development period over which a close relationship has developed and a long term relationship is expected.

Particularly in aerospace and energy, the Group builds relationships with the immediate customer for the product and also with the ultimate end user or manufacturer, who is often the party that certifies the product. For example the airframe manufacturer will be an important stakeholder but the customer will usually be a sub assembly manufacturer.

Relationships with suppliers

The Group has an extensive network of suppliers and sub contractors, many of whom are critical to the manufacture of specific parts. The Group has a stable supplier base. It seeks to increase its supplier base by extending the number of suppliers only where there are perceived to be risks of under capacity or

resilience in its existing supply chain. Suppliers are generally only removed from the approved list for persistent quality or delivery failures.

Wherever possible, the Group seeks local suppliers to fulfil its requirements. The Group carefully selects its suppliers. As part of building a long term relationship with its critical suppliers, the Group works closely with them to ensure that the quality and delivery standards required by the Group are achieved.

Anti-bribery and corruption policy

The Group seeks to prohibit all forms of bribery and corruption within its business and complies with the requirements of all applicable laws designed to combat bribery and corruption. The Group requires all employees, agents, intermediaries and consultants to conduct themselves in accordance with the Group's anti-bribery and corruption policy. The Group conducts an annual compliance review and periodically provides training for its staff who have contact with customers and suppliers.

Porvair and the local community

The management of each operation is aware of its role within its local communities. They seek to recruit locally and retain a skilled local workforce and are encouraged to build relationships with local community organisations.

Metals Filtration supports the United Way of Henderson County (UWHC); employees make payroll deductions to donate to the charity and the Group contributes as well. In addition, a number of employees participate in the UWHC Day of Caring, working on projects to repair homes and provide facilities for the disadvantaged in the community.

Metals Filtration has several employees who are active in a mentoring programme, Big Brothers, Big Sisters, in Henderson County, which provides support for the children of single parent families.

The Group is a significant employer in the Caribou area and one of the few businesses in the area to be expanding its workforce. It maintains close relations with the local mayor's office and has joined programmes to promote local businesses and services in the area.

The Group provided a water filtration system for the Olpalagilagi School in the Maasai Mara in Kenya. The filtration system, which enables the school to filter its tank of spring water, was installed by the pupils of Gresham's school as part of a school trip.

Human rights

The Group is aware of its requirements to respect human rights in all jurisdictions in which it operates. It pays particular attention to its responsibilities in its operations in China and India. The Group has nothing further to disclose.

Chris Tyler

Company Secretary
22 January 2016

Governance

Board of Directors

A strong and experienced Board

Charles Matthews OBE
Non-Executive Chairman

Appointed to the Board in January 2005.

Experience and external appointments: He became Chairman on 12 April 2006. He is also Chairman of U-pol Ltd, Beck & Pollitzer Ltd and African Petroleum Corp Ltd. Charles was previously Non-Executive Director of FKI plc, Chief Executive of Cosworth, Managing Director of Rolls Royce and Bentley Motor Cars and a member of the Vickers Group plc Executive Board.

Committee membership: Chairman of the Nomination Committee and member of the Audit and Remuneration Committees.

Paul Dean
Non-Executive Director

Appointed to the Board in August 2012.

Experience and external appointments: He is a Non-Executive Director and Chair of the Audit Committee of Wincanton plc, Focusrite plc and Polypipe plc, where he is also the Senior Independent Director. He was Finance Director of Ultra Electronics plc from 2009 to 2013 having previously been Finance Director of Foseco from 2001. From 1989 to 2001, Paul held a number of senior finance roles in Burnah Castrol plc. He is a chartered management accountant.

Committee membership: Senior Independent Non-Executive Director, Chairman of the Audit Committee and member of the Remuneration and Nomination Committees.

Ben Stocks
Group Chief Executive

Appointed to the Board in February 1998.

Experience and external appointments: He was previously Managing Director of the Speciality Packaging Division of Carnaud Metal Box. He holds an MBA from INSEAD.

Committee membership: None.

Dr Krishnamurthy Rajagopal
Non-Executive Director

Appointed to the Board in April 2014.

Experience and external appointments: He is a Non-Executive Director of WS Atkins plc, Bodycote plc, e2v technologies plc and Spirax-Sarco Engineering plc. He is Chairman of UMI3 Ltd and HHV Pumps Ltd. He was an executive director of the BOC Group plc from 2000 until November 2006. He is a chartered mechanical engineer.

Committee membership: Chairman of the Remuneration Committee and member of the Audit and Nomination Committees.

Chris Tyler
Group Finance Director

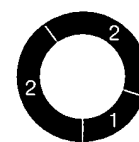
Appointed to the Board in September 2004.

Experience and external appointments: He had previously held a number of senior financial positions at Cable & Wireless, latterly as Chief Financial Officer of Cable & Wireless in the Caribbean. He is a chartered accountant. He is a Non-Executive Director of Plant Impact plc.

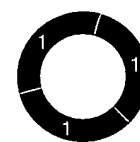
Committee membership: Group Company Secretary and Pension Scheme Trustee.

Board Committee Membership
as at 30 November 2015

	Audit Committee	Remuneration Committee	Nomination Committee
Charles Matthews	●	●	▲
Paul Dean	▲	●	●
Dr Krishnamurthy Rajagopal	●	▲	●
▲ Chairman ● Member			

Composition of the Board**Executive and Non-Executive Directors**

- Executive Directors
- Non-Executive Directors
- Non-Executive Chairman

Non-Executive Tenure

- 0 - 3 years
- 3 - 6 years
- 6 - 9 years

Audit Committee report: pages 45 to 46

Remuneration report: pages 47 to 58

Chairman's introduction to governance

Good corporate governance is an integral part of the success and reputation of the Group

Dear shareholder

The Board is committed to maintaining very high standards of corporate governance and ensuring values and behaviours are consistent across the business. The Board expects steady and continuous improvement in the Group's governance procedures.

In the Governance section of this report the Board sets out the information, policies and procedures adopted by the Group to ensure compliance with the relevant governance codes and financial law. The Governance section includes the Directors' Report, the Corporate Governance Report, the Report of the Audit Committee and the Remuneration Report. It also includes a copy of the full text of the Remuneration Policy approved by shareholders at the Annual General Meeting in 2015.

The Board

There have been no changes to the Board in the year under review. The Board consists of three Non-Executive Directors and two Executive Directors. The Board provides strategic leadership and guidance with the aim of allowing the Executive team to develop the business profitably within the framework of risk management and compliance.

The Board has established three Committees to advise the Board:

- The Audit Committee advises the Board on matters relating to internal controls and financial reporting of the Group.
- The Remuneration Committee determines and recommends the framework and policy for the remuneration of the Executive Directors.
- The Nomination Committee provides a process and procedure for the appointment of new Directors.

Each Committee comprises all of the Non-Executive Directors.

Compliance with the Code

The Board complied with all aspects of the UK Corporate Governance code throughout the year ended 30 November 2015, with the exception of fixed terms of employment for Non-Executive Directors. However, all of the Directors offer themselves for re-election at each Annual General Meeting.

Developments in 2015

In 2015 the Group thoroughly revised its approach to risk management in response to the new Corporate Governance guidance. The new process has, so far, proved worthwhile and has led to a number of projects to improve the security and sustainability of the business. In the course of this work the Board has broadened its reviews beyond financial regulation to incorporate reviews of the other areas of regulation, including where its products and operations are subject to specific industry, environmental and safety regulations.

In 2015, the shareholder's approved the introduction of an Employee Benefit Trust. Future awards of Long Term Incentive Plan Shares will be funded through this Trust reducing the dilution impact on shareholders of the share incentives offered to our senior executives.

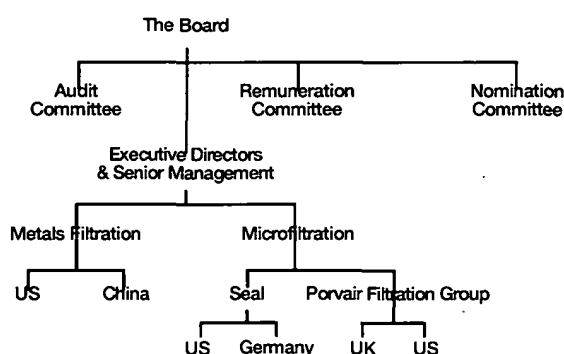
Having received approval for the Group's Remuneration Policy at the AGM in 2015, the Group intends to operate within the framework set out in that policy for the next three years and accordingly, the policy will not be put to a shareholder vote at the AGM in 2016.

Charles Matthews OBE

Chairman

22 January 2016

Governance structure



Code principles

Leadership

Continued close focus on strategy and its execution.

Effectiveness

A strong, open and effective Board.

Accountability

Close scrutiny of risks and controls.

Remuneration

Prudent oversight of Executive remuneration.

Relations with shareholders

Open engagement with shareholders.

Governance

Directors' report

The Directors are pleased to present their Annual Report and the audited accounts of the Group for the year ended 30 November 2015.

The Company

Porvair plc is a public limited company incorporated in England and Wales and domiciled in the UK with a listing on the London Stock Exchange under the symbol PRV. The address of its registered office is 7 Regis Place, Bergen Way, King's Lynn, Norfolk PE30 2JN.

Business review

The business review is covered in the Strategic report. The Group's strategy, objectives, key performance indicators, likely future developments and risks and uncertainties are discussed throughout the report.

Dividends

An interim dividend of 1.3 pence per share (2014: 1.2 pence per share) was paid on 4 September 2015. The Directors recommend the payment of a final dividend of 2.2 pence per share (2014: 2.0 pence per share) on 3 June 2016 to shareholders on the register on 29 April 2016; the ex-dividend date is 28 April 2016. This makes a total dividend for the year of 3.5 pence per share (2014: 3.2 pence per share).

Directors and their interests

The names and biographical details of the Directors are set out on page 36. All the Directors served throughout the year. In accordance with best practice, it is the Board's intention that all Directors should offer themselves for re-election each year.

The appointment and replacement of Directors is governed by the Articles, the Companies Act 2006, the UK Corporate Governance Code and related regulation and legislation applying to UK listed companies. The Articles require there to be a minimum of three Directors (and permit a maximum of 15) and provide that the business of the Company shall be managed by the Board of Directors which may exercise all powers of the Company. The Board of Directors may make such arrangements as they see fit to delegate those powers except that the Board retains specific authority over the matters reserved for the Board, which are summarised in the Board of Directors section in the Corporate Governance report on page 42.

During the year, and up to the date of this report, the Group maintained insurance providing liability cover for its Directors.

Details of all the beneficial and non-beneficial interests of the Directors in the shares of the Company, share options and service contracts are set out in the Remuneration report on pages 47 to 58. None of the Directors had a material interest in any contract of significance in relation to the Company or its subsidiaries during the year.

There are no agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment in the event of a takeover of the Company.

The Company has in place procedures to deal with conflicts of interest. The Company follows the guidance on conflicts of interest issued by the Association of General Counsel and Company Secretaries of the FTSE.

Research and development

The Group continues to undertake a research and development programme with the objective of identifying and developing new materials and products which have the potential to contribute to the growth of the Group. The cost to the Group in the year under review was £3.2 million (2014: £3.2 million), which was written off to the income statement and no development expenditure was capitalised in the year or the preceding year. The expenditure is of a development nature and is largely undertaken in-house rather than by third parties.

Greenhouse gas emissions

The disclosure of the Group's greenhouse gas emissions is given in the Corporate and social responsibility report on page 34, which forms part of this report and is incorporated into it by cross reference.

Share capital

The Company has one class of ordinary share capital which carries no right to fixed income. All of the Company's shares in issue are fully paid and each share carries the right to vote at general meetings of the Company. During the year, the Company issued 460,221 shares to satisfy the exercise of share options.

Further details of the share capital of the Company are given in note 21 to the financial statements.

There are no specific restrictions on the size of a holding in the Company nor on the transfer of shares, which are both governed by the provisions of the Articles and prevailing regulation and legislation governing UK listed companies. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on voting rights. No person has special rights of control over the Company's share capital.

Each year the Board seeks shareholder approval to renew the Board's authority to allot relevant securities and to purchase its own shares.

Contracts

The Company is a party to a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, banking agreements, property lease arrangements and employee share plans.

Substantial shareholders

As at 22 January 2016, the Company has been notified of the following substantial shareholdings comprising 3% or more of the issued share capital of the Company.

	Ordinary shares (number)	Percentage (%)
GGG Spa	7,341,427	16.4
M&G Group Limited	5,642,724	12.6
Alliance Trust plc	4,003,414	8.9
Impax Environmental plc	2,607,044	5.8
AXA Investment Managers	2,599,000	5.8

Corporate governance

The Company's statement on corporate governance can be found in the Corporate governance report on pages 42 to 44 of these financial statements. The Corporate governance report forms part of this Directors' report and is incorporated into it by cross-reference.

Employment policies

The Group's employment policies are described in the Corporate and social responsibility report on page 30, which forms part of this report and is incorporated into it by cross reference.

Financial risk management

The Group's operations expose it to a variety of financial risks that include the effects of price risk, foreign exchange risk, credit risk, liquidity risk and interest rate cash flow risk. The Group has in place risk management procedures that seek to limit the adverse effects on the financial performance of the Group of these financial risks.

Given the size of the Group, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Company's finance department, which has a policy and procedures manual that sets out specific guidelines to manage interest rate risk and credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

Further details on the specific risks related to financial management and their mitigation are given on pages 24 to 28.

Acquisitions

On 29 June 2015 the Group, through its subsidiary Selee Corporation, purchased the trade and assets of Fiber Ceramics from Joy-Mark, Inc. The trade is the manufacture of specialist filters and is based in the USA. The total consideration is US\$509,000 (£324,000); US\$425,000 (£271,000) was paid by 30 November 2015, with the balance due by 31 December 2015. The purchase is accounted for as an acquisition. Acquisition-related costs of US\$27,000 (£18,000) have been charged to administrative expenses in the consolidated income statement in the year ended 30 November 2015.

Post balance sheet event

On 4 December 2015 the Group, through its subsidiary Porvair Filtration Group, Inc., purchased the trade and assets of the TEM Filter Company. The trade is the manufacture of specialist filters and is based in the USA. The total consideration is US\$4,888,000 (£3,236,000); US\$4,350,000 (£2,880,000) was paid on 4 December 2015, with the balance being contingent and due for payment before 31 May 2017. The direct costs of acquisition, which will be charged to the income statement, were US\$58,000 (£38,000).

Going concern

The Directors statement on going concern is incorporated in its review of viability and going concern on page 29.

Annual General Meeting

The Annual General Meeting of the Company is to be held on Tuesday 12 April 2016. The notice for this meeting and proxy forms have been sent to shareholders separately. The resolutions are:

Resolution 1 – To receive the Company's annual accounts for the year ended 30 November 2015.

Resolution 2 – Approval of the Directors' remuneration report.

Resolution 3 – To approve the final dividend of 2.2 pence per share.

Resolutions 4 to 8 – All of the Directors offer themselves for re-election. Brief biographies of the Directors are set out on page 36 of the Annual Report.

Resolution 9 – Re-appointment of PricewaterhouseCoopers LLP as auditors.

This will be the final year that PricewaterhouseCoopers LLP are proposed to be appointed as auditors. The Group intends to put its audit out to tender in late 2016 with a view to having new auditors in place to take up the role after sign off of the 2016 accounts but prior to the notice of the 2017 Annual General Meeting.

Resolutions 10 and 11 – Directors' authority to allot shares (ordinary resolution) and disapply pre-emption rights (special resolution).

Resolution 10 authorises the Directors to allot shares under section 551 of the Companies Act 2006. Paragraph 11.1 gives the Directors customary authority to allot ordinary shares or grant such subscription or conversion rights as are contemplated by sections 551(1)(a) and (b) respectively of the Companies Act 2006 up to an aggregate nominal amount of £298,823, being an amount equal to one third of the Company's issued share capital as at 22 January 2016. As at 22 January 2016, the Company did not hold any treasury shares.

The authorities granted under Resolution 10 shall expire at the next Annual General Meeting of the Company. Resolution 10 replaces a similar resolution passed at the Annual General Meeting of the Company held on 14 April 2015.

If the Directors wish to allot shares or other equity securities for cash or sell any shares which the Company holds in treasury, following a purchase of its own shares pursuant to the authority in Resolution 11, the Companies Act 2006 requires that such shares or other equity securities are offered first to existing shareholders in proportion to their existing holding. Resolution 11 asks shareholders to grant the Directors authority to allot equity securities or sell treasury shares for cash up to an aggregate nominal value of £44,823 (being 5% of the Company's issued ordinary share capital as at 22 January 2016); without first offering the securities to existing shareholders.

Directors' report continued

The resolution also disapplies the statutory pre-emption provisions in connection with a rights issue and allows the Directors, in the case of a rights issue, to make appropriate arrangements in relation to fractional entitlements or other legal or practical problems which might arise. The Directors confirm that they do not intend to issue in excess of 7.5% of the Company's issued ordinary share capital within any rolling three year period without prior consultation with shareholders. The authority will expire at the next Annual General Meeting of the Company.

Resolution 12 – Purchases of own shares by the Company (special resolution).

Resolution 12 to be proposed at the Annual General Meeting seeks authority from shareholders for the Company to make market purchases of its own ordinary shares, such authority being limited to the purchase of 10% of the ordinary shares in issue as at 22 January 2016. The maximum price payable for the purchase by the Company of its own ordinary shares will be limited to the higher of (i) 5% above the average of the middle market quotations of the Company's ordinary shares, as derived from the Daily Official List of the London Stock Exchange, for the five business days prior to the purchase and (ii) the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System SETS. The minimum price payable by the Company for the purchase of its own ordinary shares will be 2 pence per share (being the nominal value of an ordinary share). The authority to purchase the Company's own ordinary shares will only be exercised if the Directors consider that there is likely to be a beneficial impact on earnings per ordinary share and that it is in the best interests of the Company at the time. The resolution renews a similar resolution passed at the Annual General Meeting of the Company held on 14 April 2015. Any ordinary shares so purchased by the Company will be held in treasury by the Company and will remain in issue and be capable of being re-sold by the Company or used in connection with certain of its share schemes.

To understand the impact of dilution, options to subscribe for up to 1,162,011 ordinary shares have been granted and are outstanding as at 22 January 2016 (being the latest practicable date prior to publication of this document) which if issued would represent 2.53% of the issued ordinary share capital at that date. If the Directors were to exercise in full the power for which they are seeking authority under Resolution 12, the options outstanding as at 22 January 2016 would represent 2.8% of the ordinary share capital (excluding shares held in treasury) in issue following such exercise.

Resolution 13 – Calling of general meetings (special resolution).

Resolution 13 to be proposed at the Annual General Meeting seeks authority from shareholders to hold general meetings (other than Annual General Meetings) on 14 days' clear notice. This is permissible under the Articles and the Companies Act 2006. However, pursuant to the EU Shareholders' Rights Directive, the Company must offer the facility, accessible to all shareholders, to vote by electronic means and must obtain specific shareholder approval on an annual basis to retain this ability. The Directors believe that there may be circumstances in which it will be in the interests of the Company to be able to convene meetings at such short notice. The shorter notice period would not be used as a matter of course, but only where it is merited by the business of the meeting and is thought to be to the advantage of the shareholders as a whole. Accordingly, the Directors believe that it is important for the Company to retain this flexibility. Resolution 12 renews a similar resolution passed at the Annual General Meeting of the Company held on 14 April 2015.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, 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 (IFRSs) as adopted by the European Union and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively; 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on page 36 confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic report and the Directors' report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

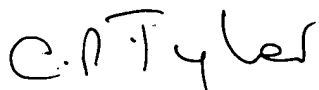
Directors' responsibility for provision of information to the auditors

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

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their re-appointment will be put to the Annual General Meeting.

By order of the Board



Chris Tyler
Company Secretary
22 January 2016

Corporate governance

Compliance

The following sets out the main principles of good governance in the 2014 UK Corporate Governance Code that have been followed by the Board and how those principles have been applied. The Directors are of the opinion that the Company has complied with the provisions of the UK Corporate Governance Code (which is publicly available at www.frc.org) throughout the year except:

- The Non-Executive Directors do not have a specific period for their appointment.

Reasons for its non-compliance are set out below.

Role of the Board

The Group is directed and controlled by the Board. It provides strategic leadership and support with the aim of developing the business profitably, whilst at the same time assessing and managing the associated risks. The Board ensures that the financial management, controls and resources are in place to enable the business to meet its objectives. The Directors take collective responsibility for the Group's performance.

The Board has a formal schedule for reviewing the Group's operating performance and has other specific responsibilities reserved to it, which include:

- Approval of the published financial results and dividends;
- Appointments to the Board and other Board committees;
- Approval of the strategic direction of the business;
- Approval of expenditure over certain limits;
- Approval for acquisitions and disposals;
- Approval of treasury policy and significant new financing; and
- Approval of the funding policies of the defined benefit pension scheme.

The Chairman is responsible for leadership of the Board. The responsibilities of the Chairman are set out clearly in a written document approved by the Board.

The Executive Directors manage the day to day operations of the business within the framework set out by the Board. Outside the formal schedule of Board meetings the Chairman and Non-Executive Directors make themselves available for consultation with the Executive team as necessary.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters.

The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The Board has a schedule of seven pre-arranged meetings during the year. In addition, such other meetings as are required are arranged to deal with specific issues or transactions. During the year there was full attendance at all pre-arranged Board meetings, except that Dr Krishnamurthy Rajagopal was unavailable for one meeting.

The Board undertook a rigorous self assessment review during the year to consider its own performance. The procedures included individual interviews by the Chairman with each Director, completion of an assessment form and discussion of the findings at a Board meeting. The Senior Independent Non-Executive Director maintains regular contact with the other Independent Non-Executive Directors and the Executive Directors, sufficient to monitor the performance of the Chairman. The Chairman, in consultation with the Executive Directors, monitors the performance of the Non-Executive Directors.

Board of Directors

The Board consists of five Directors; two Executive Directors and three Non-Executive Directors, including the Chairman. The Board is chaired by Charles Matthews. Ben Stocks is the Group Chief Executive and Chris Tyler is the Group Finance Director. Paul Dean, Charles Matthews and Dr Krishnamurthy Rajagopal are Independent Non-Executive Directors. Paul Dean is the Senior Independent Non-Executive Director. The Board considers that Charles Matthews continues to be an Independent Non-Executive Director after his appointment as Chairman. Notwithstanding the fact that he has been a Director on the Board for a period in excess of nine years he continues to be independent in character and judgement.

The Directors' appointment and removal is a matter for the Board as a whole. The Senior Non-Executive Director is available for consultation with shareholders through the Company Secretary, by written submission. The Executive Directors and the Chairman have met with the Company's major shareholders and other potential investors on a regular basis and have reported to the Board on those meetings.

The Non-Executive Directors' terms of appointment do not specify a specific period for their appointment and therefore the terms are not in compliance with provision B.2.3 of the UK Corporate Governance Code. However, in accordance with best practice all of the Directors offer themselves for re-election at each Annual General Meeting. All newly appointed Directors offer themselves for election at the first Annual General Meeting following their appointment. The Chairman has conducted interviews and assessments with each Director and the performance of the Executive Directors has been considered in detail by the Remuneration Committee. The Senior Non-Executive Director has reviewed the performance of the Chairman in consultation with the other Directors. The Chairman considers that, following the application of the Board's formal performance evaluation programme, each Director's performance continues to be effective and each Director has demonstrated commitment to his role. On joining the Board a new Director receives appropriate induction including meeting with other Directors, visiting the Group's principal operations and meeting with senior management and the Group's principal advisers.

The Board has put in place a procedure by which any Director may take independent professional advice at the expense of the Company in furtherance of his duties as a Director of the Company.

The Company maintains Directors' and Officers' liability insurance.

Board Committees

Audit Committee

The Board has established an Audit Committee to review and advise the Board on matters relating to the internal controls and financial reporting of the Group.

The Audit Committee currently comprises all of the Independent Non-Executive Directors of the Company. The Chairman of the Audit Committee is Paul Dean. The Committee includes Charles Matthews, the Chairman of the Company. The Board considers that all members of the Audit Committee have recent and relevant financial experience to enable it to discharge its function.

The Report of the Audit Committee on page 45 includes details of the Audit Committee's remit, scope of work in the year and related judgements.

The Audit Committee met three times during the year. There was full attendance by the members, except for Dr Krishnamurthy Rajagopal who was unavailable for one meeting.

The Audit Committee's full terms of reference are available on the Group's website, www.porvair.com.

Remuneration Committee

The Remuneration Committee determines and recommends to the Board the framework or broad policy for the remuneration and long term incentive arrangements of the Company's Executive Directors. The Remuneration Committee comprises all of the independent Non-Executive Directors of the Company. Dr Krishnamurthy Rajagopal is the Chairman of the Committee. The Group Chief Executive may be invited to attend and speak at meetings of the Remuneration Committee, but does not participate in any matter which impacts upon his own remuneration arrangements. The remuneration of the Non-Executive Directors, including the Chairman, is set by the Executive Directors.

The Remuneration report on pages 47 to 58 includes details on remuneration policy, practices and the remuneration of the Directors.

The Remuneration Committee met twice during the year and was fully attended by all of its members.

The Remuneration Committee's full terms of reference are available on the Group's website, www.porvair.com.

Nomination Committee

The Company's Nomination Committee provides a transparent process and procedure for the appointment of new Directors to the Board. The Nomination Committee comprises all of the Non-Executive Directors and is chaired by the Chairman of the Company. The Nomination Committee's responsibilities include:

- identifying and nominating candidates to fill Board vacancies;
- evaluating the balance of skills, knowledge and experience on the Board and the leadership needs of the organisation; and
- succession planning.

The Company recognises the importance of diversity on the Board and throughout the executive functions within the business.

As the Group has grown over the last few years the Board has decided now would be the right time to strengthen the Board with the addition of one further Non-Executive Director. A search will be undertaken in 2016.

The Nomination Committee did not meet during the year, however the Group's leadership and succession planning was considered in a meeting of the full Board.

The Nomination Committee's full terms of reference are available on the Group's website, www.porvair.com.

Takeover Directive

Disclosures relating to the Takeover Directive are included in the Directors' Report (under "Share capital") on page 38.

Internal control

The Board has overall responsibility for ensuring that the Group maintains a system of internal controls and for reviewing its effectiveness. The system is not designed to eliminate the risk that the Group's objectives will not be achieved but to ensure that there is an ongoing process for identifying, evaluating and managing the significant risks. As with any such system, it can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has reviewed the effectiveness of the process regularly throughout the year. The Group's key procedures are as follows:

Control environment – each operating business has its own management group which meets regularly to monitor operational matters. Each operating business is responsible for establishing its own system of internal controls and for ensuring compliance with those controls. The Managing Director of each operating business reports to the Group Chief Executive, and clearly defined lines of responsibility have been established within this organisational structure. The senior finance executive in each operation has a dual responsibility to report within their operation to the Managing Director and to the Group Finance Director. The Executive Directors visit all operations regularly to perform detailed reviews.

Governance

Corporate governance continued

Risk management – operating business management have a clear responsibility for the identification of risks facing each operation, and for establishing procedures to investigate and monitor such risks. The Board reviews a group register of risks and mitigation on a regular basis as part of its normal Board reporting. The Board also commissions independent reviews of the key risks facing the Group as appropriate. Full details of the Group's risk management processes are given in the section on Principal risks and uncertainties on page 24.

Information and control systems – provide management with regular and reliable management information. The Group has a comprehensive process of annual budgets, target setting, and detailed monthly reporting. The annual budget of each operating business and the consolidated Group budget are approved by the Board as part of its normal responsibilities. Each operation produces full monthly management accounts, which are consolidated at a Group level. The Executive management team review the performance with the operations' management. The Board receives copies of the monthly management accounts for each month and the performance of the Group is reviewed in detail at each Board meeting.

Monitoring system – the Board has established a framework of controls encompassing procedures applicable to all businesses that are subject to executive review. The Group operates a self-assessment process so that the operating businesses can quantify the extent of their compliance with control objectives. Each separate accounting entity completes an annual self assessment questionnaire which highlights areas where control improvements could be made. The results of these control questionnaires are reviewed with senior management and new controls are implemented as necessary.

The Group operates an internal audit cycle conducted by peer reviews by the Group's financial controllers. The scope of the reviews to be conducted each year is agreed in advance with the Audit Committee and the formal reports on each review are considered by the Audit Committee. The Audit Committee considers the Group's internal audit arrangements to provide an acceptable level of review and to be appropriate for the current size of the business.

The Group has a formal whistleblowing procedure which gives employees the opportunity to escalate their concerns, ultimately to the Senior Non-Executive Director. The Group had one incident reported under the Group's whistleblowing policy in 2015. It has been investigated, appropriately resolved and the progress and outcomes were reported in full to the Board.

Consolidation process – full management accounts for each entity in the Group are consolidated each month and review and analysis is carried out on those results. These consolidated accounts form the basis of reports that are provided to Board members every month.

The Audit Committee and the Board have reviewed the effectiveness of the Group's internal controls for the period 1 December 2014 up to the date of approval of the Annual Report and Accounts and have addressed issues as they have been identified.

Chris Tyler
Company Secretary
22 January 2016

Report of the Audit Committee

Statement by the Chairman of the Audit Committee

The Committee's role is to assist the Board by reviewing: the integrity of the Group's financial reporting; the quality of the external and internal audit review processes; the appropriateness of the Group's internal controls; and compliance with a range of financial, governance and other compliance issues.

The Committee has had a particular focus in the year on the Group's implementation of the revised corporate governance code, its internal auditing reviews and the assessment of the Group's internal controls and the control and reporting of the larger projects. The Committee has been pleased to see a sound implementation of the guidance on risk management and viability and a steady improvement in other areas.

Paul Dean

Chairman of the Audit Committee
22 January 2016

Report of the Audit Committee

The Audit Committee has a formal timetable of meetings. Representatives of the Group's auditors, PricewaterhouseCoopers LLP, attend meetings by invitation. Other employees of the Company may be invited to attend meetings as and when required.

The Committee has a formal agenda, timetable and terms of reference. The Committee met three times in the year.

Two of those meetings were held prior to the Board meetings to approve the announcement of the Group's full year and interim announcements to consider the financial reporting judgements made by the management. Its deliberations are informed by accounting papers and financial reports prepared by management and reviews prepared by the Group's auditors.

The particular areas of focus for the Committee in reviewing the judgements underlying the financial statements this year are:

Accounting for large contracts

The Group has four large long term contracts in the Microfiltration division, which contributed to the results in 2015. There are three gasification contracts, one for POSCO in South Korea, one for Reliance in India and one for CNOOC in China and a UK government nuclear remediation contract. These contracts account for £5.5 million revenue in the year.

The revenue recognised in the period is calculated by taking a share of the revenue expected on the whole contract as a ratio of the costs incurred in the period as a proportion of the total estimated costs of the contract. A significant element of the total estimated costs on the contract relate to future cost estimates for potential issues arising during assembly, warranty and late delivery risks.

The Board receives monthly updates on the progress of these contracts, which highlight the technical, performance and delivery challenges arising on each project. In addition, the Committee has reviewed reports from management detailing

the future potential risks in these contracts and the estimates that have been made for the resulting future costs provided. The Committee considers that the future costs provided represent a reasonable assessment of the potential costs to be incurred.

Defined benefit pension plan liability

The Group has a defined benefit pension plan net liability of £11.9 million and incurs costs of £1.0 million per annum in funding the plan, which is significant in the context of the results of the Group.

The valuation of the pension liability and the calculation of the costs of funding the plan require significant judgement and technical expertise. The Group has employed KPMG, the Group's pension advisers, to assist in the selection of assumptions to value the plan. The Committee has reviewed the basis for the assumptions including: salary increases, inflation, discount rates, expected rates of return on the plan assets and mortality rates and considers these to be reasonable and consistently applied.

Other areas of focus

The Committee also reported to the Board that it considered that, taken as a whole, the 2015 Annual Report was fair, balanced and understandable and included the necessary information to assess the performance, business model and strategy of the Group.

In addition to its work reviewing the Group's financial statements, the Committee has:

- reviewed announcements relating to the financial performance and reviewed significant financial reporting judgements contained therein;
- monitored the Group's internal financial controls and the Group's internal control and risk management systems and ensured that these are properly reviewed by the Group's management in line with the procedures set out on page 44;
- reviewed the scope of the internal audit work done in assessing the operating companies' internal controls and procedures. The internal audit work is undertaken through a system of peer reviews by the Group's finance function. The Committee considers the Group to be too small to justify a dedicated internal audit function;
- made recommendations to the Board in relation to the appointment of the external auditor and agreed the remuneration and terms of engagement of the external auditor;
- monitored the external auditor's effectiveness, independence and objectivity. The Committee, in conjunction with management, considered the robustness of the audit process; the quality and timeliness of its delivery; the quality of the auditor's staff and reporting; and its value for money;
- reviewed arrangements by which staff of the Group may raise concerns about possible improprieties in matters of financial reporting or other matters;
- considered its own effectiveness and made recommendations to the Board for improvements where necessary; and
- reported to the Board on how it has discharged its responsibilities.

Report of the Audit Committee continued

The Audit Committee has set a policy which is intended to maintain the independence and objectivity of the Company's auditors when acting as auditor of the Group accounts. The policy governs the provision of audit and non-audit services provided by the auditor and, in summary, requires significant non-audit related services to be subjected to a competitive tendering process and approved by the Committee. The fees paid to the auditor for audit services, audit related services and other non-audit services are set out in note 3 of the consolidated financial statements.

The audit has always been conducted by PricewaterhouseCoopers LLP or its predecessor firms and has not been the subject of a competitive tender. The Audit Committee do, however, carefully consider the reappointment of the auditors each year, and whether a tendering process is appropriate prior to making their recommendation to the shareholders. It is recognised that the new EU rules will require the Group to change its auditors before 2020. The Audit Committee has considered this requirement and has decided that this will be the final year that PricewaterhouseCoopers LLP are proposed to be appointed as auditors. The Group intends to put its audit out to tender in late 2016 with a view to having new auditors in place to take up the role after sign off of the 2016 accounts but prior to the notice of the 2017 Annual General Meeting. New auditors should therefore be in place in time to complete the interim review of the results for the six months ending 31 May 2017 and the subsequent audit for the year ending 30 November 2017.

The auditors do not provide the Group's tax services and there are no other significant services provided by the Group's auditors.

The Audit Committee is authorised to engage the services of external advisers, as it deems necessary, at the Company's expense in order to carry out its function.

The Audit Committee's full terms of reference are available on the Group's website, www.porvair.com.

Remuneration report

Annual Statement by the Chairman of the Remuneration Committee ("the Committee")

On behalf of the Board, I am pleased to present our Remuneration report for 2015. In line with the Government (Department for Business, Innovation and Skills) reporting regulations on Directors' pay, introduced in October 2013, this report has been split into three sections:

- A statement by the Chairman of the Committee;
- An annual report on remuneration – that discloses how the current remuneration policy has been implemented during the year ended 30 November 2015; and
- A policy statement – that sets out the components of the Company's remuneration policy as approved at the Company's 2015 Annual General Meeting.

We will seek your support for the annual report on remuneration, in the form of an advisory vote at the AGM in April 2016. The remuneration policy which was approved at the 2015 AGM remains in force and will not be subject to a resolution at the 2016 AGM.

We would like to thank shareholders for their support of the 2014 Remuneration report. At the AGM on 8 April 2015, the advisory vote on the 2014 Directors' remuneration report received almost 100% of the votes in favour and the binding vote on the 2014 Remuneration Policy received 95% of the votes in favour.

The Committee's remit is to set policies and levels of remuneration to encourage actions by management that are in the long term interests of the Company and its shareholders.

Porvair's strategy, as stated in the section, "Strategy and business model" of the Annual Report is to generate shareholder value through the development of specialist filtration and environmental technology businesses, both organically and by acquisition. Success of the strategy is measured by growth and cash generated from operations over the short and long term. The annual bonus is based on cash generated from operations as well as achievement of strategic objectives. Growth, measured by growth in earnings per share, is rewarded through the long term incentive award.

In the past two years the cash generation performance of the Group has been exceptional. £12.9 million of adjusted operating cash (less interest) was generated in the year, exceeding the budget by £2.0 million. This resulted in the financial component of the annual bonus being awarded in full (60% of base salary). Significant progress was made towards the agreed strategic objectives, resulting in 13% of the available 15% of base salary for the non-financial component of the bonus being awarded.

Earnings per share have grown by over 50% over the last three years such that the maximum requirement for 100% vesting of the long term incentive award that matures in February 2016 was met.

During the year the Committee sought to:

- Set Executive Directors' remuneration at levels to incentivise and reward excellent performance in line with the long term interests of the Company and its staff and shareholders;
- Maintain a substantial proportion of total remuneration as performance related; and
- Enable the Executive Directors, through excellent performance, to attain and keep a substantial shareholding in the business.

The principal changes to Director Remuneration in the year are:

- The introduction of an Employee Benefit Trust, approved at the 2015 AGM, which will in future reduce the dilution of existing shareholders when option and incentive share awards are settled by making market purchases to settle option awards.

Dr Krishnamurthy Rajagopal

Chairman of the Remuneration Committee
22 January 2016

Remuneration report continued

ANNUAL REPORT ON REMUNERATION

This report complies with the UK Corporate Governance Code published in September 2014 (the "UK Corporate Governance Code") and other relevant regulation, including the remuneration reporting regulations (The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013) (the "Remuneration Regulations"). It sets out the Group's remuneration policy and details of Directors' remuneration. A resolution to approve this report will be proposed at the Annual General Meeting in April 2016.

The Committee

The members of the Remuneration Committee are drawn solely from the independent Non-Executive Directors. To be quorate the Committee is required to comprise at least two members. During the year, the Committee comprised Paul Dean, Charles Matthews and Dr Krishnamurthy Rajagopal. Dr Krishnamurthy Rajagopal is the Chairman.

The Committee uses external published benchmark data to guide its deliberations.

The Committee also has an advisory role in relation to major changes in employee benefit structures throughout the Company and the Group.

INFORMATION REQUIRED TO BE AUDITED

Summary of Executive Directors' remuneration packages

The Executive Directors' remuneration packages consist of: a base salary; a discretionary annual cash bonus earned for the achievement of financial and non-financial objectives; the grant of share options and long term incentives with three year financial performance targets; and the provision of other benefits comprising pension benefits and cash allowance in lieu of pension benefits, a cash allowance in lieu of a company car, medical insurance and wellness benefits, life insurance and permanent health insurance.

Executive Directors' remuneration

The following table shows the total remuneration of the Executive Directors for the year:

	Basic salary and fees £'000	Taxable benefits £'000	Pension £'000	Annual bonus £'000	Long term incentives £'000	Total 2015 £'000
<i>Executive Directors</i>						
B D W Stocks	287	30	80	209	545	1,151
C P Tyler	201	26	42	147	380	796

	Basic salary and fees £'000	Taxable benefits £'000	Pension £'000	Annual bonus £'000	Long term incentives £'000	Total 2014 £'000
<i>Executive Directors</i>						
B D W Stocks	282	27	47	211	731	1,298
C P Tyler	196	26	37	147	509	915

In 2015 the Executive Directors incurred PAYE tax and national insurance contributions amounting to £1,034,000 (2014: £958,000) including amounts payable on the exercise of Long Term Incentive share options. On 1 December 2015 Ben Stocks and Chris Tyler were awarded an increase to their basic salary of 2% (2014: Ben Stocks 1.75%, Chris Tyler 2.5%). This salary rise was in line with the general salary rise awarded to all other employees.

Chris Tyler is a Non-Executive Director of Plant Impact plc. He was appointed on 1 May 2015. He receives £25,000 per annum in fees which he retains.

Benefits

Benefits for the Executive Directors comprise a cash allowance in lieu of a company car, medical insurance and wellness benefits, life insurance and permanent health insurance. Life assurance benefits covering a lump sum of four times salary on death in service and a 20% of salary spouse's pension are provided through the Porvair Pension Plan. The Executive Directors are covered by the Group's permanent health insurance scheme.

Pension entitlements

The Porvair plc Pension and Death Benefit Plan ("the Plan") is a contributory defined benefit scheme, which is now closed to new employees. Pension benefits from the Plan were subject to the HMRC earnings cap and the Group has continued to maintain an earnings cap since the HMRC limits were removed in April 2006.

Pension benefits up to the capped limit of £144,000 were provided in the period for Ben Stocks by the Plan. Ben Stocks is entitled to the same pension benefits from the Plan as all other members. The Plan has a normal retirement age of 65. Only basic salary is pensionable. Ben Stocks was aged 53 on 30 November 2015. In the event that he retires early he may, at the discretion of the Trustees of the Plan, apply to draw a reduced pension. There is no actuarial benefit to the individual to retiring early.

Ben Stocks also received a 15% contribution to a Self Invested Pension Plan ("SIPP") on the difference between his full salary and the capped limit covered by the Plan in the period until 31 March 2014, thereafter he received 21% additional salary on the difference between his full salary and the capped limit in lieu of pension benefits. This additional salary is not included in calculations for annual bonus or Long Term Share Plan awards.

Pension benefits were provided for Chris Tyler by a contribution of 15% of full salary to a SIPP until 31 March 2014, thereafter he received 21% additional salary in lieu of pension benefits. This additional salary is not included in calculations for annual bonus or Long Term Share Plan awards.

The change in the Executive Directors' pension entitlements in the prior year was made to ensure that the pension component of the Directors' emoluments remained competitive.

Annual bonus

Bonus payments to Executive Directors are made at the discretion of the Committee for achievement of Group financial performance targets and strategic objectives. In 2014 and 2015, awards were capped at 75% of base salary. Up to 60% may be paid on achievement of financial performance targets and up to 15% on achievement of strategic objectives. Bonuses are not pensionable but may be paid directly into the Executive Directors' pension schemes if requested.

The table below shows the targets set for 2015:

Target	Target at operating plan level	Target for maximum payout	% salary awarded for operating plan achievement	% salary awarded for maximum achievement	Achieved	% of salary awarded
Adjusted operating cash flow less interest	£10.9m	£12.6m	20%	60%	£12.9m	60%
Strategic: Further development of the gasification business in Microfiltration and successful execution of the expansion plan for Metals Filtration in China.	N/A	N/A	0%	15%	See below	13%

In 2015 the Committee noted that the operating cash flow target for the maximum award had been exceeded. Significant progress was made in delivering the major gasification projects and preparing to service the operating installations. The new cast shop filtration production line was finished on time and to budget. Production commenced prior to the period end. Consequently the Committee awarded 13% of the available 15% of salary for the achievement of strategic objectives.

For 2016 awards will be capped at 75% of base salary. Up to 60% may be paid on achievement of financial performance targets, based on adjusted operating cash flow less interest, and up to 15% on achievement of strategic objectives. The targets for plan and maximum are £10.5 million and £12.2 million respectively. These are lower levels than the prior year because less cash is expected from the large projects. The Committee considers these targets to be more stretching than those of the previous year. Non financial targets will subjectively be based upon driving the Group to grow the US Microfiltration business, develop gasification services, grow Metals Filtration in China, grow bioscience and identify and secure suitable acquisitions.

Vesting of Long Term Share Plan

2014 vesting

Options granted in 2012 under the 2008 Scheme were exercisable in full if the Group achieved EPS of at least 14.0 pence per share in the financial year ended 30 November 2014 ('FY2014'). 30% of the award vested if the Group achieved EPS of 9.0 pence in FY2014. 50% of the award vested if the Group achieved EPS of 11.0 pence in FY2014. A sliding scale operated if the EPS were between 9.0 pence and 11.0 pence and between 11.0 pence and 14.0 pence. 100% of these options vested as a result of the performance in 2014. In the table of Executive Directors' remuneration these options were valued at 283 pence per share.

2015 vesting

Options granted in 2013 under the 2008 scheme were exercisable in full if the Group has achieved EPS of at least 15.5 pence in the financial year ended 30 November 2015 ('FY2015'). 30% of the award will vest if the Group has achieved EPS of 11.0 pence in FY2015. 50% of the award will vest if the Group has achieved EPS of 12.5 pence in FY2015. A sliding scale operates if the EPS are between 11.0 pence and 12.5 pence and between 12.5 pence and 15.5 pence. No shares vest if the EPS in FY2015 are below 11.0 pence. 100% of these options will vest as a result of the performance in the year. In the table of Executive Directors' remuneration these options were valued at 302 pence per share.

Share options and long term incentive plan shares

Awards of share options and long term incentive plan shares are at the discretion of the Committee.

The Company operates two discretionary share option plans:

- market priced options under The Porvair 2005 Unapproved Share Options Scheme (the '2005 Scheme'); and
- nominal priced options under the 2008 Scheme.

Both schemes provide options with a ten year life and are subject to vesting conditions after three years based on performance conditions set by the Committee.

Governance

Remuneration report continued

The Company also periodically offers invitations to all UK permanent employees to join Save As You Earn ('SAYE') schemes. Currently there are three year and five year schemes running following invitations in October 2011 and October 2014.

The maximum number of shares that may be issued under the Company's option schemes may not exceed 10% of the Company's issued share capital in any 10 year period. The maximum number of shares that may be issued under the 2005 scheme may not exceed 5% of the Company's issued share capital in any 10 year period.

The market price of the Company's ordinary shares at 30 November 2015 was 292 pence (2014: 254 pence).

The range of market prices during the year was 272 pence to 342 pence.

Directors' holdings in shares and share options

In awarding long term incentive shares to the Executive Directors, the Remuneration Committee encourages the Executive Directors to build up a holding of shares in the Company. The Committee prefers Executive Directors to hold the equivalent of at least the value of one year's base salary in Porvair shares. The Executive Directors have exceeded this guideline since April 2013.

The beneficial interests at 30 November 2015 and 30 November 2014 of the Directors and their connected persons in the ordinary shares of the Company are shown below. There have been no changes in those interests up to the date of this report.

	2015		2014	
	Ordinary shares (number)	Share options (number)	Ordinary shares (number)	Share options (number)
Executive Directors				
B D W Stocks	609,487	401,500	503,427	559,500
C P Tyler	392,450	297,498	342,450	407,498
Non-Executive Directors				
P Dean	5,000	—	5,000	—
C L Matthews	30,000	—	30,000	—
K Rajagopal	15,000	—	—	—

Details of the share options held by the Executive Directors at the end of the year, which have been granted under Porvair Share Option Schemes, are as follows:

	At 30 November 2014 (number)	Granted in the year (number)	Exercised in the year (number)	At 30 November 2015 (number)	Exercise price	Grant date	Exercisable from	Expiry date
B D W Stocks								
Vested								
2008	260,000	—	(260,000)	—	2p	02/02/2012	02/02/2015	02/02/2022
2008	181,600	—	—	181,600	2p	01/02/2013	01/02/2016	01/02/2023
Unvested								
2008	110,400	—	—	110,400	2p	30/01/2014	30/01/2017	30/01/2024
2008	—	102,000	—	102,000	2p	28/01/2015	28/01/2018	28/01/2025
SAYE	7,500	—	—	7,500	240p	01/10/2014	01/10/2017	01/04/2018
	559,500	102,000	(260,000)	401,500				
C P Tyler								
Vested								
2008	181,000	—	(181,000)	—	2p	02/02/2012	02/02/2015	02/02/2022
2008	126,600	—	—	126,600	2p	01/02/2013	01/02/2016	01/02/2023
Unvested								
SAYE	16,586	—	—	16,586	93p	01/10/2011	01/10/2016	01/04/2017
SAYE	6,312	—	—	6,312	240p	01/10/2014	01/10/2019	01/04/2020
2008	77,000	—	—	77,000	2p	30/01/2014	30/01/2017	30/01/2024
2008	—	71,000	—	71,000	2p	28/01/2015	28/01/2018	28/01/2025
	407,498	71,000	(181,000)	297,498				

Scheme interests awarded during the financial year

The table below sets out the options granted during 2014 and 2015:

	Date of grant	Scheme	Number	Exercise price	Share price used to value grant	Face value of grant £'000
B D W Stocks	30 January 2014	2008	110,400	2p	255p	282
	1 October 2014	SAYE	7,500	240p	240p	18
	28 January 2015	2008	102,000	2p	283p	289
C P Tyler	30 January 2014	2008	77,000	2p	255p	196
	1 October 2014	SAYE	6,312	240p	240p	15
	28 January 2015	2008	71,000	2p	283p	201

For performance over the three year period to 30 November 2018 the Committee has decided that Ben Stocks will be awarded 96,700 2 pence options and Chris Tyler will be awarded 67,900 2 pence options under the 2008 scheme immediately after the announcement of the Group's results. The share price used to value the grant was 302 pence.

The Long Term Share Plan shares granted in 2014 and 2015 were calculated to equal a year's salary for each Executive Director based on the average share price over the final quarter of the financial year ended 30 November 2013 and 30 November 2014, respectively. Future awards will be calculated on the same basis. The Long Term Share Plan shares are options issued at the nominal value of the Company's ordinary shares of 2 pence. The face value of the grants in 2014 and 2015 are determined from average share price over the final quarter of the financial years ended 30 November 2013 and 2014, respectively.

Performance conditions of the unvested share options

Options granted in 2014 under the 2008 scheme can only be exercised in full if the Committee is satisfied that in the financial year ending 30 November 2016 ('FY2016'), the Group has achieved EPS of at least 18.0 pence. 30% of the award will vest if the Group has achieved EPS of 13.5 pence in FY2016. 50% of the award will vest if the Group has achieved EPS of 15.0 pence in FY2016. A sliding scale will operate if the EPS are between 13.5 pence and 15.0 pence and between 15.0 pence and 18.0 pence. No shares vest if the EPS in FY2016 are below 13.5 pence.

Options granted in 2015 under the 2008 scheme can only be exercised in full if the Committee is satisfied that in the financial year ending 30 November 2017 ('FY2017'), the Group has achieved EPS of at least 20.0 pence. 30% of the award will vest if the Group has achieved EPS of 17.0 pence in FY2017. 50% of the award will vest if the Group has achieved EPS of 18.0 pence in FY2017. A sliding scale will operate if the EPS are between 17.0 pence and 18.0 pence and between 18.0 pence and 20.0 pence. No shares vest if the EPS in FY2017 are below 17.0 pence.

The Committee intends to grant options in 2016, after publication of these results, under the 2008 scheme, which can only be exercised in full if the Committee is satisfied that in the financial year ending 30 November 2018 ('FY2018'), the Group has achieved EPS of at least 21.1 pence. 30% of the award will vest if the Group has achieved EPS of 17.5 pence in FY2018. 50% of the award will vest if the Group has achieved EPS of 18.2 pence in FY2018. A sliding scale will operate if the EPS are between 17.5 pence and 18.2 pence and between 18.2 pence and 21.1 pence. No shares vest if the EPS in FY2018 are below 17.5 pence.

The options granted under the SAYE scheme in 2011 and 2014 were issued at a 20% discount to the market price at the date of grant. These options have no performance conditions.

Governance

Remuneration report continued

The table below sets out the options exercised during 2015:

	Date of exercise	Scheme	Number	Exercise price	Share price on date of exercise
B D W Stocks	2 February 2015	2008	260,000	2p	298.5p
C P Tyler	2 February 2015	2008	181,000	2p	298.5p

The table below sets out the options exercised during 2014:

	Date of exercise	Scheme	Number	Exercise price	Share price on date of exercise
B D W Stocks	31 January 2014	2008	250,000	2p	285p
	7 October 2014	SAYE	9,704	93p	287p
C P Tyler	31 January 2014	2008	175,000	2p	285p

The Executive Directors' total gain on the exercise of options in 2015 was £1.3 million before deduction of income tax and national insurance. On exercise, the Executive Directors sold some shares in part to fund the option acquisition costs and the related PAYE and national insurance costs. As a result of these option exercises Ben Stocks and Chris Tyler's holdings in shares in the Company increased by 100,000 shares and 50,000 shares, respectively.

The Executive Directors' total gain on the exercise of options in 2014 was £1.2 million before deduction of income tax and national insurance. On exercise, the Executive Directors sold some shares principally to fund the option acquisition costs and the related PAYE and national insurance costs. The remaining shares were retained. As a result of these option exercises Ben Stocks and Chris Tyler's holdings in shares in the Company increased by 59,704 shares and 90,000 shares, respectively.

Non-Executive Directors

The table below gives the salary and fees of the Non-Executive Directors:

	Basic salary and fees £'000
2015	
P Dean	34
C L Matthews	77
K Rajagopal	34
	145
2014	
P Dean	32
C L Matthews	76
K Rajagopal (appointed on 1 April 2014)	22
A J Walker (resigned on 8 April 2014)	11
	141

Payments to Directors leaving the Group

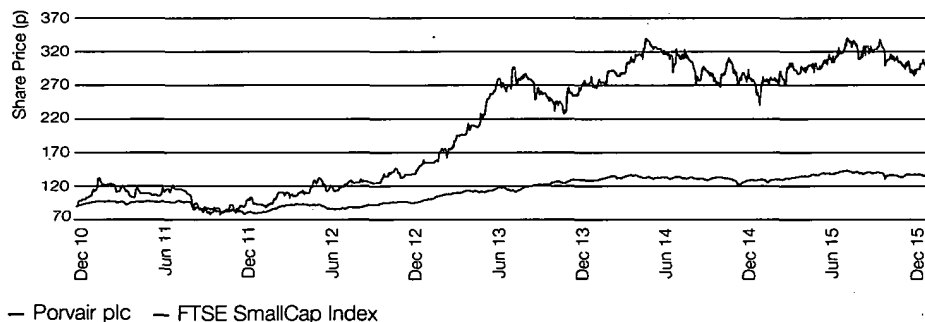
No payments (2014: £nil) were made during the year ended 30 November 2015 to any former director of the Company or any other Group company.

INFORMATION NOT REQUIRED TO BE AUDITED

Performance graph and table

The following graph charts total shareholder return against the FTSE SmallCap Index for the last five years. Given the size and nature of the Group, the FTSE SmallCap Index is the logical comparator index.

5 year total shareholder return



The table below shows the total remuneration for the Chief Executive Officer and the percentages of the maximum awards of performance related pay received over the past six years.

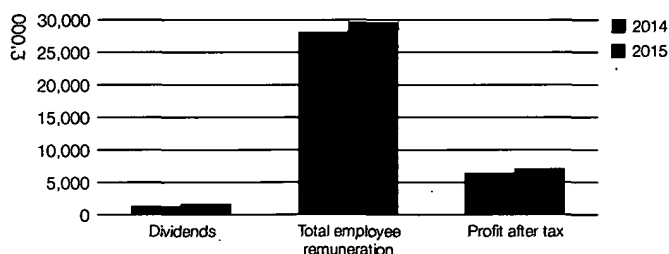
Year	CEO	Single figure total remuneration £'000	Annual variable element % of max	Long term incentives % of max
2015	Ben Stocks	1,151	97%	100%
2014	Ben Stocks	1,298	100%	100%
2013	Ben Stocks	1,169	97%	100%
2012	Ben Stocks	927	93%	92%
2011	Ben Stocks	518	100%	100%
2010	Ben Stocks	432	95%	0%
2009	Ben Stocks	337	0%	0%

Ben Stocks received a basic salary increase of 2% (2014: 1.75%) on 1 December 2015. This salary rise was in line with the general salary rise awarded to all other employees. The benefits and annual bonus limits for both Ben Stocks and all other UK employees remained in line with the prior year except as adjusted by the underlying salary increase.

Relative importance of spend on pay

As required by the Remuneration Regulations, the table below compares total staff remuneration with the amounts paid in dividends to shareholders and the profit after tax of the Group.

Relative spend on pay



Remuneration report continued

Statement of voting at the Annual General Meeting

A resolution to approve the Report of the Remuneration Committee included in the 2014 Report and Accounts was passed by the shareholders at the AGM on 14 April 2015. 99.91% of votes were cast in favour of the resolution. 0.09% of votes were cast against the resolution and 57,096 votes were withheld.

A resolution to approve the Remuneration Policy included in the 2014 Report and Accounts was passed by the shareholders at the AGM on 14 April 2015. 94.79% of votes were cast in favour of the resolution. 5.21% of votes were cast against the resolution and 4,244,866 votes were withheld.

A resolution to approve the Report of the Remuneration Committee included in the 2013 Report and Accounts was passed by the shareholders at the AGM on 8 April 2014. 99.10% of votes were cast in favour of the resolution. 0.90% of votes were cast against the resolution and 4,043,167 votes were withheld.

A resolution to approve the Remuneration Policy included in the 2013 Report and Accounts was passed by the shareholders at the AGM on 8 April 2014. 82.6% of votes were cast in favour of the resolution. 17.4% of votes were cast against the resolution and 4,203,681 votes were withheld.

Advisers to the Committee

During the year the Committee has reviewed published surveys of the remuneration of directors of similar sized companies but has not taken specific advice from remuneration consultants.

The Committee received input into its decision-making from reports prepared by the Executive Directors, none of whom were present at any time when their own remuneration was being considered.

On behalf of the Board

Dr Krishnamurthy Rajagopal

Chairman of the Remuneration Committee
22 January 2016

REMUNERATION POLICY AS APPROVED AT THE 2015 AGM

The Company is subject to the Remuneration Regulations. In formulating its policy the Committee has also given full consideration to the requirements of Section D of the UK Corporate Governance Code. In particular, the Remuneration Regulations require the Company to present a forward-looking remuneration policy setting out the Company's future policy on Directors' remuneration (including the Company's approach to exit payments) and certain additional disclosures regarding the Directors' remuneration.

The Committee's remuneration policy will be subject to a vote at the Annual General Meeting. In this forward looking section the Group's remuneration policies and potential future outcomes for each Executive Director and the Group's policy for rewarding Non-Executive Directors are described.

The Committee is responsible for determining:

- the framework for the remuneration of the Executive Directors;
- the overall remuneration package of each Executive Director including, if appropriate, bonuses, incentive payments and share options;
- the targets for any performance-related elements of the Executive Directors' remuneration;
- the policy for, and scope of, pension arrangements for each Executive Director; and
- the terms of recruitment and termination.

These policies and the individual elements of the reward package are reviewed each year to ensure that they remain in line with good practice and support the delivery of the Group's strategy.

The Committee aims to provide remuneration packages that:

- are competitive, but not excessive, and are designed to attract, retain and motivate managers of high quality to deliver growth for the business;
- are aligned with shareholders' interests and have a significant proportion of the potential remuneration linked to the short, medium and long term performance of the business;
- include an element of the potential reward linked to personal performance; and
- encourage the Executive Directors to accumulate shares in the Company.

The table below summarises the main components of the existing remuneration package for Executive Directors.

Remuneration component	Strategic objective	How the component operates	Performance measures applicable	Maximum and minimum payouts
Base salary	<ul style="list-style-type: none"> To attract and retain executives of high quality. 	<p>Initial salaries on joining or appointment to the role are set by reference to:</p> <ul style="list-style-type: none"> The level of skill and experience of the individual. The scope of responsibilities required in the role. Market comparators for similar roles in similar sized quoted businesses. <p>Salaries are reviewed annually and fixed for a twelve month period from 1 December each year. The rate of increase is influenced by:</p> <ul style="list-style-type: none"> The annual increase given to other UK employees. The current rate of CPI inflation. Market comparators for similar roles in similar sized quoted businesses. 	None.	<p>Salary increases will normally not exceed average salary increases across the Group.</p> <p>Increases above this level may be made in specific situations, such as progression and development in the role, material changes to the business, remit or responsibilities and internal promotion. In any event, any increase in salary to a current Executive Director will not exceed the competitive market range.</p> <p>In the event of the promotion of an existing Executive Director, for example the Finance Director becoming Chief Executive, the salary increase of the relevant Executive Director will not exceed the salary of the outgoing director holding that office.</p>
Annual bonus	<ul style="list-style-type: none"> To encourage and reward actions consistent with the near term (annual) priorities of the Group. To motivate and incentivise Executive Directors to deliver performance in the current financial year. 	<ul style="list-style-type: none"> Performance targets are set with reference to the Group's annual operating plan and strategic priorities for the year. Bonus payments include an element based on the financial performance of the Group in the year and an element based on the delivery of strategic targets. The annual bonus is not pensionable, however, at the Executive Directors' discretion, some or all of the bonus may be sacrificed into a pension scheme to which the Group adds 8% of the amount sacrificed. The bonus is paid after the announcement of the Group's annual results. The bonus is normally paid in cash. However, the Committee may direct that an agreed proportion of the post-tax annual bonus be paid in shares, where an Executive Director's shareholding is less than the Committee's preferred target shareholding in the Group. The annual bonus is subject to a claw back where there has been a material misstatement of results requiring a restatement of the accounts or there has been a material error in the calculation of the annual bonus entitlement. 	<p>Financial: set by the Committee in line with near term priorities for the Group, typically adjusted profit before tax or operating cash flow.</p> <p>Strategic: Two or three strategic targets based on the requirements of the Group's annual or three year operating plan.</p>	<p>The Remuneration Committee may increase the annual bonus up to a maximum of 100% of base salary. The minimum payout is £nil.</p>
Benefits	<ul style="list-style-type: none"> To provide a competitive package for Executive Directors. 	<p>Benefits comprise:</p> <ul style="list-style-type: none"> A company car or allowance. Medical insurance and health benefits. Life insurance and spouse's pension. Permanent health insurance. 	None.	<p>The Committee reserves the power to deliver benefits which, in aggregate, have a cost of 25% of base salary.</p> <p>In certain circumstances it may be necessary to exceed this limit, including (but not limited to) where there are changes in the underlying benefits provided, changes to benefit providers and changes in individual circumstances (such as health status).</p>

Governance

Remuneration report continued

Remuneration component	Strategic objective	How the component operates	Performance measures applicable	Maximum and minimum payouts
Long term share plan and share options	<ul style="list-style-type: none"> To motivate and incentivise Executive Directors to deliver sustained performance over the longer term in line with shareholder interests. 	<p>Awards are made under the Porvair Long Term Share Plan 2008 to the Executive Directors. The Remuneration Committee determines:</p> <ul style="list-style-type: none"> The period of time over which performance will be judged, usually three years as suggested by Schedule A of the UK Corporate Governance code. The number of shares to be awarded. The performance criteria required. Vested awards are settled by the issue of new shares. Conditional on shareholder approval being received for an Employee Benefit Trust ("EBT") at the 2015 AGM, awards made after the 2015 AGM may be settled by the issue of new shares or from shares acquired by the EBT. Shares awarded under the LTSP are subject to a claw back where there has been a material misstatement of results requiring a restatement of the accounts or there has been a material error made in the calculation of the vesting entitlement to those shares. The Committee may require the Executive Director to either leave an agreed proportion of a vested award unexercised or retain the equivalent number of the post tax shares awarded for a further two years following the vesting date, where an Executive Director's shareholding is less than the Committee's target shareholding in the Group. 	<ul style="list-style-type: none"> Stretching vesting criteria are set based on achievement of goals set out in the Group's three year strategic plan. A sliding scale is typically used to encourage excellent performance. 	<p>A typical grant has been options over shares with the equivalent value of one year's base salary. The Committee will not exceed a maximum award of 150% of salary in any one year.</p>
Pensions	<ul style="list-style-type: none"> To provide a competitive package for Executive Directors. 	<ul style="list-style-type: none"> The Executive Directors are provided with a cash contribution in lieu of pension benefits. Ben Stocks is a member of the closed Porvair Pension Plan and his benefits up to a capped limit of salary are provided by the plan. Above the limit he receives a cash contribution in lieu of pension benefits. 	<p>None.</p>	<p>The maximum Company contribution will not exceed 25% of base salary. The Committee may change the Directors' pension arrangements in response to new legislation or regulations provided that any changes are broadly cost-neutral.</p>

The Remuneration Committee sets performance targets for the Long Term Share Plan based on stretching EPS growth as it believes that this provides a reliably measurable target in line with the Group's medium and long term objectives. The Committee considers each year, as part of its awards process, whether this basis remains appropriate.

The Committee has set a target for Executive Directors to hold the equivalent of at least the value of one year's base salary in Porvair shares within five years of joining the Board.

Estimate of the total future potential remuneration

The charts below set out estimates of the potential remuneration for each of the Executive Directors based on the current remuneration packages. The assumptions included in each scenario are described below.

- The Porvair share price is assumed to remain constant at the average of the last quarter's share price.

Fixed

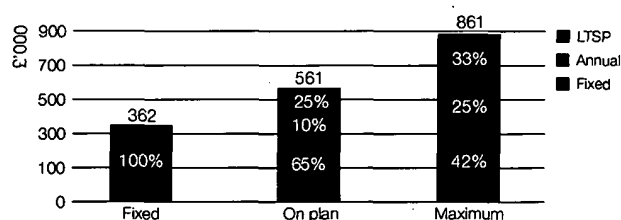
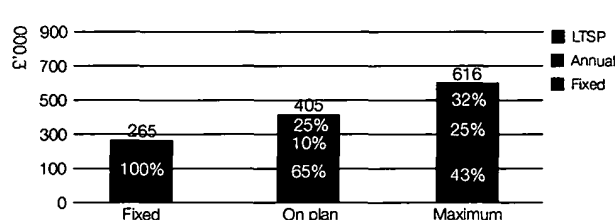
- Consists of base salary, pension and benefits.
- Base salary is the current salary.
- Benefits are assumed to be in line with those received in 2014.
- Pensions are assumed to be in line with current practice.

For performance in line with both the annual and three year operating plan

- Annual bonus of 20% of salary.
- Long term share plan ('LTSP') award of 50% of maximum.

For performance significantly above both the annual and three year operating plan, the maximum award is:

- Annual bonus of 75% of salary.
- LTSP award of 100% of maximum.

Ben Stocks**Chris Tyler****Policy on Non-Executive Directors**

The Non-Executive Directors receive letters of appointment with six month notice terms and are subject to annual reelection, in common with the Executive Directors, in accordance with the best practice set out in the UK Corporate Governance Code published in September 2012. The Executive Directors review the Non-Executives' annual fees with effect from 1 June each year. They receive a fixed annual fee plus expenses reimbursement, which reflects their time commitment to the business and comparatives from similar sized quoted companies. They do not participate in any share option scheme, bonus or pension arrangements.

The current scale of remuneration is:

	£'000
Chairman	78
Other Non-Executive Directors	33

Engagement with shareholders

The Committee considers shareholder feedback received during the AGM and any other shareholder meetings as part of its annual review of its remuneration policy. The Chairman of the Remuneration Committee is available, on request, to discuss issues of remuneration with shareholders of the Group.

Where the Remuneration Committee proposes to introduce new long term incentive plans, the Committee seeks the views of major shareholders prior to seeking general shareholder approval at a general meeting.

Discussions were held with a number of shareholders prior to the 2014 AGM to explain some of the terms of the remuneration policy. The views of the shareholders have been incorporated in the revised policy to be put to shareholders at the 2015 AGM. Key shareholders have been made aware of the Company's intention to introduce an Employee Benefit Trust at the 2015 AGM and have given their support.

Relationship with employees' pay

All employees receive a salary, pension and benefit package with levels of salary commensurate with their responsibilities. Executives throughout the Group participate in various bonus schemes designed to reward good performance in their operations.

The Remuneration Committee takes into account proposed or agreed changes to employees' pay and conditions as part of its review of the remuneration of Executive Directors. Except in exceptional circumstances, this results in the annual pay increases awarded to Executive Directors being broadly in line with increases applied to other UK employees.

The Committee maintains an overview of the remuneration policies throughout the Group. It seeks to ensure that employees are paid a market rate for their particular roles and that there is consistency in targets set where performance related pay might be awarded. Employees are not consulted in the process of setting the policy for Executive Directors' remuneration.

Remuneration report continued

Recruitment of Directors

In the event that the Company recruits a new director (either from within the organisation or externally), when determining appropriate remuneration arrangements, the Committee will take into consideration all relevant factors (including but not limited to quantum, the type of remuneration being offered and the candidate's background) to ensure that arrangements are in the best interests of both the Company and its shareholders without paying more than is necessary to recruit a director of the required calibre. The Committee will align the remuneration package offered with the remuneration policy outlined in the policy table on pages 47 and 48 ("2014 report").

Depending on an individual's prior experience, the Committee may set salary below market norms, with the intention that it is realigned over time, typically two to three years, subject to performance in the role. In this situation, the Committee is permitted to exceed the "normal" rate of annual salary increase set out in the policy table on pages 47 and 48 ("2014 report").

In the year of appointment, the Committee may offer additional remuneration arrangements that it considers appropriate and necessary to recruit and retain the individual. The Committee may authorise:

- awards to 'buy-out' remuneration arrangements forfeited on leaving a previous employer. In such circumstances any arrangement will only compensate for remuneration foregone. The Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested. Any 'buy-out' of long term incentives on joining or initial incentive would be in Long Term Share Plan shares, and subject to the rules of that scheme. Awards would be limited to a maximum of two years' basic salary on joining, subject to suitably stretching performance criteria and a minimum vesting period of three years; and
- other payments in relation to relocation expenses and other incidental expenses as appropriate.

For internal promotions, the Committee reserves the right to satisfy pre-existing executive incentive awards and other obligations which may be in place at the time of appointment.

Service contracts and policy in respect of payments for loss of office

The Executive Directors have rolling contracts with the Company which can be terminated on giving twelve months' notice. This is considered to be an appropriate balance between flexibility and commitment on both parties.

Payments for loss of office will be determined by the Remuneration Committee based on the contractual entitlements of the Director concerned under service contracts and the terms of the Long Term Share Plan. In general, an Executive Director is required to be employed and not in a notice period at the point when an annual bonus is due for payment in order to receive an annual bonus. However, the particular circumstances of the Executive Director's loss of office will determine whether mitigation of payments should apply and whether the payments that would ordinarily be due under the discretionary annual bonus plan would be paid.

All employee share plans

The Company also periodically offers invitations to all UK permanent employees to join Save As You Earn ('SAYE') schemes. Currently there is a five year scheme running following an invitation in October 2011 and a three year and five year scheme running following an invitation in October 2014. The Executive Directors are eligible to join these schemes, however the Non-Executive Directors are not.

Financial statements

Independent auditors' report to the members of Porvair plc

Report on the Group financial statements

Our opinion

In our opinion, Porvair plc's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 30 November 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report & Accounts (the "Annual Report"), comprise:

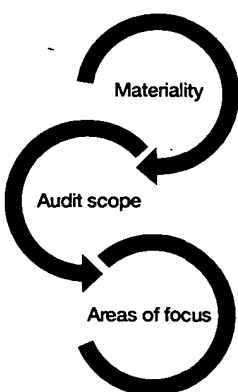
- the consolidated balance sheet as at 30 November 2015;
- the consolidated income statement and the consolidated statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview



- Overall Group materiality: £465,000 which represents 5% of profit before tax.
- We performed work on 11 out of 14 reporting units, accounting for 95% of Group revenue and 93% of Group profit before tax.
- Accounting for long-term contracts.
- Defined benefit pension plan net liability.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the operating segments of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group has two principal business operations, being Microfiltration and Metals Filtration. The Group sells its products throughout the world and has manufacturing operations in the UK, USA, Germany and China. The Group's financial statements are a consolidation of 14 reporting components, comprising the Group's principal operating businesses. Of these reporting components, we selected 11 for testing due to their financial significance which covers entities in the UK and USA and represents the principal operations of the Group.

Of the 11 reporting components selected for testing, we performed an audit of the complete financial information on six reporting units in the UK and one in the USA. Specific audit procedures on certain balances and transactions were performed at two reporting components in the UK and two reporting components in the USA. For the remaining three components we performed analytical review. This together with additional procedures performed at the Group level, for example testing of consolidation journals and intercompany eliminations, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

All reporting components are audited by the Group audit team and, for the three reporting components selected for testing in the USA, we had assistance from the PwC team in the USA. The Group engagement leader visited the Selee Corporation site, where a full scope audit was performed, and met with the auditors in the USA and management as part of the completion of the US audit work.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the following table. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Independent auditors' report to the members of Porvair plc continued

Area of focus

Accounting for large contracts

Refer to page 45 (Report of the Audit Committee), note 1 (Significant accounting policies) and note 16 (Construction contracts).

The Group has four large long-term contracts within the Microfiltration division of Porvair Filtration Group Limited in the UK; three gasification contracts, one in each of South Korea, India and China, and a UK Government contract. These account for £5.5 million of revenue in the year which is significant in the context of the revenue for the Group.

The recognition of revenue under these contracts is dependent on the costs incurred in the period as a proportion of the total estimated costs of the contract such that a constant profit margin is recognised as work is performed. A significant element of the total estimated contract cost is the level of anticipated future costs that the Directors have assumed to cover principally re-work, warranty risks and late delivery risks, the estimation of which is inherently subject to judgement.

Consequently, the focus of our audit was on the judgements around the level of provisions for re-work, warranty and late delivery costs.

Pension assumptions

Refer to page 45 (Report of the Audit Committee), note 1 (Significant accounting policies) and note 19 (Retirement benefit obligations).

The Group has a defined benefit pension plan net liability of £11.9 million, which is significant in the context of the Group balance sheet. The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Unfavourable changes in a number of key assumptions (including salary increases, inflation, discount rates, expected rates of return on plan assets and mortality rates) can have a material impact on the calculation of the liability.

How our audit addressed the area of focus

In order to determine whether estimated costs within the forecast costs to complete are appropriate we:

- Obtained and reviewed each of the four large long-term contracts to understand the future commitments in each;
- Obtained an understanding of the performance and status of each contract through discussion with the contract project manager and local and Group directors and challenged management on the recognition of revenue and costs to complete;
- Agreed the warranty and late delivery costs to the contracts based on this status;
- Tested the reasonableness of the level of re-work costs included in the forecast costs against costs previously experienced on similar contracts and to the terms of the contract; and
- We also considered any issues on the contracts in relation to the progress to date to determine whether unexpected costs were being incurred.

Based on this work, we found the judgements and assumptions used to be materially appropriate.

More generally, to test the revenue recognition on the large contracts we:

- Agreed a sample of costs from the work performed to date under the contracts to supporting invoices and payroll information;
- Agreed a sample of the future material costs to purchase orders; and
- Tested the mathematical accuracy of the recognition of revenue based on the work performed to date under the contracts.

We noted no exceptions in our testing.

We agreed the discount and inflation rates, together with the expected rates of return on plan assets used in the valuation of the pension liability by the external actuary to our internally developed benchmarks. We obtained the pension valuation report from the external actuary and an understanding through discussion with them of the methodology used to derive the discount rate. We compared the assumptions around salary increases and mortality to national and industry averages. Based on this work, we found the assumptions used to be materially appropriate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£465,000 (2014: £431,000).
How we determined it	Approximately 5% of profit before tax.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £23,250 (2014: £21,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 29, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting*Consistency of other information**Companies Act 2006 opinion*

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

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

<ul style="list-style-type: none"> information in the Annual Report is: <ul style="list-style-type: none"> – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading. 	We have no exceptions to report.
<ul style="list-style-type: none"> the statement given by the Directors on page 41, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit. 	We have no exceptions to report.
<ul style="list-style-type: none"> the section of the Annual Report on page 45, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. 	We have no exceptions to report.

Independent auditors' report to the members of Porvair plc continued

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

<ul style="list-style-type: none"> the Directors' confirmation on page 24 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. 	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. 	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> the Directors' explanation on page 29 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. 	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' Responsibilities set out on pages 40 and 41, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both:

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the parent company financial statements of Porvair plc for the year ended 30 November 2015 and on the information in the Directors' Remuneration Report that is described as having been audited.



Andy Grimply (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
22 January 2016

Financial statements

Consolidated income statement

For the year ended 30 November	Note	2015 £'000	2014 £'000
Continuing operations			
Revenue	2	95,828	104,004
Cost of sales		(63,474)	(74,157)
Gross profit		32,354	29,847
Distribution costs		(1,207)	(1,227)
Administrative expenses		(21,346)	(19,415)
Operating profit	2,3	9,801	9,205
Finance income		12	–
Finance costs	5	(616)	(785)
Profit before income tax	2,3	9,197	8,420
Income tax expense	6	(2,241)	(2,087)
Profit for the year attributable to shareholders	23	6,956	6,333
Earnings per share (basic)	7	15.5p	14.4p
Earnings per share (diluted)	7	15.4p	14.2p

Consolidated statement of comprehensive income

For the year ended 30 November	Note	2015 £'000	2014 £'000
Profit for the year		6,956	6,333
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Actuarial gain/(loss) in defined benefit pension plan net of tax	23	368	(1,066)
Items that may be subsequently reclassified to profit or loss			
Exchange gains on translation of foreign subsidiaries	23	890	1,125
Changes in fair value of interest rate swaps held as a cash flow hedge	23	–	20
Changes in fair value of foreign exchange contracts held as a cash flow hedge	23	(156)	(866)
		734	279
Other comprehensive income/(expense) for the year, net of tax		1,102	(787)
Total comprehensive income for the year attributable to the owners of Porvair plc		8,058	5,546

Financial statements

Consolidated balance sheet

Company registered number 01661935

As at 30 November

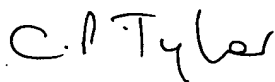
	Note	2015 £'000	2014 £'000
Non-current assets			
Property, plant and equipment	9	14,216	12,336
Goodwill and other intangible assets	10	43,547	43,209
Deferred tax asset	18	2,529	3,240
		60,292	58,785
Current assets			
Inventories	12	12,350	11,363
Trade and other receivables	13	14,621	17,067
Derivative financial instruments	11	–	66
Cash and cash equivalents	14	10,738	7,891
		37,709	36,387
Current liabilities			
Trade and other payables	15	(23,192)	(24,910)
Current tax liabilities		(1,405)	(919)
Borrowings	17	–	(727)
Derivative financial instruments	11	(154)	(118)
		(24,751)	(26,674)
Net current assets		12,958	9,713
Non-current liabilities			
Borrowings	17	–	(1,900)
Deferred tax liability	18	(1,465)	(1,494)
Retirement benefit obligations	19	(11,993)	(12,833)
Provisions for other liabilities and charges	20	(728)	(138)
		(14,186)	(16,365)
Net assets		59,064	52,133
Capital and reserves			
Share capital	21	896	887
Share premium account	21	35,359	35,334
Cumulative translation reserve	23	1,706	816
Retained earnings	23	21,103	15,096
Total equity		59,064	52,133

The financial statements on pages 63 to 103 were approved by the Board of Directors on 22 January 2016 and were signed on its behalf by:

B D W Stocks



C P Tyler



Financial statements

Consolidated cash flow statement

For the year ended 30 November	Note	2015 £'000	2014 £'000
Cash flows from operating activities			
Cash generated from operations	24	13,294	14,156
Interest paid		(155)	(328)
Tax paid		(1,836)	(2,205)
Net cash generated from operating activities		11,303	11,623
Cash flows from investing activities			
Interest received		12	–
Acquisition of subsidiaries (net of cash acquired)	25	(1,087)	(707)
Purchase of property, plant and equipment	9	(3,823)	(4,930)
Purchase of intangible assets	10	(16)	(167)
Proceeds from sale of property, plant and equipment		502	1
Net cash used in investing activities		(4,412)	(5,803)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	21	34	199
Repayment of borrowings		(2,630)	(3,654)
Dividends paid to shareholders	8	(1,479)	(1,325)
Net cash used in financing activities		(4,075)	(4,780)
Net increase in cash and cash equivalents		2,816	1,040
Exchange gains on cash and cash equivalents		31	78
		2,847	1,118
Cash and cash equivalents at 1 December		7,891	6,773
Cash and cash equivalents at 30 November	14	10,738	7,891

Reconciliation of net cash flow to movement in net cash

	2015 £'000	2014 £'000
Net increase in cash and cash equivalents	2,816	1,040
Effects of exchange rate changes	28	(9)
Repayment of borrowings	2,630	3,654
Net cash at 1 December	5,264	579
Net cash at 30 November	10,738	5,264

Financial statements

Consolidated statement of changes in equity

	Note	Share capital £'000	Share premium account £'000	Cumulative translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 December 2013		875	35,147	(309)	11,967	47,680
Profit for the year		–	–	–	6,333	6,333
Other comprehensive income/(expense):						
Exchange differences on translation of foreign subsidiaries	23	–	–	1,125	–	1,125
Changes in fair value of interest rate swaps held as a cash flow hedge	23	–	–	–	20	20
Changes in fair value of foreign exchange contracts held as a cash flow hedge	23	–	–	–	(866)	(866)
Actuarial losses in defined benefit pension plans net of tax		–	–	–	(1,066)	(1,066)
Total comprehensive income for the year		–	–	1,125	4,421	5,546
Transactions with owners:						
Employee share options scheme						
– Value of employee services net of tax		–	–	–	33	33
Proceeds from shares issued	21	12	187	–	–	199
Dividends paid	8	–	–	–	(1,325)	(1,325)
Total transactions with owners recognised directly in equity		12	187	–	(1,292)	(1,093)
Balance at 30 November 2014		887	35,334	816	15,096	52,133
Balance at 1 December 2014		887	35,334	816	15,096	52,133
Profit for the year		–	–	–	6,956	6,956
Other comprehensive income/(expense):						
Exchange differences on translation of foreign subsidiaries	23	–	–	890	–	890
Changes in fair value of foreign exchange contracts held as a cash flow hedge	23	–	–	–	(156)	(156)
Actuarial gains in defined benefit pension plans net of tax		–	–	–	368	368
Total comprehensive income for the year		–	–	890	7,168	8,058
Transactions with owners:						
Employee share options scheme						
– Value of employee services net of tax		–	–	–	318	318
Proceeds from shares issued	21	9	25	–	–	34
Dividends paid	8	–	–	–	(1,479)	(1,479)
Total transactions with owners recognised directly in equity		9	25	–	(1,161)	(1,127)
Balance at 30 November 2015		896	35,359	1,706	21,103	59,064

Notes to the consolidated financial statements

1 Summary of significant accounting policies

Porvair plc is a public limited company registered and domiciled in the UK and listed on the London Stock Exchange. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the IFRS interpretations committee, as endorsed by the European Union, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its entity accounts in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and these are presented on pages 97 to 103.

The financial statements have been prepared on a going concern basis and under the historical cost convention as modified by the recognition of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

Basis of consolidation

The Group applies the acquisition method to account for business combinations. The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 November each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Acquisition related costs are expensed as incurred.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

All intra-group transactions, balances, income and expenditures are eliminated on consolidation.

Use of assumptions and estimates

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances including management's best knowledge of the amount, event or actions. The results form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 period in which the estimate is revised.

Material estimates and assumptions are made in particular with regard to: establishing uniform depreciation and amortisation periods for the Group, goodwill and intangible assets valuation (cash flows and discount rate), impairment testing, assumptions used in the calculation of share based payments, parameters for measuring pension and other provisions and the likelihood that tax assets can be realised.

The Group applies the percentage of completion method in accounting for its construction contracts. Use of the percentage of completion method requires the Group to estimate the construction performed to date as a proportion of the total construction to be performed. Estimating the costs to complete is considered to be a material estimate. If management's estimate of the outstanding costs of its construction contracts were increased/decreased by 5% at the balance sheet date, then this would decrease/increase the reported revenue in the year by £537,000/£555,000 respectively.

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 10), and no impairment is required, whether or not these estimates are changed by 10% at the balance sheet date.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. The cost of acquisition includes the fair value of deferred and contingent consideration.

Goodwill is recognised as an asset at cost less accumulated impairment losses and reviewed for impairment annually, and more frequently if events or changes in circumstances indicate potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units that is expected to benefit from the synergies of the combination.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment since that date.

Notes to the consolidated financial statements continued**1 Summary of significant accounting policies continued****Revenue recognition (excluding construction contracts)**

Revenue comprises the invoiced value of goods and services supplied net of value added tax and other sales taxes. Revenue is recognised when goods are despatched to the customer, at which point the risks and rewards of ownership are transferred. Revenue from service contracts is recognised on a straight line basis over the contract period.

Interest income

Interest income is accrued on a straight line basis, by reference to the principal outstanding and 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.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs (including provisions for re-work, warranty risks and late delivery risks), except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. Contract costs include costs directly related to the specific contract and indirect costs attributable to the contract.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

Leasing

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

Foreign currencies

The consolidated financial statements are presented in Pounds Sterling, which is the Company's functional and presentation currency. The Group determines the functional currency of each entity based on the primary economic environment in which the entity operates and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

On consolidation, the assets and liabilities of the Group's overseas operations, borrowings and other currency instruments 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 unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

All borrowing costs are typically recognised in the income statement in the period in which they are incurred, with the exception of borrowing costs incurred on the arrangement of new facilities which are capitalised and subsequently recognised in the income statement over the period of the borrowings.

Government grants

Government grants for the development of new products are recognised over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Retirement benefit costs

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

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised in the consolidated statement of comprehensive income.

1 Summary of significant accounting policies continued

The retirement benefit obligation 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.

Taxation

The tax expense represents the sum of the current tax and deferred tax.

Current tax is based on taxable profit for the period. 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 periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that are relevant to the period.

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 goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

Deferred tax is calculated at the tax rates which have been enacted or substantively enacted by the balance sheet date and are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the income statement, except when it relates to items recognised directly to other comprehensive income or directly to equity.

In this case, the deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

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.

Property, plant and equipment

Property, plant and equipment for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation for these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write assets down to their residual value, other than assets under construction, over their estimated useful lives, using the straight line method, on the following bases:

Buildings	2.5 – 3%
Plant, machinery and equipment	10 – 33%

Freehold land is not depreciated.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in the income statement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Notes to the consolidated financial statements continued**1 Summary of significant accounting policies** continued**Internally generated intangible assets – research and development expenditure**

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 product development expenditure is recognised only if all of the following criteria are demonstrable:

- 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 the intangible asset or to sell it;
- The way in which 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.

Internally generated intangible assets are valued at cost and held at cost less accumulated amortisation and impairment losses, and are recognised as an expense on a straight line basis over their estimated useful lives. Useful life is determined with reference to estimated product life in the industry in which the expenditure has been incurred. Useful life of the Group's development expenditure is currently between 3 and 10 years. Amortisation of development expenditure commences when development has been completed to management satisfaction and the related project is ready for its intended use. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Patents, trademarks and know-how

Patents, trademarks and know-how purchased as part of an acquisition, where there are expected future economic benefits, are initially measured at fair value and amortised over their estimated useful lives of 3-5 years.

Software

Software costs are classified as intangible fixed assets and measured initially at purchase cost. Amortisation is charged on a straight line basis over their estimated useful lives of 3-5 years.

Impairment of property, plant and equipment and intangible assets

The Group reviews annually the carrying amounts of its property, plant and equipment 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 (if any). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

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.

When an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit (other than goodwill) 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 in the income statement immediately.

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. Where necessary, provision is made for obsolete, slow moving and defective inventories.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans are classified as "other receivables" in the balance sheet.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently held at amortised cost. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor and default or delinquency in payments when credit control procedures have been applied are indicators an impairment may be required. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off to the provision for impairment. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

1 Summary of significant accounting policies continued**Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the instrument, to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are initially recognised at fair value and subsequently held at amortised cost.

Equity instruments

Ordinary shares are classified as equity. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The Group uses foreign exchange forward contracts and interest rate swap agreements to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provides written principles on the use of financial derivatives.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedges.

For cash flow hedges the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement.

Provisions

Provisions have been made for future dilapidation costs on leased property. These provisions are the Directors' best estimates as the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Where the impact of discounting is material, the Group discounts at its weighted average cost of capital, unless some other rate is more appropriate in the circumstances.

Share based payments

The Group issues equity settled, share based payments to certain employees. Equity settled, share based payments are measured at fair value at the date of grant. 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 shares that will eventually vest. The charge is then credited back to reserves.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest.

Notes to the consolidated financial statements continued**1 Summary of significant accounting policies continued**

At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). An operating segment's operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operating segments are aggregated into reporting segments where they share similar economic characteristics as a result of the nature of the products sold or the services provided, the production processes used to manufacture the products, the type of customer for the products and services, and the methods used to distribute the products or provide the services.

Dividend distribution

Final dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Related party transactions

There are no related party transactions outside of the Group.

New standards, amendments and interpretations**(a) Standards, amendments and interpretations effective for the first time in the year ended 30 November 2015:**

- Amendment to IAS 32, 'Financial instruments: Presentation';
- Amendment to IAS 36, 'Impairment of assets';
- Amendment to IAS 39, 'Financial Instruments: Recognition and Measurement';
- Amendments to IAS 19, 'Employee benefits';
- Amendment to IFRS 2, 'Share based payment';
- Amendment to IFRS 3, 'Business combinations';
- Amendment to IFRS 8, 'Operating segments';
- Amendment to IAS 24, 'Related party disclosures';
- Amendment to IFRS 13, 'Fair value measurement';
- IAS 40, 'Investment property';
- IFRS 14, 'Regulatory deferral accounts'; and
- IFRIC 21, 'Levies'.

(b) Standards, amendments and interpretations effective for the first time in the year ended 30 November 2015:

- Amendment to IAS 1, 'Presentation of financial statements';
- Amendments to IAS 16, 'Property, plant & equipment (PPE)', and IAS 38, 'Intangible assets';
- Amendment to IFRS 11, 'Joint arrangements';
- Amendment to IFRS 12, 'Disclosures of interests in other entities';
- Amendment to IAS 27, 'Separate financial statements';
- Amendments to IFRS 10, 'Consolidated financial statements', and IAS 28, 'Investments in associates and joint ventures';
- IFRS 14, 'Regulatory Deferral Accounts';
- IFRS 15, 'Revenue from Contracts with Customers';
- IFRS 16, 'Leases'; and
- IFRS 9, 'Financial Instruments'.

The Directors are reviewing the implications of IFRS 15, IFRS 9 and IFRS 16, but otherwise do not anticipate that the adoption of these standards, amendments and interpretations, where relevant, in future periods will have a material impact on the Group's financial statements.

Financial statements

2 Segment information

The chief operating decision maker has been identified as the Board of Directors. The Board of Directors review the Group's internal reporting in order to assess performance and allocate resources. Management have determined the operating segments based on this reporting.

At 30 November 2015, the Group is organised on a worldwide basis into two operating segments:

- (1) Metals Filtration – principally serving the global aluminium, North American Free Trade Agreement (NAFTA) iron foundry and super-alloys markets; and
- (2) Microfiltration – principally serving the aviation, environmental laboratory, and energy and industrial markets.

Other Group operations' costs, assets and liabilities are included in "Other unallocated". These costs mainly comprise Group corporate costs, including new business development costs, some research and development costs and general financial costs, and assets and liabilities mainly comprise Group retirement benefit obligations, tax assets and liabilities, cash and borrowings.

The segment results for the year ended 30 November 2015 are as follows:

30 November 2015	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Revenue		30,984	64,844	–	95,828
Operating profit/(loss)		2,448	9,704	(2,351)	9,801
Net finance costs	5	–	–	(604)	(604)
Profit/(loss) before income tax		2,448	9,704	(2,955)	9,197
Income tax expense		–	–	(2,241)	(2,241)
Profit/(loss) for the year		2,448	9,704	(5,196)	6,956

The segment results for the year ended 30 November 2014 are as follows:

30 November 2014	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Revenue		30,061	73,943	–	104,004
Operating profit/(loss)		2,558	8,710	(2,063)	9,205
Net finance costs	5	–	–	(785)	(785)
Profit/(loss) before income tax		2,558	8,710	(2,848)	8,420
Income tax expense		–	–	(2,087)	(2,087)
Profit/(loss) for the year		2,558	8,710	(4,935)	6,333

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Notes to the consolidated financial statements continued

2 Segment information continued

Other segment items included in the income statement are as follows:

30 November 2015	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Depreciation, impairment and amortisation (property, plant and equipment and intangible assets)	9,10	840	1,316	–	2,156

30 November 2014	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Depreciation, impairment and amortisation (property, plant and equipment and intangible assets)	9,10	754	1,481	–	2,235

The segment assets and liabilities at 30 November 2015 are as follows:

30 November 2015	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Segmental assets		28,520	55,445	3,298	87,263
Cash and cash equivalents	14	–	–	10,738	10,738
Total assets		28,520	55,445	14,036	98,001
Segmental liabilities		(3,851)	(19,087)	(4,006)	(26,944)
Retirement benefit obligations	19	–	–	(11,993)	(11,993)
Borrowings	17	–	–	–	–
Total liabilities		(3,851)	(19,087)	(15,999)	(38,937)

The segment assets and liabilities at 30 November 2014 are as follows:

30 November 2014	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Segmental assets		27,119	55,481	4,681	87,281
Cash and cash equivalents	14	–	–	7,891	7,891
Total assets		27,119	55,481	12,572	95,172
Segmental liabilities		(3,249)	(20,379)	(3,951)	(27,579)
Retirement benefit obligations	19	–	–	(12,833)	(12,833)
Borrowings	17	–	–	(2,627)	(2,627)
Total liabilities		(3,249)	(20,379)	(19,411)	(43,039)

Financial statements

2 Segment information continued

Geographical analysis

	2015		2014	
	By destination £'000	By origin £'000	By destination £'000	By origin £'000
Revenue				
United Kingdom	15,516	40,051	17,730	52,380
Continental Europe	13,050	7,572	11,630	7,623
United States of America	36,758	46,601	33,372	42,671
Other NAFTA	6,925	–	6,195	–
South America	1,415	–	1,661	–
Asia	21,027	1,604	31,643	1,330
Africa	1,137	–	1,773	–
	95,828	95,828	104,004	104,004
Non-current assets	2015 £'000		2014 £'000	
United Kingdom	19,617		19,614	
Continental Europe	3,756		3,337	
Americas	32,997		31,868	
Asia	1,393		726	
Unallocated deferred tax	2,529		3,240	
	60,292		58,785	
Capital expenditure (including intangibles)	2015 £'000		2014 £'000	
United Kingdom	1,335		3,800	
Continental Europe	47		76	
Americas	1,687		1,204	
Asia	770		17	
	3,839		5,097	

For the year ended 30 November 2015, no customer represented 10% or more of the Group's revenue (2014: one customer represented 16% of revenue).

Financial statements

Notes to the consolidated financial statements continued

3 Profit before income tax

The following items have been included in arriving at profit before income tax:

	2015 £'000	2014 £'000
Staff costs	29,866	28,046
Inventories – Cost of inventories recognised as an expense (included in cost of sales)	33,925	46,476
Net realised foreign exchange losses/(gains)	97	(716)
Depreciation on property, plant and equipment – owned	1,816	1,688
Impairment charge on property, plant and equipment – owned	–	170
Amortisation of intangible assets	340	377
Profit on sale of property, plant and equipment and intangible assets	(17)	(1)
Other operating lease rentals payable:		
– Plant and machinery	124	237
– Property	1,240	1,184
Repairs and maintenance on property, plant and equipment	1,662	1,474
Trade receivables impairment	31	161
Research and development expenditure	3,207	3,172

The total remuneration of the Group's auditors, PricewaterhouseCoopers LLP, and its affiliates for services provided to the Group is analysed below:

	2015 £'000	2014 £'000
Fees payable to Company's auditors and its associates for audit of parent company and consolidated financial statements	53	51
Fees payable to Company's auditors and its associates for other services:		
– The audit of Company's subsidiaries	82	79
– Audit-related assurance services	18	20
– Other non-audit services	1	2
	154	152

	2015 £'000	2014 £'000
Fees in respect of The Porvair plc Pension and Death Benefit Plan Audit	11	13

4 Employee benefit expense

The average monthly number of staff, including Executive Directors, employed during the year is detailed below:

	2015 Average number	2014 Average number
Number		
Metals Filtration	184	182
Microfiltration	472	462
Head office	7	7
	663	651
North American employees included above	245	234

	2015 £'000	2014 £'000
Staff costs		
Wages and salaries	24,370	22,623
Social security costs	3,522	3,500
Other pension costs	1,472	1,420
Share based payments	502	503
	29,866	28,046

Detailed disclosures of Directors' emoluments and interests in share options are shown in the Remuneration report on pages 47 to 58. The key management comprise the Directors and their remuneration is disclosed in note 29.

Financial statements

5 Finance income and costs

	Note	2015 £'000	2014 £'000
Finance income			
Bank interest receivable		12	–
		12	–
Finance costs			
Interest payable on bank loans and overdrafts		160	292
Unwinding of discount on provisions	20	12	13
Pension scheme finance expense	19	444	480
		616	785
Net finance costs		604	785

6 Income tax expense

	Note	2015 £'000	2014 £'000
Current tax			
UK Corporation tax		870	580
Adjustment in respect of prior periods		(347)	(565)
Overseas tax		1,777	2,079
		2,300	2,094
Deferred tax			
Origination and reversal of temporary differences – UK		(40)	(183)
Origination and reversal of temporary differences – Overseas		(82)	178
Adjustment in respect of prior periods		63	(2)
	18	(59)	(7)
		2,241	2,087

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the UK tax rate applicable to profits of the consolidated companies as follows:

	2015 £'000	2014 £'000
Profit before tax	9,197	8,420
Tax at the UK Corporation tax rate of 20.33% (2014: 21.67%)	1,870	1,824
Current tax adjustments in respect of prior periods	(347)	(565)
Deferred tax adjustments in respect of prior periods	63	(2)
Deferred tax on share based payments within the income statement	(48)	(100)
Tax effect of expenses not deductible in determining taxable profit	202	112
Effect of different tax rates of subsidiaries operating in other jurisdictions	501	818
Tax charge	2,241	2,087

In addition to the amount charged to the income statement, the following tax was charged/(credited) direct to equity/comprehensive income:

	2015 £'000	2014 £'000
Deferred tax on share based payments (direct to equity)	184	470
Deferred tax on actuarial losses on the pension fund (direct to comprehensive income)	504	166
	688	636

The standard rate of Corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the theoretical effective tax rate applied to the Group's profits for this accounting period is 20.33%.

Changes to the UK Corporation tax rates were substantively enacted as part of Finance Bill 2015 on 26 October 2015. These include reductions of the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Financial statements

Notes to the consolidated financial statements continued

7 Earnings per share

	2015			2014		
	Earnings £'000	Weighted average number of shares	Per share amount (pence)	Earnings £'000	Weighted average number of shares	Per share amount (pence)
Basic EPS						
Earnings attributable to ordinary shareholders	6,956	44,736,977	15.5	6,333	44,121,412	14.4
Effect of dilutive securities						
Earnings attributable to ordinary shareholders	6,956	–	15.5	6,333	–	14.4
Dilutive impact of share options	–	455,668	(0.1)	–	587,422	(0.2)
Diluted EPS	6,956	45,192,645	15.4	6,333	44,708,834	14.2

8 Dividends per share

	2015		2014	
	Per share (pence)	£'000	Per share (pence)	£'000
Final dividend paid – in respect of prior year	2.00	896	1.80	795
Interim dividend paid – in respect of current year	1.30	583	1.20	530
	3.30	1,479	3.00	1,325

The Directors recommend a final dividend of 2.2 pence for the financial year ended 30 November 2015 to be paid on 3 June 2016.

9 Property, plant and equipment

	Land and buildings £'000	Assets in course of construction £'000	Plant, machinery and equipment £'000	Total £'000
Cost				
At 1 December 2013	4,022	349	25,639	30,010
Reclassification	5	(518)	513	–
Additions	1,853	2,036	1,041	4,930
Disposals	–	–	(342)	(342)
Exchange differences	128	20	652	800
At 30 November 2014	6,008	1,887	27,503	35,398
Accumulated depreciation				
At 1 December 2013	(1,771)	–	(19,233)	(21,004)
Charge for year	(236)	–	(1,452)	(1,688)
Impairment charge	(85)	–	(85)	(170)
Disposals	–	–	342	342
Exchange differences	(66)	–	(476)	(542)
At 30 November 2014	(2,158)	–	(20,904)	(23,062)
Net book value at 30 November 2014	3,850	1,887	6,599	12,336

Financial statements

9 Property, plant and equipment continued

	Land and buildings £'000	Assets in course of construction £'000	Plant, machinery and equipment £'000	Total £'000
Cost				
At 1 December 2014	6,008	1,887	27,503	35,398
Reclassification	1,414	(1,887)	473	–
Additions	542	1,147	2,134	3,823
Acquisitions	–	–	159	159
Disposals	(566)	–	(4,202)	(4,768)
Exchange differences	118	25	477	620
At 30 November 2015	7,516	1,172	26,544	35,232
Accumulated depreciation				
At 1 December 2014	(2,158)	–	(20,904)	(23,062)
Charge for year	(166)	–	(1,650)	(1,816)
Disposals	118	–	4,165	4,283
Exchange differences	(10)	–	(411)	(421)
At 30 November 2015	(2,216)	–	(18,800)	(21,016)
Net book value at 30 November 2015	5,300	1,172	7,744	14,216

10 Goodwill and other intangible assets

	Goodwill £'000	Development expenditure capitalised £'000	Software capitalised £'000	Trademarks, know-how and other intangibles £'000	Total £'000
At 1 December 2013					
Cost	59,910	1,799	1,009	1,078	63,796
Accumulated amortisation and impairment	(18,537)	(1,470)	(990)	(264)	(21,261)
Net book amount	41,373	329	19	814	42,535
Year ended 30 November 2014					
Opening net book amount	41,373	329	19	814	42,535
Additions	–	–	42	125	167
Amortisation charges	–	(127)	(46)	(204)	(377)
Exchange differences	834	21	(2)	31	884
Closing net book amount	42,207	223	13	766	43,209
At 30 November 2014					
Cost	60,744	1,820	1,049	1,234	64,847
Accumulated amortisation and impairment	(18,537)	(1,597)	(1,036)	(468)	(21,638)
Net book amount	42,207	223	13	766	43,209
Year ended 30 November 2015					
Opening net book amount	42,207	223	13	766	43,209
Additions	–	–	16	–	16
Acquisitions	79	–	–	33	112
Disposals cost	–	(1,380)	–	–	(1,380)
Disposals amortisation	–	1,380	–	–	1,380
Amortisation charges	–	(113)	(15)	(212)	(340)
Exchange differences	539	14	(3)	–	550
Closing net book amount	42,825	124	11	587	43,547
At 30 November 2015					
Cost	61,385	513	1,053	1,264	64,215
Accumulated amortisation and impairment	(18,560)	(389)	(1,042)	(677)	(20,668)
Net book amount	42,825	124	11	587	43,547

Notes to the consolidated financial statements continued

10 Goodwill and other intangible assets continued

Internally generated intangible assets arising from the Group's product development are recognised only if all conditions are met as described in the Summary of significant accounting policies.

Amortisation of £340,000 (2014: £377,000) is included in 'cost of sales' in the income statement.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified by operating segment.

A segment level summary of the goodwill allocation is presented below.

2015			2014		
Metals Filtration £'000	Microfiltration £'000	Total £'000	Metals Filtration £'000	Microfiltration £'000	Total £'000
17,565	25,260	42,825	14,457	27,750	42,207

The recoverable amount of the goodwill is based on value-in-use calculations. The calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Pre-tax cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below.

Key assumptions used for value-in-use calculations:

	Metals Filtration		Microfiltration	
	US	US	UK	Germany
Budgeted gross margin	24%	34%	30%	32%
Growth rate used to extrapolate cash flows beyond the budget period	3%	3%	3%	3%
Weighted average cost of capital (pre-tax)	9.9%	9.2%	8.3%	7.1%

These assumptions have been used for the analysis of each operation within the operating segment. Management determined budgeted gross margins based on past performance and its expectations for the development in its markets. The average growth rates used are consistent with past experience and market expectations. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Based on the results of the current period impairment review, no impairment charges have been recognised by the Group in the year ended 30 November 2015. Having assessed the anticipated future cash flows, the Directors do not currently foresee any reasonable changes in assumptions that would have led to such an impairment charge in the year ended 30 November 2015.

11 Derivative financial instruments

	2015		2014	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward foreign exchange contracts – current	–	(64)	–	(118)
Forward foreign exchange contracts – cash flow hedge – current	–	(90)	66	–
	–	(154)	66	(118)

The gain recognised in the profit and loss account in the year for non-hedged derivatives amounted to £54,000 (2014: £126,000).

Under IFRS the fair value of all forward foreign exchange contracts and currency options are recognised on the balance sheet with the corresponding entry included within other comprehensive income where designated as a cash flow hedge and administrative expenses where hedge accounting has not been applied. The Group recognises all forward foreign exchange contracts and currency options on the balance sheet at fair value using external market data.

Derivatives relating to trading activities are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months from the balance sheet date.

The notional principal amount of the outstanding US dollar forward foreign exchange contracts at 30 November 2015 is £5.8 million (2014: £4.5 million) which mature by April 2017.

12 Inventories

	2015 £'000	2014 £'000
Raw materials	3,761	5,056
Work in progress	4,485	2,722
Finished goods	4,104	3,585
	12,350	11,363

The Group has recognised a charge in the income statement of £242,000 (2014: £771,000) for the write-down of its inventories during the year ended 30 November 2015. The Group has utilised provisions of £63,000 (2014: £153,000) during the year ended 30 November 2015.

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13 Trade and other receivables

	2015 £'000	2014 £'000
Trade receivables	12,855	15,947
Less: provision for impairment	(254)	(355)
Trade receivables – net	12,601	15,592
Other debtors	390	100
Prepayments	1,630	1,375
	14,621	17,067

There is no difference between the fair value of trade and other receivables and their carrying value.

Credit risk in relation to trade receivables

The Group has a diverse customer base both geographically and in the number of industries in which it operates. There is credit risk associated with a decline in a particular industry or geographic region. To offset this risk, the Group has implemented policies that require appropriate credit checks to be performed on significant potential customers before sales are made. Customer orders are checked against pre-set criteria before acceptance and credit control procedures are applied. Letters of credit and payments in advance are obtained from customers as appropriate.

The Group does not hold security over its receivables, so was exposed to credit risk in respect of the net trade receivables balance of £12,601,000 (2014: £15,592,000). Management believe the credit quality of trade receivables which are within the Group's typical payment terms of between 30 and 90 days (and which are less than 3 months overdue) is good. £4,138,000 (2014: £4,069,000) is past due but not impaired at the year end, of which £2,881,000 (2014: £2,875,000) is less than 30 days overdue.

	2015			2014		
	Not yet due £'000	Past due not impaired £'000	Impaired £'000	Not yet due £'000	Past due not impaired £'000	Impaired £'000
Trade receivables:						
Not yet due	8,289	–	–	11,464	–	–
0-3 months overdue	–	4,138	231	–	4,069	310
3-6 months overdue	–	145	16	–	59	22
>6 months overdue	–	29	7	–	–	23
Total	8,289	4,312	254	11,464	4,128	355

Movements on the Group provision for impairment of trade receivables are as follows:

	2015 £'000	2014 £'000
At 1 December	355	205
Provision for receivables impairment	31	161
Receivables written off during the year as uncollectable	(138)	(21)
Exchange differences	6	10
At 30 November	254	355

Foreign exchange risk in relation to trade receivables is disclosed in note 26.

14 Cash and cash equivalents

	2015 £'000	2014 £'000
Cash at bank and in hand	10,738	7,891
Cash and cash equivalents	10,738	7,891

The credit risk associated with cash and cash equivalents is mitigated by holding funds with banks with high credit ratings from AA- to A (2014: AA- to A) as assigned by international credit rating agencies.

The Group's cash balances are denominated in the following currencies:

	2015 £'000	2014 £'000
Pounds Sterling	3,699	2,497
US dollar	5,164	3,158
Euro	1,494	1,838
Other	381	398
	10,738	7,891

Financial statements

Notes to the consolidated financial statements continued

15 Trade and other payables

	2015 £'000	2014 £'000
Amounts falling due within one year:		
Trade payables	6,741	6,977
Taxation and social security	724	1,020
Other payables	64	924
Accruals and deferred income	15,663	15,989
	23,192	24,910

16 Construction contracts

	2015 £'000	2014 £'000
Amounts due from contract customers included in trade receivables	–	2,564
Contracts in progress at the balance sheet date:		
Amounts due to contract customers included in accruals and deferred income	(7,730)	(8,586)
Net amounts due to contract customers	(7,730)	(8,586)
Contract costs incurred plus recognised profits less recognised losses to date	35,160	29,611
Less: progress billings	(42,890)	(38,197)
Contracts in progress at the balance sheet date	(7,730)	(8,586)

At 30 November 2015, retentions held by customers for contract work amounted to £nil (2014: £nil). Advances received from customers for contract work amounted to £2,471,000 (2014: £158,000).

The Directors consider that the carrying amount due from/to contract customers is a reasonable approximation to fair value.

17 Borrowings

	2015 £'000	2014 £'000
Secured multi-currency revolving credit facility of US\$20 million (2014: US\$20 million) maturing in January 2018 with interest at 2.25% (2014: 2.25%) above US dollar LIBOR	–	1,900
Secured five year amortising debt facility of £nil (2014: £0.75 million) expired in June 2015 with interest at 2.0% (2014: 2.0%) above Sterling LIBOR	–	727
	–	2,627

Bank loans of the Group are repayable as follows:

	2015 £'000	2014 £'000
Within one year	–	727
Two to five years	–	1,900
	–	2,627

On 25 January 2013, the Group entered into a five year banking facilities agreement, sufficient for its foreseeable needs, comprising a US\$20 million revolving credit facility, a £2.5 million amortising term loan (reduced to £nil at 30 November 2015) and a £2.5 million multi-currency overdraft facility.

The loans are shown net of issue costs of £64,000 (2014: £102,000) which are being amortised over the life of the loan arrangements. The multi-currency revolving credit facility expires in January 2018.

At 30 November 2015, the Group had a £13.2 million (2014: £10.8 million) unused loan facility and an unutilised £2.5 million (2014: £2.5 million) overdraft facility.

The carrying values of any bank borrowings approximate their fair value as the impact of discounting is not significant. The fair values are based on the cashflows discounted using a rate based on the borrowing rate of 2.4% (2014: 2.4%).

The multi-currency facility is secured by fixed and floating charges against certain of the Group's assets.

The Group's borrowings are denominated in the following currencies certain of :

	2015 £'000	2014 £'000
Pounds Sterling	–	727
US dollar	–	1,900
	–	2,627

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18 Deferred tax asset

The movement on the Group's deferred income tax account is as follows:

	Note	2015 £'000	2014 £'000
At 1 December		1,746	2,440
Exchange loss		(53)	(65)
Income statement credit	6	59	7
Tax charged to comprehensive income in respect of pension liabilities		(504)	(166)
Tax charged to equity in respect of share options		(184)	(470)
At 30 November		1,064	1,746

The movement of deferred tax assets and (liabilities) during the year is as follows:

	Accelerated capital allowances £'000	Other short term timing differences £'000	Development costs capitalised £'000	Share based payments £'000	Retirement obligations £'000	Total £'000
At 1 December 2013	(1,351)	332	(251)	924	2,786	2,440
(Charged)/credited to income statement	(413)	238	67	100	15	7
Credited to equity in respect of share options	—	—	—	(470)	—	(470)
Credited to comprehensive income in respect of pension liabilities	—	—	—	—	(166)	(166)
Exchange differences	(76)	19	(8)	—	—	(65)
At 30 November 2014	(1,840)	589	(192)	554	2,635	1,746
Credited/(charged) to income statement	168	(239)	75	48	7	59
Charged to equity in respect of share options	—	—	—	(184)	—	(184)
Charged to comprehensive income in respect of pension liabilities	—	—	—	—	(504)	(504)
Exchange differences	(61)	9	(1)	—	—	(53)
At 30 November 2015	(1,733)	359	(118)	418	2,138	1,064

There were no unrecognised deferred tax amounts at 30 November 2015 (2014: £nil). The deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Included within the net deferred tax asset balance of £1,064,000 (2014: £1,746,000) are deferred tax liabilities of £1,465,000 (2014: £1,494,000), which relate to Group entities based in the USA.

19 Retirement benefit obligations

	2015 £'000	2014 £'000
Defined benefit scheme deficit	11,876	12,708
Additional pension commitments	117	125
	11,993	12,833

The additional pension commitments arise out of contractual commitments to certain employees outside the scope of the defined benefit plan. These liabilities will crystallise between one and ten years.

a) Defined contribution schemes

For its US employees, the Group operates a defined contribution pension plan ("the Pension Plan") covering all eligible full-time employees. The Group contributes 3% of each participant's base salary each year to the Pension Plan. In 2015, this amounted to £304,000 (2014: £258,000). In 2015, the Group also made payments of £314,000 (2014: £274,000) to designated US 401k schemes on behalf of its employees. In the UK, after the closure of the defined benefit plan to new members, the Group introduced a stakeholder plan to be offered to all new employees. Total employer contributions in the UK paid to defined contribution schemes were £568,000 (2014: £632,000).

b) Defined benefit plan

The Group operates a defined benefit pension scheme, The Porvair plc Pension and Death Benefit Plan (the 'Plan'), covering a number of employees in the UK. The pension scheme is financed through a separate trust fund administered by Trustees with an independent Chairman. The Plan was closed to new entrants in October 2001. The defined benefit scheme exposes the Group to actuarial risks, such as longevity risk, inflation risk, interest rate risk and market (investment) risk. The Group is not exposed to any unusual, entity specific or scheme specific risks.

Notes to the consolidated financial statements continued

19 Retirement benefit obligations continued

Formal valuations of the Plan by a professionally qualified actuary are carried out at least every three years using the projected unit method. Under this method the current service cost will increase in relation to the salaries of the members in future years as those members approach retirement. The latest available full actuarial valuation was at 31 March 2012.

The principal actuarial assumptions adopted in the 2012 valuation were:

2012 valuation
assumptions %

Past service investment return:

Pre-retirement discount rate	5.75
Post-retirement discount rate	3.75
Salary increases	3.50

A full triennial actuarial valuation of the assets and liabilities of the defined benefit scheme was completed in 2013, based on data at 31 March 2012. The actuarial value of the assets on the funding basis was sufficient to cover 66% of the benefits that had accrued to members after allowing for expected increases in pensionable remuneration, and the current funding deficiency amounted to £11.0 million. As a result of the review, the Group and the Trustees agreed to alter the employer's contributions from 8.2% of salary to 13.3% of salary. A £194,000 annual cash contribution towards the running costs of the scheme started in March 2014, increasing by 3.25% per annum. The Group also committed to make additional annual contributions to cover the past service deficit of £456,000 per annum increasing by 5% per annum commencing in December 2013. The funding shortfall is expected to be eliminated by December 2027. The next full actuarial valuation of the scheme will be based on the pension scheme's position at 31 March 2015 and is expected to be completed before June 2016.

The pension charge for the year was £607,000 (2014: £530,000) and the funding via employer contributions was £1,011,000 (2014: £943,000). The Group expects to make contributions of £1,042,000 to the Plan in the next financial period.

The valuation of the deficit in the balance sheet is based on the most recent actuarial valuation of the Plan as updated by a qualified actuary to take account of the market value of the assets and the present value of the liabilities of the Plan at 30 November 2015.

Balance sheet

The financial assumptions used to calculate Plan liabilities under IAS 19:

	2015	2014
	Projected Unit	Projected Unit
Valuation method		
Discount rate	3.7%	3.6%
RPI inflation rate	3.3%	3.2%
CPI inflation rate	2.3%	2.2%
General salary increases	3.0%	3.2%
Rate of increase of pensions in payment	2.3%	2.2%
Rate of increase for deferred pensioners	1.9%	2.2%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the industry. The SAPS base mortality tables have been used, with a 106% multiplier allowing for future improvements of 1.25% per annum (2014: 1.25% per annum). These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2015 Years	2014 Years
Retiring at the end of the reporting period:		
- Male	21.6	21.6
- Female	23.6	23.8
Retiring 15 years after the end of the reporting period:		
- Male	22.9	22.9
- Female	25.0	25.3

Sensitivities have been calculated by valuing the Plan's defined benefit obligation at 30 November 2015 using the same methodology, with relevant changes to the assumptions. The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.1%	Decrease of 2.0%	Increase of 1.9%
Inflation rate	0.1%	Increase of 1.1%	Decrease of 1.1%
Life expectancy	1 year	Increase of 2.5%	Decrease of 2.8%

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19 Retirement benefit obligations continued

The assets in the Plan, all of which are quoted, are:

	Value at 30 November 2015 £'000	Value at 30 November 2014 £'000
Equities	12,670	12,923
Bonds	2,197	2,080
Gilts	8,830	8,450
Other quoted	104	209
Fair value of Plan assets	23,801	23,662
Present value of unfunded obligations	(35,677)	(36,370)
Deficit in the Plan (excluding deferred tax)	(11,876)	(12,708)

The analysis of movement in the deficit in the Plan for the year is as follows:

	2015 £'000	2014 £'000
Deficit at 1 December	(12,708)	(11,741)
Contributions paid	1,011	943
Current service cost	(325)	(300)
Administration expense	(282)	(230)
Other finance expense	(444)	(480)
Actuarial gain/(loss)	872	(900)
Deficit at 30 November	(11,876)	(12,708)

The change in the present value of the Plan assets during the year is as follows:

	2015 £'000	2014 £'000
Plan assets at the start of the year	23,662	21,379
Benefit payments	(1,562)	(1,170)
Company contributions	1,011	943
Administration expense	(282)	(230)
Member contributions	113	120
Interest income on plan assets	838	890
Return on Plan assets (excluding interest income)	21	1,730
Plan assets at 30 November	23,801	23,662

The actual return on Plan assets was £859,000 (2014: £2,620,000).

The change in the present value of the Plan liabilities during the year is as follows:

	2015 £'000	2014 £'000
Plan liabilities at the start of the year	(36,370)	(33,120)
Current service cost	(325)	(300)
Interest cost	(1,282)	(1,370)
Member contributions	(113)	(120)
Benefits paid	1,562	1,170
Gain/(loss) on change in financial and demographic assumptions	851	(2,630)
Plan liabilities at 30 November	(35,677)	(36,370)

The Plan liabilities by participant member status are as follows:

	2015 £'000	2014 £'000
Active	(8,173)	(8,130)
Deferred	(16,013)	(15,940)
Pensioner	(11,491)	(12,300)
Plan liabilities at 30 November	(35,677)	(36,370)

The weighted average duration of the Plan scheme liabilities at the end of the reporting period is 20 years (2014: 18 years).

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Notes to the consolidated financial statements continued

19 Retirement benefit obligations continued

The movements in the Plan during the year are as follows:

	2015 £'000	2014 £'000
Income statement		
Analysis of amounts chargeable to operating profit:		
Current service cost	(325)	(300)
Administration expense	(282)	(230)
Amount chargeable to operating profit	(607)	(530)
Analysis of amounts (charged)/credited to other finance income and costs:		
Interest on Plan liabilities	(1,282)	(1,370)
Expected return on assets in the Plan	838	890
Net amount charged to other finance income and costs	(444)	(480)
Total chargeable to the income statement before deduction of tax	(1,051)	(1,010)
Other items		
Analysis of amounts recognised in the consolidated statement of comprehensive income:		
Actual return on assets in excess of expected return	21	1,730
Gain/(loss) on change in financial and demographic assumptions	851	(2,630)
Total actuarial gain/(loss) recognised in the consolidated statement of comprehensive income	872	(900)
Cumulative actuarial loss recognised in the consolidated statement of comprehensive income	(5,368)	(6,240)

20 Provisions for other liabilities and charges

	Dilapidations £'000	Warranty £'000	Total £'000
At 1 December 2014	138	–	138
Charged to the consolidated income statement:			
– Unwinding of discount	12	–	12
– Warranty	–	578	578
At 30 November 2015	150	578	728

The provisions, all of which are non-current, arise from a discounted dilapidations provision for leased property, which is expected to reverse in 2023, and a sale warranty, which is utilisable before 2020.

21 Share capital and share premium account

	Number of shares	Share capital £'000	Share premium account £'000	Total £'000
At 1 December 2013	43,733,598	875	35,147	36,022
Issue of shares on exercise of share options	629,733	12	187	199
At 30 November 2014	44,363,331	887	35,334	36,221
At 1 December 2014	44,363,331	887	35,334	36,221
Issue of shares on exercise of share options	460,221	9	25	34
At 30 November 2015	44,823,552	896	35,359	36,255

In February 2015, 441,000 ordinary shares of 2 pence each were issued on the exercise of Long Term Share Plan share options for cash consideration of £9,000. In December 2014 and May 2015, 9,221 ordinary shares of 2 pence each were issued on the exercise of Save As You Earn share options for cash consideration of £10,000. In November 2015, 10,000 ordinary shares of 2 pence each were issued on the exercise of EMI share options for cash consideration of £15,000.

In January 2014, 425,000 ordinary shares of 2 pence each were issued on the exercise of Long Term Share Plan share options for cash consideration of £9,000. In May 2014, September 2014, October 2014 and November 2014, 204,733 ordinary shares of 2 pence each were issued on the exercise of Save As You Earn share options for cash consideration of £190,000.

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22 Share options and share based payments

Share options are granted to Executive Directors and to selected employees. Details of share options awarded, including exercise price and performance conditions, are disclosed in the Remuneration report on pages 47 to 58.

These equity settled, share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled, share based payments is expensed to the income statement on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The charge is then credited back to reserves.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Details of the share options are:

Scheme	Year of grant	Exercise period	Subscription price (pence)	2015 Number of shares	2014 Number of shares
2005 EMI (Revenue approved)	2006	2009 – 2016	151.00	–	10,000
2005 EMI (Revenue unapproved)	2009	2012 – 2019	69.50	25,000	25,000
2011 3yr Save As You Earn Scheme	2011	2014 – 2015	93.00	–	7,763
2011 5yr Save As You Earn Scheme	2011	2016 – 2017	93.00	186,753	186,753
2008 Long term share plan	2012	2015 – 2022	2.00	–	441,000
2008 Long term share plan	2013	2016 – 2023	2.00	308,200	308,200
2008 Long term share plan	2014	2017 – 2024	2.00	187,700	187,700
2014 3yr Save As You Earn Scheme	2014	2017 – 2018	240.00	172,665	196,365
2014 5yr Save As You Earn Scheme	2014	2019 – 2020	240.00	108,693	116,646
2008 Long term share plan	2015	2018 – 2025	2.00	173,000	–
At 30 November				1,162,011	1,479,427

Movements in share options during the year were:

	2015 Weighted average exercise price (pence)	2014 Weighted average exercise price (pence)	2015 Number of shares	2014 Number of shares
At 1 December	66.47	26.77	1,479,427	1,613,544
Options granted	2.00	151.74	173,000	506,136
Options forfeited	240.00	168.81	(30,195)	(10,520)
Options exercised	7.53	31.59	(460,221)	(629,733)
At 30 November	75.70	66.47	1,162,011	1,479,427
Options exercisable at 30 November	69.50	92.82	25,000	42,763
Options not exercisable at 30 November	75.84	65.68	1,137,011	1,436,664
Total	75.70	66.47	1,162,011	1,479,427

	Year of grant	Scheme	Exercise price (pence)	2015 Number of shares	2014 Number of shares
Options granted during the year were:	2014	2008	2.00	–	187,700
	2014	3yr SAYE	240.00	–	196,740
	2014	5yr SAYE	240.00	–	121,696
	2015	2008	2.00	173,000	–
Total				173,000	506,136

	Year of grant	Scheme	Exercise price (pence)	2015 Number of shares	2014 Number of shares
Options forfeited during the year were:	2011	3yr SAYE	93.00	–	3,105
	2011	5yr SAYE	93.00	–	1,990
	2014	3yr SAYE	240.00	22,242	375
	2014	5yr SAYE	240.00	7,953	5,050
Total				30,195	10,520

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Notes to the consolidated financial statements continued

22 Share options and share based payment continued

	Year of grant	Scheme	Exercise price (pence)	2015 Number of shares	2014 Number of shares
Options exercised during the year were:	2011	3yr SAYE	93.00	7,763	204,733
	2011	2008	2.00	–	425,000
	2006	2005 EMI	151.00	10,000	–
	2012	2008	2.00	441,000	–
	2014	3yr SAYE	240.00	1,458	–
Total				460,221	629,733

For options exercised in the year, the weighted average share price at the date of exercise was 301 pence (2014: 288 pence).

A summary of the outstanding share option fair value assumptions is given below:

Grant date	30/01/09 Porvair 2005 share option	01/10/11 SAYE 2011 5 year	01/02/13 Porvair LTSP	30/01/14 Porvair LTSP	01/10/14 SAYE 2014 3 year	01/10/14 SAYE 2014 5 year	28/01/15 Porvair LTSP
Scheme							
Share price at grant date	69.50p	116.25p	177.50p	285.75p	300.00p	300.00p	301.50p
Exercise price	69.50p	93.00p	2.00p	2.00p	240.00p	240.00p	2.00p
Shares under option	350,000	192,060	308,200	187,700	196,740	121,696	173,000
Vesting period (years)	3	5	3	3	3	5	3
Expected volatility	50%	30%	30%	30%	30%	30%	30%
Expected life (years)	3	5	3	3	3	5	3
Risk free rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Dividend yield	1.80%	2.47%	1.46%	1.01%	0.97%	0.97%	1.06%
Fair value per option (£)	0.21209	0.31849	1.67899	2.75211	0.85809	0.97057	2.90081

The expected volatility is based on historic share price movements. The Directors anticipate it is possible the performance criteria in relation to certain share options may not be met.

Share based payments

	2015 £'000	2014 £'000
Charge for the year	502	503

23 Other reserves

	2015		2014	
	Cumulative translation reserve £'000	Retained earnings £'000	Cumulative translation reserve £'000	Retained earnings £'000
At 1 December	816	15,096	(309)	11,967
Profit for the year attributable to shareholders	–	6,956	–	6,333
Dividends paid	–	(1,479)	–	(1,325)
Actuarial gain/(loss)	–	872	–	(900)
Tax on actuarial gain/(loss)	–	(504)	–	(166)
Share based payments	–	502	–	503
Tax on share based payments	–	(184)	–	(470)
Interest rate swap cash flow hedge	–	–	–	20
Foreign exchange contract cash flow hedge	–	(156)	–	(866)
Exchange differences	890	–	1,125	–
At 30 November	1,706	21,103	816	15,096

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24 Cash generated from operations

	2015 £'000	2014 £'000
Operating profit	9,801	9,205
Adjustments for:		
– Post-employment benefits	75	26
– Share based payments	502	503
– Depreciation, amortisation and impairment	2,156	2,235
– Profit on disposal of property, plant and equipment and intangibles	(17)	(1)
Operating cash flows before movement in working capital	12,517	11,968
Changes in working capital (excluding the effects of exchange differences on consolidation):		
– (Increase)/decrease in inventories	(904)	415
– Decrease/(increase) in trade and other receivables	2,492	(2,440)
– (Decrease)/increase in payables	(1,389)	4,213
– Increase in provisions	578	–
Decrease in working capital	777	2,188
Cash generated from operations	13,294	14,156

25 Acquisitions

Acquisition of trade and assets of Fiber Ceramics from Joy-Mark, Inc.

On 29 June 2015 the Group, through its subsidiary Selee Corporation, purchased the trade and assets of Fiber Ceramics from Joy-Mark, Inc. The trade is the manufacture of specialist filters and is based in the USA. The trade contributed external revenue of US\$217,000 (£141,000) and a net profit of US\$32,000 (£21,000) in the period 29 June 2015 to 30 November 2015. It is estimated that if the acquisition had occurred on 1 December 2014, the acquisition would have contributed external revenue of US\$700,000 (£456,000) and a net profit of US\$80,000 (£52,000) for the year ended 30 November 2015. The total consideration is US\$509,000 (£324,000); US\$425,000 (£271,000) of this was paid by 30 November 2015, with the balance due by 31 December 2015. The purchase is accounted for as an acquisition. Acquisition-related costs of US\$27,000 (£18,000) have been charged to administrative expenses in the consolidated income statement in the year ended 30 November 2015.

	£'000
Purchase consideration:	
Cash paid	271
Deferred consideration	53
Total purchase consideration	324
Fair value of net assets acquired (see below)	(245)
Goodwill	79

The goodwill is attributable to the acquired customer base and non-contractual relationships, the synergies between the business acquired and the existing operations of the Group and the potential to develop the technologies acquired. The goodwill recognised is attributable to the Metals Filtration division and is expected to be deductible for income tax purposes.

	Fair value £'000	Acquiree's carrying value £'000
Property, plant and equipment	159	–
Non-compete agreement (included in intangible assets)	33	–
Inventory	53	53
Net assets acquired	245	53
Purchase consideration settled in cash	271	
Cash outflow on acquisition	271	

Notes to the consolidated financial statements continued**25 Acquisitions** continued

Summary of deferred and contingent consideration on acquisitions:

	Eisenmann Metallurgical £'000	Thomas Cain £'000	Fiber Ceramics £'000	Total £'000
At 1 December 2014	639	285	–	924
Purchase consideration additions in year	–	–	324	324
Cash paid in year	(653)	(163)	(271)	(1,087)
Recognised in the income statement	–	(129)	–	(129)
Exchange movement	14	7	3	24
At 30 November 2015	–	–	56	56

	2015 Total £'000	2014 Total £'000
Included within other payables:		
– Deferred and contingent consideration – current	56	924
At 30 November 2015	56	924

26 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate cash flow risk), credit risk and liquidity risk. The Group's overall risk management programme is disclosed on pages 24 to 28 of the Strategic report and page 39 of the Directors' report. The Group uses derivative financial instruments to hedge certain risk exposures.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily in respect of the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(i) US dollar

The Group has investments in its US based subsidiaries denominated in US dollars. Currency exposure arising from the net assets of the Group's US operations is managed through borrowings denominated in US dollars.

The UK operations generate significant US dollar revenue and forward contracts are used to reduce the impact of movements in the US dollar exchange rate.

The Group has the following outstanding US dollar forward contracts:

	2015 \$'000	2014 \$'000
Outstanding forward contracts	8,800	7,000

The Group has the following current assets and liabilities denominated in US dollars:

	2015 \$'000	2014 \$'000
Trade receivables	11,746	15,581
Cash balances	7,773	4,946
Other current assets	7,396	9,049
Trade payables	(5,618)	(4,800)
Other current liabilities	(14,809)	(19,121)
	6,488	5,655

For illustrative purposes, if the US dollar exchange rate were to move by 10% against Sterling, the Group would make the following gains/(losses):

	2015 £'000	2014 £'000
US dollar strengthens	479	401
US dollar weakens	(392)	(328)

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26 Financial risk management continued**(ii) Euro**

The Group has investments in its European based subsidiaries denominated in Euros. Currency exposure arising from the net assets of the Group's European operations is managed through net purchases from suppliers as a partial natural hedge.

The Group has the following current assets and liabilities denominated in Euros:

	2015 €'000	2014 €'000
Trade receivables	1,384	1,784
Cash balances	2,129	2,310
Other current assets	1,570	1,437
Trade payables	(1,763)	(1,098)
Other current liabilities	(665)	(801)
	2,655	3,632

For illustrative purposes, if the Euro exchange rate were to move by 10% against Sterling, the Group would make the following gains/(losses):

	2015 £'000	2014 £'000
Euro strengthens	208	322
Euro weakens	(169)	(263)

Cash flow interest rate risk

The Group is exposed to cash flow risk. For illustrative purposes, if interest rates had been 0.5% higher/lower on borrowings throughout the year with all other variables held constant, the post tax profit for the year would have been £9,000 (2014: £40,000) lower/higher respectively.

Credit risk

Credit risk is disclosed in notes 13 and 14.

Liquidity risk

Banking facilities, including a maturity profile, are disclosed in note 17. Interest is payable based on the length of the revolving facilities, typically between 1 and 3 months and on a quarterly basis for the term loan. The Group is required to meet banking covenants on a quarterly basis. Whilst the Group has sufficient cash reserves and expects future trading to enable it to meet its cash flow obligations, should trading performance prevent it from doing so then the lender has recourse over the Group's assets. Cash and cash equivalents held in the UK is subject to a Composite Account System, which is a banking offset arrangement that allows the set-off of overdraft balances with retained cash.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis to the extent that their contractual maturities are essential for an understanding of the timing of cash flows. The amounts disclosed are the contractual undiscounted cash flows.

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Trade and other payables	13,999	–	–
At 30 November 2015	13,999	–	–

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Borrowings	805	49	2,035
Trade and other payables	15,100	–	–
At 30 November 2014	15,905	49	2,035

The following table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined below:

- Quoted prices in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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Notes to the consolidated financial statements continued

26 Financial risk management continued

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial liabilities at fair value through profit or loss:				
– Trading derivatives	–	(64)	–	(64)
Deferred consideration	–	–	(56)	(56)
Foreign exchange contracts used for hedging	–	(90)	–	(90)
At 30 November 2015	–	(154)	(56)	(210)

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets/(liabilities) at fair value through profit or loss:				
– Trading derivatives	–	(118)	–	(118)
Deferred and contingent consideration	–	–	(924)	(924)
Foreign exchange contracts used for hedging	–	66	–	66
At 30 November 2014	–	(52)	(924)	(976)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. See note 25 for movement in level 3 liabilities.

The tables below analyse financial instruments by category:

	2015				2014			
	Loans and receivables £'000	Assets at fair value through profit and loss £'000	Derivatives used for hedging £'000	Total £'000	Loans and receivables £'000	Assets at fair value through profit and loss £'000	Derivatives used for hedging £'000	Total £'000
Assets as per balance sheet								
Foreign exchange contracts	–	–	–	–	–	–	66	66
Trade and other receivables excluding prepayments	12,991	–	–	12,991	15,692	–	–	15,692
Cash and cash equivalents	10,738	–	–	10,738	7,891	–	–	7,891
At 30 November	23,729	–	–	23,729	23,583	–	66	23,649

	2015				2014			
	Other financial liabilities at amortised cost £'000	Liabilities at fair value through profit and loss £'000	Derivatives used for hedging £'000	Total £'000	Other financial liabilities at amortised cost £'000	Liabilities at fair value through profit and loss £'000	Derivatives used for hedging £'000	Total £'000
Liabilities as per the balance sheet								
Foreign exchange contracts	–	(64)	(90)	(154)	–	(118)	–	(118)
Trade and other payables excluding non-financial liabilities	(13,999)	–	–	(13,999)	(18,132)	–	–	(18,132)
At 30 November	(13,999)	(64)	(90)	(14,153)	(18,132)	(118)	–	(18,250)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to operate as a going concern in order to provide returns to shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated balance sheet less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet. The gearing ratio at 30 November 2015 was not applicable because the Group had a net cash position (2014: not applicable).

The Group's borrowings are subject to certain covenant restrictions imposed by the bank. These covenants have been fully complied with during the year ended 30 November 2015.

Financial statements

27 Contingent liabilities

At 30 November 2015, the Group has advanced payment bonds totalling US\$5,273,000 (2014: US\$5,565,000) relating to monies received in advance on contracts. The bonds require the amount to be repaid in the event delivery is not made within certain parameters. The advanced payment bonds are released up to 6 months after the delivery of goods and in any event no later than February 2016. The Group has performance bonds totalling US\$9,728,000 (2014: US\$5,704,000). The bonds are released after a warranty period and in any event no later than January 2019. The Group has no bid guarantees (2014: US\$300,000) in place at the year end.

28 Commitments**Capital and other financial commitments**

Contracts placed for future capital expenditure on property, plant and equipment not provided in the financial statements at 30 November 2015 were £1,062,000 (2014: £1,036,000).

Operating lease commitments – minimum lease payments

	2015		2014	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Future aggregate minimum lease payments in respect of leases expiring in:				
No later than one year	1,236	80	1,134	108
Later than one year and no later than five years	3,791	145	3,298	232
Later than five years	2,735	–	1,516	44
At 30 November	7,762	225	5,948	384

29 Key management compensation

The Board of Directors, including the Non-Executive Directors, are classified as key management. Their remuneration is shown in the Remuneration report. Their aggregate emoluments are disclosed in the table below.

	2015 £'000	2014 £'000
Salaries and other short term employee benefits	1,045	1,030
Post employment benefits	122	84
Share based payments	456	468
	1,623	1,582

30 Subsidiary undertakings

Details of the Group's subsidiary undertakings at 30 November 2015 are as follows:

Name	Country of incorporation and operation	% holding in ordinary shares
<i>Held directly:</i>		
Porvair Corporation	USA	100%
Porvair Filtration Limited	England	100%
Porvair Selee Filtration Technology (Hubei) Company Limited	China	100%
Seal Analytical Limited	England	100%
Seal Analytical Shanghai Company Limited	China	100%
<i>Held indirectly:</i>		
Microfiltrex Limited	England	100%
Porvair Filtration Group Inc.	USA	100%
Porvair Filtration Group Limited	England	100%
Porvair Sciences Limited	England	100%
Pulse Instrumentation GmbH	Germany	100%
Seal Analytical GmbH	Germany	100%
Seal Analytical Inc.	USA	100%
Selee Corporation	USA	100%

Notes to the consolidated financial statements continued**31 Post balance sheet event – Acquisition of the trade and assets of TEM Filter Company**

On 4 December 2015 the Group, through its subsidiary Porvair Filtration Group, Inc., purchased the trade and assets of the TEM Filter Company. The trade is the manufacture of specialist filters and is based in the USA. The total consideration is US\$4,888,000 (£3,236,000); US\$4,350,000 (£2,880,000) of this was paid on 4 December 2015, with the balance being contingent and due for payment before 31 May 2017. The direct costs of acquisition, which will be charged to the income statement, were US\$58,000 (£38,000).

	£'000
Purchase consideration:	
Cash paid	2,880
Deferred contingent consideration	356
Total purchase consideration	3,236
Fair value of net assets acquired (see below)	(321)
Goodwill	2,915

The goodwill is attributable to the acquired customer base and non-contractual relationships, the synergies between the business acquired and the existing operations of the Group and the potential to develop the technologies acquired. The goodwill recognised is attributable to the Microfiltration division and is expected to be deductible for income tax purposes. The purchase will be accounted for as an acquisition. The deferred contingent consideration estimate is based on the forecast performance of the acquired business.

The assets and liabilities arising from the acquisition, provisionally determined, are:

	Fair value £'000	Acquiree's carrying value £'000
Property, plant and equipment	44	–
Non-compete agreement	66	–
Inventory	93	165
Trade receivables	154	154
Other working capital (net)	(36)	(36)
Net assets acquired	321	283
Purchase consideration settled in cash	2,880	
Cash outflow on acquisition	2,880	

Independent auditors' report to the members of Porvair plc

Report on the Parent Company financial statements

Our opinion

In our opinion, Porvair plc's Parent Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Parent Company's affairs as at 30 November 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report & Accounts (the "Annual Report"), comprise:

- the Parent Company balance sheet as at 30 November 2015;
- the Parent Company reconciliation of movements in shareholders' funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

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

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Parent Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 40 and 41, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

Independent auditors' report to the members of Porvair plc continued

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group financial statements of Porvair plc for the year ended 30 November 2015.



Andy Grimbley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
22 January 2016

Financial statements

Porvair plc – Parent Company Balance Sheet (under UK GAAP)

Company registered number 66 935

As at 30 November

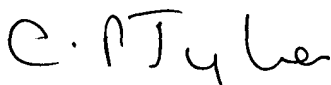
	Note	2015 £'000	2014 £'000
Fixed assets			
Tangible assets	5	13	6
Investments	6	63,379	58,455
		63,392	58,461
Current assets			
Debtors: amounts falling due after more than one year	7	508	405
Debtors: amounts falling due within one year	7	514	926
		1,022	1,331
Cash at bank and in hand	8	308	12
		1,330	1,343
Creditors: amounts falling due within one year	9	(10,171)	(13,734)
Net current liabilities		(8,841)	(12,391)
Total assets less current liabilities		54,551	46,070
Creditors: amounts falling due after more than one year	9	(118)	(2,025)
Net assets		54,433	44,045
Capital and reserves			
Called up share capital	2	896	887
Share premium account	3	35,359	35,334
Exchange reserves	3	(375)	(658)
Profit and loss account	3	18,553	8,482
Total shareholders' funds		54,433	44,045

The financial statements on pages 97 to 103 were approved by the Board of Directors on 22 January 2016 and were signed on its behalf by:

B D W Stocks



C P Tyler



Financial statements

Company profit/(loss) for the financial year

As permitted by Section 408 of the Companies Act 2006, no profit and loss account is presented for the holding company. The profit for the financial year is £11,048,000 (2014: £3,422,000).

Parent Company – reconciliation of movements in shareholders' funds

For the year ended 30 November	Note	2015 £'000	2014 £'000
Profit for the financial year		11,048	3,422
Dividends		(1,479)	(1,325)
		9,569	2,097
Exchange differences	3	283	294
Net proceeds from issue of ordinary share capital		34	199
Share based payments	3	502	503
Net increase/(decrease) in shareholders' funds		10,388	3,093
Opening shareholders' funds	-	44,045	40,952
Closing shareholders' funds		54,433	44,045

Notes to the financial statements

1 Summary of significant accounting policies

These financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK accounting standards. A summary of the more important accounting policies is set out below, which have been applied on a consistent basis with the previous year, except where noted.

Going concern

The Company has a net current liability position at 30 November 2015. Given the Company's access to dividends from its subsidiaries, the going concern basis of preparation is considered appropriate.

Tangible fixed assets

Tangible fixed assets are capitalised at cost and are depreciated by equal annual amounts over their estimated useful lives. Annual depreciation rates are between 10% and 33.33% straight line for plant, machinery and equipment.

Fixed asset investments

Investments held as fixed assets are stated at cost less provision for impairment in value.

Impairment of assets

Assets are regularly reviewed to confirm their carrying values. Where the expected realisable value is lower than the book value, the excess of book value is charged to the profit and loss account during the period.

Patents and trademarks

All expenditure on the registration, renewal and maintenance of patents and trademarks is expensed as incurred.

Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial year.

Exchange differences arising on retranslation of non-monetary assets and liabilities are recognised directly to the exchange reserve. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Deferred taxation

The charge for tax is based on the profit for the year and takes into account tax deferred or accelerated because of timing differences between the treatment of certain items for accounting and tax purposes under FRS 19. Full provision is made for deferred tax resulting from timing differences between profits computed for tax purposes and profits stated in the financial statements to the extent that there is an obligation to pay more tax in the future as a result of the reversal of those timing differences. Deferred tax assets are recognised to the extent that they are expected to be recoverable, and are measured on a non-discounted basis based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

Pensions

Pension costs for defined benefit and defined contribution schemes are charged to the profit and loss account as incurred. The Company participates in the Group's defined benefit pension scheme (which is closed to new members), The Porvair plc Pension and Death Benefit Plan. The Company includes only the cost of its contributions to the scheme in its profit and loss account for the year because the structure of the scheme is such that it does not enable any individual Group company to identify its share of the assets and liabilities of the scheme.

Share based payments

Where the Company has granted rights over its equity instruments to the employees of subsidiary companies, there is a corresponding increase recognised in the investment in subsidiary undertakings in those years.

The Company issues equity settled, share based payments to certain employees. Equity settled, share based payments are measured at fair value at the date of grant. 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 Company's estimate of shares that will eventually vest. The charge is then credited back to reserves.

At each balance sheet date, the Company revises its estimates of the number of share options that are expected to vest. It recognises the impact of the revisions to original estimates, if any, in the profit and loss account or, if relating to a subsidiary undertaking in investment in subsidiary undertakings, with a corresponding adjustment to equity.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the term of the relevant lease.

Borrowing costs

All borrowing costs are typically recognised in profit or loss in the period in which they are incurred. Borrowing costs incurred in the arrangement of new facilities are capitalised and subsequently recognised in the profit and loss account over the period of the borrowings.

Related party transactions

The Company has taken advantage of the exemption available to parent companies under FRS 8, 'Related Party Disclosures', not to disclose transactions and balances with wholly owned subsidiaries.

Financial statements

Notes to the financial statements continued

2 Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging:

Services provided by the Company's auditors and associates

During the year the Company obtained the following services from the Company's auditors at costs as detailed below:

	2015 £'000	2014 £'000
Fees payable to Company's auditors for audit of parent company financial statements	15	14
	15	14

3 Employee numbers

The average monthly number of staff, including Executive Directors, employed during the year is as below:

	2015 Number	2014 Number
Administration	7	7
	7	7

4 Directors' emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the Remuneration report on pages 47 to 58, and in note 29 of the Group accounts.

5 Tangible assets

	Plant, machinery and equipment £'000
Cost	
At 1 December 2014	181
Additions	13
Disposals	(31)
At 30 November 2015	163
Accumulated depreciation	
At 1 December 2014	(175)
Charge for year	(6)
Disposals	31
At 30 November 2015	(150)
Net book value	
At 30 November 2015	13
At 30 November 2014	6

Financial statements

6 Fixed asset investments

	2015			2014		
	Investment in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000	Investment in subsidiary undertakings £'	Loans to subsidiary undertakings £'	Total £'000
Cost						
At 1 December	49,327	13,241	62,568	49,298	26,114	75,412
Advances/(repayments)	–	4,512	4,512	–	(818)	(818)
Write-off of subsidiary loan balances	–	(4,078)	(4,078)	–	(12,085)	(12,085)
Capital contributions arising from FRS 20 share based payments charge	44	–	44	29	–	29
Exchange differences	–	333	333	–	30	30
At 30 November	49,371	14,008	63,379	49,327	13,241	62,568
Accumulated provisions						
At 1 December	(2,598)	(1,515)	(4,113)	(2,598)	(13,476)	(16,074)
Write-off of subsidiary loan balances	–	1,515	1,515	–	11,961	11,961
Write-back of investment provision	2,598	–	2,598	–	–	–
At 30 November	–	–	–	(2,598)	(1,515)	(4,113)
Net book value						
At 30 November	49,371	14,008	63,379	46,729	11,726	58,455
At 30 November	46,729	11,726	58,455	46,700	12,638	59,338

The capital contributions arising from FRS 20 charge represents the Company granting rights over its equity instruments to the employees of subsidiary undertakings. This results in a corresponding increase in investments in subsidiary undertakings.

Loans written off in the period relate to balances with previously dormant subsidiaries that have been dissolved in the year. During the year the Company released a provision no longer required against the cost of its investment in Porvair Corporation, as a result of the subsidiary's continued trading profitability.

Details of the Company's subsidiary undertakings are given in Note 30 of the Group financial statements.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

7 Debtors

	Note	2015 £'000	2014 £'000
Amounts falling due within one year:			
Corporation tax recoverable		476	892
Prepayments		38	34
		514	926
Amounts falling due after more than one year:			
Deferred taxation		508	405
		508	405

8 Cash at bank and in hand

	2015 £'000	2014 £'000
Cash at bank and in hand	308	12

Financial statements

Notes to the financial statements continued

9 Creditors

	Note	2015 £'000	2014 £'000
Amounts falling due within one year:			
Borrowings		8,657	12,265
Trade creditors		111	80
Taxation and social security		79	95
Accruals and deferred income		1,324	1,294
		10,171	13,734
Amounts falling due after more than one year:			
Borrowings		–	1,900
Retirement obligations		118	125
		118	2,025

10 Borrowings

	2015 £'000	2014 £'000
Secured multi-currency revolving credit facility of US\$20 million (2014: US\$20 million) maturing in January 2018 with interest at 2.25% (2014: 2.25%) above US dollar LIBOR	–	1,900
Secured five year amortising debt facility of £0.75 million (2014: £1.75 million) expiring in June 2015 with interest at 2.00% (2014: 2.00%) above Sterling LIBOR	–	727
Bank overdraft offset against cash balances in other Group companies under a Group banking offset arrangement	8,657	11,538
	8,657	14,165
	2015 £'000	2014 £'000
Bank and other loans of the Company are repayable as follows:		
Within one year	8,657	12,265
Two to five years	–	1,900
	8,657	14,165

On 25 January 2013, the Company entered into a five year banking facilities agreement, sufficient for its foreseeable needs, comprising a US\$20 million revolving credit facility, a £2.5 million amortising term loan (reduced to £nil at 30 November 2015) and a £2.5 million multi-currency overdraft facility.

The loans are shown net of issue costs of £64,000 (2014: £102,000) which are being amortised over the life of the loan arrangements. The multi-currency revolving credit facility expires in January 2018.

At 30 November 2015, the Company had £13.2 million (2014: £10.8 million) unused loan facility and an unutilised £2.5 million (2014: £2.5 million) overdraft facility.

The carrying values of any bank borrowings approximate their fair value as the impact of discounting is not significant. The fair values are based on the cashflows discounted using a rate based on the borrowing rate of 2.4% (2014: 2.4%).

The multi-currency facility is secured by fixed and floating charges against the assets of the Company and its subsidiaries.

11 Deferred tax asset

Deferred tax assets have been recognised as follows:

Assets	2015 £'000	2014 £'000
Accelerated capital allowances	8	4
Short term timing differences	500	401
	508	405

Financial statements

11 Deferred tax asset continued

The movement on the Company's deferred income tax account is as follows:

	2015 £'000	2014 £'000
At 1 December	405	355
Adjustment in respect of prior years	–	(45)
Tax credited to equity in respect of share options	82	95
At 30 November	508	405

There were no unrecognised deferred tax amounts at 30 November 2015 (2014: £nil).

The deferred tax asset in the table above has been included in debtors: amounts falling due after more than one year (note 7).

12 Called up share capital

	2015 £'000	2014 £'000
Allotted and fully paid:		
44,823,552 ordinary shares of 2 pence each (2014: 44,363,331)	896	887

Details of shares issued and share options are disclosed in notes 21 and 22 of the Group financial statements, respectively.

13 Reserves

	Share premium account £'	Exchange reserve £'	Profit and loss account £'000
At 1 December 2014	35,334	(658)	8,482
Premium on shares issued	25	–	–
Retained profit for the year	–	–	9,569
Exchange differences	–	283	–
Share based payments	–	–	502
At 30 November 2015	35,359	(375)	18,553

The distributable reserves comprise the net amounts of the exchange reserve and the profit and loss account.

14 Contingent liabilities

The Company has no contingent liabilities at 30 November 2015.

15 Financial Commitments

At 30 November 2015 the Company had annual commitments under non-cancellable operating leases expiring as follows:

	2015		2014	
	Land and buildings £'000	Other £'000	Land and buildings £'	Other £'000
Commitments under non-cancellable operating leases expiring:				
Within one year	–	–	–	–
Later than one year and less than five years	48	–	48	1
	48	–	48	1

Other information

Shareholder information**Registrar services**

Our shareholder register is managed and administered by Capita Asset Services. Capita Asset Services should be able to help you with most questions you have in relation to your holding in Porvair plc shares.

Capita can be contacted at:

Capita Asset Services

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

www.capitaassetservices.com

Telephone: 0871 664 0300 (calls cost 10p a minute plus network extras, lines are open 8.30am-5.30pm Mon-Fri)
(from outside the UK: +44 (0) 20 8639 3399) E-mail: shareholderenquiries@capita.co.uk.

In addition, Capita offers a range of other services to shareholders including a share dealing service and a share portal to manage your holdings.

Share dealing service

A share dealing service is available to existing shareholders to buy or sell the Company's shares via Capita Share Dealing Services. Online and telephone dealing facilities provide an easy to access and simple to use service.

For further information on this service, or to buy or sell shares, please contact:

www.capitadeal.com – online dealing

0871 664 0364 – telephone dealing

email: info@capitadeal.com

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell their shares. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser authorised by the Financial Services and Markets Act 2000.

Governance

Financial calendar 2016

30 November 2015
Financial year end 2015

25 January 2016
Full year 2015 results

12 April 2016
AGM

28 April 2016
Ex-dividend date

29 April 2016
Record date for dividend

31 May 2016
Half year 2016 period end

3 June 2016
Payment date for dividend

27 June 2016
Half year 2016 results announcement

28 July 2016
Ex-dividend date

29 July 2016
Record date for dividend

2 September 2016
Payment date for dividend

30 November 2016
Financial year end 2016

30 January 2017
Full year 2016 results

Contact details and advisers

Company Secretary and registered office

Chris Tyler
Porvair plc
7 Regis Place
Bergen Way
King's Lynn
Norfolk PE30 2JN

Telephone: +44 (0)1553 765500
Fax: +44 (0)1553 765599

www.porvair.com

Company registration number
01661935

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Abacus House
Castle Park
Cambridge CB3 0AN

Principal bankers

Barclays Bank plc
Barclays Commercial Bank
PO Box 885
Mortlock House
Station Road
Histon
Cambridge CB24 9DE

Registrars and transfer office

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

Solicitors

Travers Smith LLP
10 Snow Hill
London EC1A 2AL

Stockbrokers

Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET

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www.bexonwoodhouse.com

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Porvair plc
7 Regis Place
Bergen Way
King's Lynn
Norfolk PE30 2JN

Telephone: +44 (0)1553 765500
Fax: +44 (0)1553 765599

www.porvair.com