porvair

Porvair plc Annual Report & Accounts 2016

A strong and sustainable business well positioned for growth

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About Porvair

Porvair is a specialist filtration and environmental technology group with two operating divisions – Metals Filtration and Microfiltration. We have operations in the UK, US, Germany and China.

We focus on specialist filtration markets which have long term growth potential of which aviation, energy and industrial process, laboratory supplies and molten metals are the most important.

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

Inside this report

Capital investment supporting growth

New product development driving growth

Adding value through targeted acquisitions

Generating shareholder returns

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Stay informed
Find out more about Porvair and the latest financial information, results, presentations, reports and shareholder services or to view and download a pdf version of the 2016 Annual Report: www.porvair.com

Guide to further reading and Strategic report
We have used an icon symbol throughout this Annual Report to guide you to further reading and links to other relevant information. The Strategic report provides a review of our business and key areas of operational focus and progress and analysis of our performance throughout the financial year.

Overview

Key performance highlights in 2016

The Group has delivered a strong financial and operating performance

Financial highlights

Strong financial performance:

- **Record revenue of £109.4 million** (2015: £95.8 million), up 14%. At constant currency* up 8%.
- **Profit before tax up 10% to a record £10.1 million** (2015: £9.2 million).
- **Basic earnings per share up 10% to 17.1 pence** (2015: 15.5 pence).
- **Strong cash generation: net cash increased to £13.6 million at 30 November 2016** (2015: £10.7 million). £7.4 million (2015: £4.4 million) invested in capital expenditure and acquisitions.
- **Final dividend of 2.4 pence per share** (2015: 2.2 pence per share) recommended, an increase of 9%.

*See note 29 for definition of revenue at constant currency.

Operating highlights

Metals Filtration division:

- Revenue up 12% to £34.7 million (2015: £31.0 million). 1% up in constant currency, following a strong second half.
- 89% sales growth in China and promising pipeline going into 2017.
- 12% operating profit decline to £2.2 million (2015: £2.4 million) largely due to planned start-up costs in China.
- Record aluminium filtration sales.

Microfiltration division:

- Record revenue and profit. Revenue up 15% to £74.6 million (2015: £64.8 million), up 11% in constant currency.
- Operating profit up 22% to £11.8 million (2015: £9.7 million).
- Record revenue in aviation filtration.
- Record results at Seal Analytical.
- TEM, acquired in December 2015, delivered a strong first year.

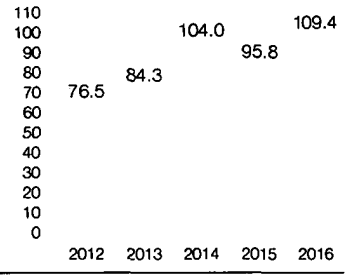
Outlook:

- Further investments in capacity, new product development and skills planned.
- Healthy order position going into 2017.

Turnover (£m)

£109.4m

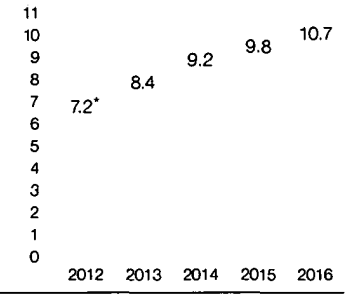
↑ +14%



Operating profit (£m)

£10.7m

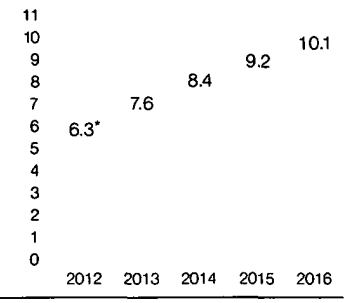
↑ +9%



Profit before tax (£m)

£10.1m

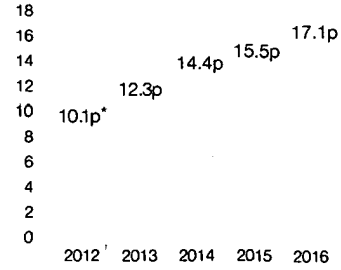
↑ +10%



Basic earnings per share (pence)

17.1p

↑ +10%



*2012 not adjusted for IAS 19.

Chief Executive's report: **page 05**
Divisional performance: **pages 16 to 19**
Financial review: **pages 20 to 22**

Overview

Our business 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. Its sales are global.

2016 Performance

£74.6m	£11.8m
Revenue	Operating profit

Where we operate

China

Our main operating companies

- Porvair Filtration Group
- Seal Analytical
- Porvair Sciences

The main markets we serve and what we do:

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

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 include high temperature gas filtration and the containment of waste nuclear material.

Laboratory Supplies
The Group designs and manufactures a range of equipment for use in laboratories. Seal Analytical 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, tubing and associated consumables used in pharmaceutical and biotechnology processes.

Our approach:

We design and manufacture innovative filtration solutions.

Our products and services are often critical to our customers' operations, while our proprietary designs and high service levels help create competitive advantage.

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

Approximate share of Group sales

Aviation

15%
2015: 15%

Energy & Industrial Process

35%
2015: 35%

Laboratory Supplies

20%
2015: 20%

Divisional growth drivers

- **Global aviation growth**
- **Industrial growth, particularly in gasification, nuclear and the US**
- **Improving global water quality**

Our geographic footprint: **page 06**

Market overview: **pages 07 to 11**

Divisional performance: **pages 18 and 19**

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. Its sales are global.

2016 Performance

£34.7m	£2.2m
Revenue	Operating profit

Where we operate

China

The main markets we serve and what we do:

Molten Metals:

- *Aluminium*
- Iron foundry
- Super alloys

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 in the US; and the filtration of super alloys used in the manufacture of turbine blades.

Our main operating companies

- Selee USA
- Selee China

Our approach:

We develop differentiated and patent protected filters for molten metal customers around the world including:

- The aluminium cast house industry.
- The gray and ductile iron foundry industry mainly in the US.
- The filtration of super alloys used in the manufacture of turbine blades.

Approximate share of Group sales

Molten Metals

30%
2015: 30%

Divisional growth drivers

- **Growth in aluminium production**
- **Increased use of high grade aluminium alloys**
- **Expansion in China**
- **New product development**

Our geographic footprint: **page 06**
Market overview: **pages 07 to 11**
Divisional performance: **pages 16 and 17**

Strategic report

Chairman's statement

These results demonstrate our continued good progress against our long term objectives

Charles Matthews, Chairman

"

We are committed to both strategic reinvestment of our profits to support growth and generating strong financial returns for our shareholders.

Good financial progress

+10%

Profit before tax up 10% to £10.1 million.

17.1p

Basic earnings per share up 10% to 17.1 pence per share.

Progressive dividend

3.8p

Dividend increased by 9% to 3.8 pence per share.

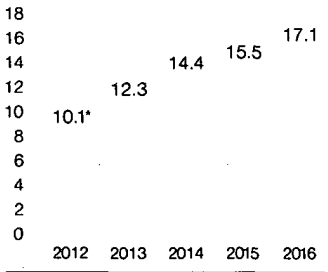
Positive outlook

We have a promising new product development pipeline, a strong financial position and a healthy order book.

EPS growth trend (pence)

17.1p

Basic earnings per share. ↑ +10%



*2012 not adjusted for IAS 19.

Board of Directors: page 38

Chairman's introduction to governance: page 39

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 2016 increased 14% to £109.4 million (2015: £95.8 million) and operating profit rose by 9% to £10.7 million (2015: £9.8 million). Basic earnings per share were 17.1 pence (2015: 15.5 pence), an increase of 10%. These are record results for the Group.

Record revenue was recorded in a number of the Group's key markets in particular in aviation, laboratory supplies and aluminium filtration. Further investments in organic growth were made and more capacity will be added in 2017 to meet growing demand. TEM, the microelectronics business acquired in December 2015 has started positively.

After interest and tax, net cash generated from operating activities was £11.1 million (2015: £11.3 million). At 30 November 2016 the Group had net cash on hand of £13.6 million (2015: £10.7 million).

Dividends

The Board re-affirms its preference for a progressive dividend and recommends an improved final dividend of 2.4 pence per share (2015: 2.2 pence). This makes the full year dividend 3.8 pence per share (2015: 3.5 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 2016, 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.
- My Chairmanship of the Remuneration Committee following the death of Dr Krishnamurthy Rajagopal. Sally Martin will become Chairman of the Remuneration Committee from the AGM in April 2017.

In 2016 the Group continued to refine 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 the course of this work the Board has broadened its reviews beyond financial regulation to incorporate reviews of other areas of regulation including where its products and operations are subject to specific industry, environmental and safety regulations.

During the year the Audit Committee conducted a tender process to select a new firm of auditors for the coming year. As a result of this process Deloitte LLP have been appointed as auditors for the coming year and a resolution to confirm their appointment will be put to the Annual General Meeting. Our current auditors, PricewaterhouseCoopers LLP, will resign. I thank them for their long standing commitment to the Group.

Staff

Porvair continues to expand and the Board welcomes the new staff who have joined us during 2016. We recognise that our success is entirely due to the skill and commitment of our people, to whom we offer our thanks.

As we grow, retaining staff and developing key skills becomes increasingly important. We put more emphasis on training across the Group in 2016 and this will increase again in 2017.

On behalf of shareholders and the Group we sent our condolences to the family of Dr Krishnamurthy Rajagopal, who died in November. He was a wise and highly effective Non-Executive Director of the Group whose contribution is missed.

We were delighted to welcome Sally Martin to the Board as an Independent Non-Executive Director in October 2016. Sally is Vice President of Health, Safety, Security and Environmental at the Downstream division of Shell International Petroleum and is a member of the Chartered Institute of Electrical Engineers. She has joined the Audit, Remuneration and Nomination Committees. Sally will become Chairman of the Remuneration Committee from the AGM in April 2017.

Current trading and outlook

Porvair finished 2016 strongly and the Group has started 2017 with a healthy order position. Investments in capacity and manufacturing capabilities allow room for further growth. The acquisition made in December 2015 continues to perform ahead of expectations. New products will be introduced in aviation, nuclear filtration and by Seal Analytical. The modest losses incurred in our Chinese start-up are expected to diminish. Overall, the Group remains in a strong financial position and a good start has been made to the current year.

Charles Matthews OBE
Chairman
27 January 2017

Strategic report

Chief Executive's report

Delivering a strong and resilient performance as we continue to invest, strengthen and grow the business

Ben Stocks, Group Chief Executive

"

We remain focused on delivering against our strategy as we continue to strengthen and grow the business.

Strong performance

+14%

Revenue up 14% to £109.4 million.

£13.3m

Cash generated from operations.

Continued investment

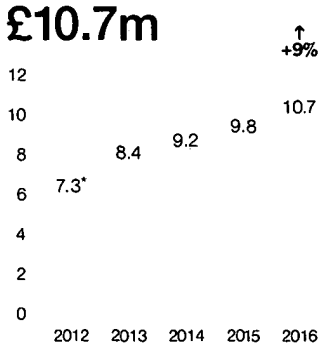
- Organic growth
- Acquired growth
- New product development

Creating value and sustainable growth

We continue to invest in long term growth. We are expanding our capacity; putting emphasis on new product development; and increasing our focus on training.

Operating profit trend (£m)

£10.7m



*2012 not adjusted for IAS 19.

Market overview: pages 07 to 11
Strategy and business model: pages 12 to 15
Divisional performance: pages 16 to 19

Overview of 2016

Financial highlights 2016

	2016 £m	2015 £m	Growth %
Revenue	**109.4**	95.8	14
Profit before tax	**10.1**	9.2	10
Earnings per share	**17.1p**	15.5p	10
Cash generated from operations	**13.3**	13.3	–
Net cash	**13.6**	10.7	27

Profit before tax in the year ended 30 November 2016 was up 10% to a record £10.1 million. Earnings per share increased 10% to 17.1 pence. Robust cash generation enabled the Group to finish the year with net cash of £13.6 million after investing £7.4 million in capital expenditure and acquisitions.

Revenue was £109.4 million, an increase of 14%. Currency translation benefited reported revenues. At constant currency growth was 8%.

Record revenue was achieved in aviation, by the Microfiltration division's US operation, by Seal Analytical and in aluminium filtration. Demand in the nuclear, general industrial and bioscience markets was also strong. TEM, the microelectronics business acquired in December 2015 had an excellent first year.

Further investments in organic growth were made. The Microfiltration division's US operation moved to new premises, expanding manufacturing and office space. In China, commissioning of the aluminium filter production line finished. Of our eleven manufacturing sites, eight have been extended and upgraded in recent years. In 2017 investment will continue as we build further capacity to meet growing demand.

Over the last five years the Group has delivered revenue growth of 60% (10% CAGR) and cash from operations of £63 million. Over the same period, £28 million has been invested in capital expenditure and acquisitions, and net debt of £5.1 million has moved into a cash position of £13.6 million. In 2016, the Group's after tax operating profit return on operating capital was 48% (2015: 49%), up from 21% five years ago.

Investment and future development

The main investments during 2016 were:

- The acquisition of TEM filters in December 2015, greatly expanding our offering in microelectronics filtration and opening new routes into that market.
- A new manufacturing facility and headquarters for US industrial filtration, opened in March 2016, doubling our production capacity, upgrading equipment and creating space for engineering and sales expansion.
- A new facility for Seal Analytical in the US opened in December 2016, creating additional capacity for manufacturing and product development for our water analysis and laboratory supplies business.
- The final commissioning of the Metals Filtration aluminium filtration line in China, products from which are now shipping across Asia. Further investments will be made in 2017 to expand our foundry filter capability in China.
- Additional manufacturing capacity in all three UK plants, mainly focused on increasing aviation output and shortening production lead times.
- Further capacity expansion in Maine for US industrial production of sintered metal filters.

New product development remains core to Porvair's strategy, with incremental range extensions and increasing product differentiation being priorities. In 2016:

- Testing of a new inerting filter for commercial aviation was completed. This will go into production in early 2017.
- A patented aluminium filter for the Chinese market secured initial sales.
- Seal Analytical launched two new platforms and three product upgrades. A further new platform, and two additional model upgrades are planned for 2017.
- The range of filters acquired with TEM for microelectronics was updated, expanded and relaunched under a new brand. New products will be added to the range in 2017.
- Six range extensions were introduced to Chromatrap for the filtration and separation of genetic materials.
- An innovative, high strength HEPA filter was certified for use in nuclear air and gas treatment. Production will begin in 2017.

Strategic report

Our geographic footprint

Leveraging a strong global presence

Investment to support growth

£28m

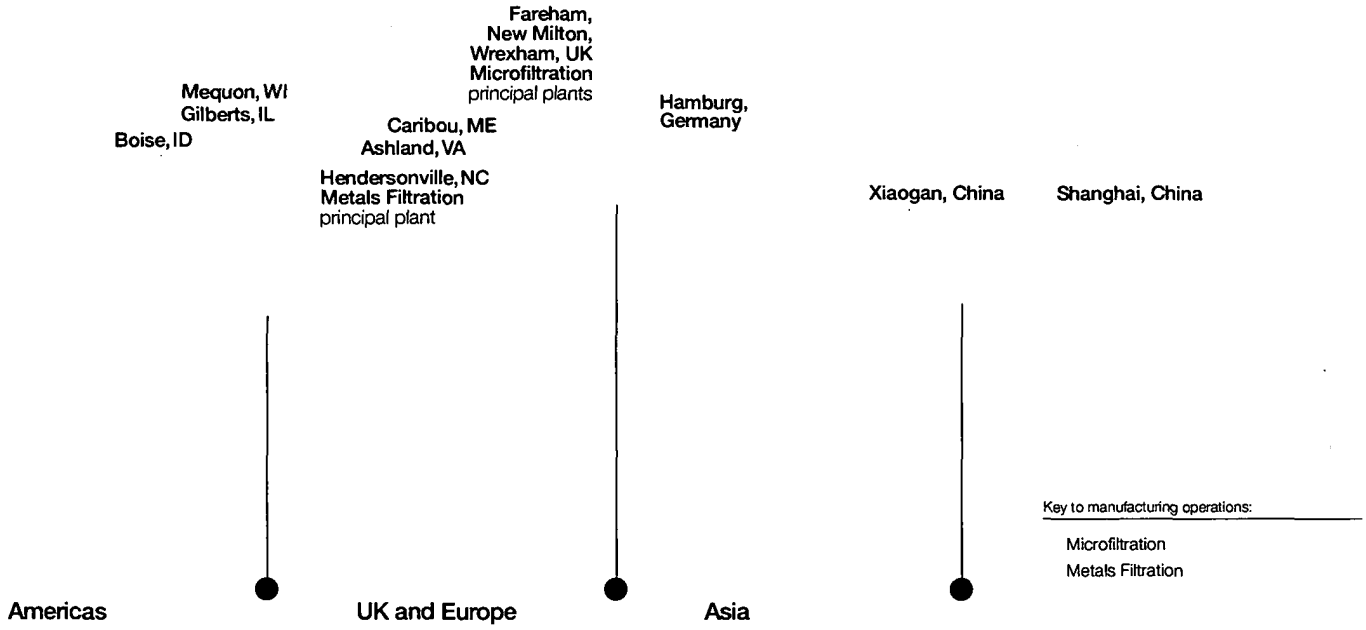
Since 2012, we have invested £28 million to support growth in our operations and in the key markets we serve.

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.

Our 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.



Americas

46%

Revenue

Key developments in 2016

The Group continues to expand its footprint in North America:

- The Group opened a new facility in Ashland, VA in March 2016.
- Acquired TEM in December 2015 to serve the micro-electronics manufacturing market.
- The Group has invested in new equipment to increase the capacity of the plant in Caribou, ME.
- The Group opened a new plant in Mequon, WI for Seal in December 2016.

UK and Europe

15% UK Revenue

14% Europe Revenue

Key developments in 2016

Phased investments in the UK Microfiltration business will increase capacity:

- Additional bioscience capacity is being installed in Wrexham.
- Increased aerospace capacity was installed.

Asia

24%

Revenue

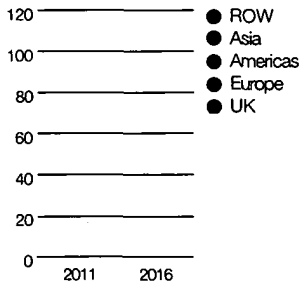
Key developments in 2016

The Group continues to build its presence in Asia:

- Commissioning of the new line in Xiaogan was finished.
- A joint venture agreement to develop the Indian market was signed in the year.

Revenue growth coming from US & Asia (£m)

Revenue growth since 2011 has predominantly been in the US and Asia.



Market overview

A continued focus on regulated markets with long term growth potential

Strong market positions

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.

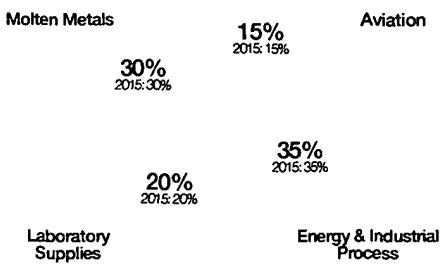
The markets we serve

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

We seek markets with robust demand drivers and where we can maintain barriers to entry.

Many of the Group's products are consumable; have long lifecycles; and are essential for safety or reliability. Our products and services are often bespoke.

Approximate share of Group sales



Aviation

+4.8%

Long term growth rates for passenger miles flown are increasing by around 4.8% per annum.

Source: Boeing 2016

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 4.8% per annum.

Energy & Industrial Process

+3-4%

Long term growth in nuclear power generation capacity.

Source: IAEA

Key market trends and growth drivers

The Group has a wide industrial filtration range, with a particular expertise in nuclear containment and gasification filtration.

Laboratory Supplies

+5-6%

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

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.

Molten Metals

+6%

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

Source: Alcoa

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, was flat in 2016.

China's car production has grown at over 10% per annum and China is now the largest car producer in the world.

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Market overview continued

Understanding global market trends and meeting our customers' challenges

Aviation

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 of contamination control in hydraulic, fuel, lubrication and air systems.

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

Case study

Cooling systems for the server rooms on aircraft are a critical part of the flying safety systems. Porvair provides filtration solutions to ensure that the coolant flows cleanly throughout the systems.

Read more on pages: **18 and 19**

Niche positions
- Long life cycles
- Bespoke
- Consumable products

Robust demand drivers
- Secular trends
- Regulation/legislation
- Maintenance schedules

Barriers to entry
- Specialist design skills
- Engineering skills
- Patent protection
- Quality accreditation

Energy & Industrial Process

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.

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

Case study

The Group has designed a new high strength HEPA filter for a major US nuclear decommissioning project. The design secured the business by meeting the very high specification required.

Read more on pages: **18 and 19**

Market overview continued

Continued focus

The Group continues to invest in new products, new capacity and new skills to retain and serve its customers better.

Laboratory Supplies

The Group designs and manufactures a range of equipment for use in laboratories. Seal Analytical 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, tubing and associated consumables used in pharmaceutical and biotechnology processes.

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™.

Case study

Thermo Fisher's Sola™ SPE plates, designed and manufactured by the Group, are the first to combine the sorbent with the support material. This delivers high sensitivity and reproducibility to bioanalysts, especially in low sample volumes.

Read more on pages: **18 and 19**

Molten Metals

The Group's molten metal business grows as the demand for clean metal increases.

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.

Case study

Our additive manufacturing capability is used to make filters for turbine blade manufacture. The reproducibility of this technique makes it ideally suited to such a specialist application.

Opportunities for growth across the markets we serve

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

Aviation

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

Energy & Industrial Process

- Servicing the installed base of gasifiers.
- Further gasification projects.
- Nuclear power and clean up projects.
- Growing our position in microelectronics.

Laboratory Supplies

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

Molten Metals

- Increasing aluminium production.
- Increased use of high quality aluminium alloys.
- Specialist filters for the super alloys market.
- Market penetration in China.

Read more on pages: **16 and 17**

Strategy and business model

Consistent strategic and operational objectives

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.

❶❷❸❹❺

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 associated 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.

This strategy continues to work for the Group, which moves into 2017 in a position of financial strength, able to invest in both organic and acquired growth as appropriate.

"

- The Group has two divisions. The Microfiltration division serves the aviation, energy and industrial, and laboratory supplies 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, 41% in the UK, 8% in Germany and 3% in China.
- Our five strategic objectives provide a clear focus both in running our core operations and in developing new opportunities.

Our five strategic objectives:	What we focus on:
❶ Focus on markets where we see long term growth potential.	We focus on four markets: aviation; energy and industrial; laboratory supplies; and molten metals. All have clear structural growth drivers.
❷ 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.
❸ Make new product development a core business activity.	We prioritise 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 revenue is derived from patent protected products.
❹ Establish geographic presence where end-markets require.	Our geographic presence follows the markets we serve. 46% of revenue is in the Americas, where aviation and metals filtration are strong. 24% of revenue is in Asia, where sales into water analysis markets are growing and the demand for gasification plants is strongest.
❺ 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 hurdle rate analysis based on strategic and financial priorities.

Creating and delivering value

Growing our business responsibly

We operate sustainably and responsibly through the combined expertise of our people and effective focused leadership to deliver value to our stakeholders.

Our business model outline

Our key strengths:

Global niche markets

Aviation
A leading specialist in the design and manufacture of filtration components and assemblies for the aviation industry.

Energy & Industrial Process
A leading provider of filtration solutions for energy and industrial process applications with a particular expertise in nuclear containment and gasification filtration.

Laboratory Supplies
Our Seal Analytical business is a global leader in the manufacture of laboratory based equipment for testing the inorganic contaminants in water.

Molten Metals
Our Metals Filtration division is a world leader in the design and manufacture of patent protected filters for molten metal.

Strong core competencies

Industry know-how:
- Delivering market-leading solutions.

Engineering capability:
- Investing in technology and having the right people, with the right skills and experience.

Strong customer relationships:
- Delivering innovation and service excellence to build and maintain strong relationships.

Operational excellence

Delivering high quality products and solutions:
- Meeting our customers challenges and needs whilst working efficiently.

A robust health and safety programme:
- Protecting our workforce and improving productivity.

Economic returns

- Focused on organic revenue and profit growth, cash generation and increasing return on capital employed.

Creating value for our stakeholders:

***Porvair's extensive industry* know-how, engineering capabilities and strong customer relationships 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. 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.

***Porvair's strong market positions,* organic growth momentum and potential to acquire new businesses positions us well to continue to create and deliver sustainable value for all our stakeholders; our shareholders, customers and our people.**

We continue to focus our efforts on delivering both our strategic ambitions and providing our customers with solutions they value.

We aim to:

- **Lead in our growing niche markets**
- **Leverage a strong global presence**
- **Differentiate through technical and product quality and our people**
- **Drive operational excellence**
- **Deliver strong financial returns**

A strong and sustainable business

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

Read more on pages: 23 to 25

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: 26 to 31

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: 39 to 46

Strategy and business model continued

Positioned for future growth

Capital investment supporting growth and geographic expansion

Our approach

Since 2012 Porvair has delivered 10% CAGR revenue growth.

During that period:

- New products have driven sales and margin growth;
- £28 million has been invested in capital expenditure and acquisitions; and
- £5 million of net debt has become £13.6 million of cash.

In the year, the Group acquired TEM to expand our offering in microelectronics; opened new plants in Ashland, VA and Mequon, WI; commissioned an aluminium filtration line in China; and added capacity in three UK plants and Caribou, ME.

Our ongoing investment priorities for 2017 are:

- Further investments in production capacity in the UK.
- To add more equipment in Xiaogan, China and increase production from the plant.
- To invest in gasification maintenance and services for Reliance in India.

Case study

US and UK capacity investments

The Group's aerospace revenue has grown by 21% in the year and a new fuel tank inerting filter will be introduced in 2017. Capacity investments have enabled the Group to increase its volume of product and improve quality and delivery performance.

New product development drives organic growth

Our approach

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 2017 include:

- Begin production of a new aircraft fuel tank inerting filter.
- Grow revenue of a patented aluminium filter formulation in our Chinese operation.
- Finish the development of our DNA filtration product range and seek commercial partners.
- Bring a new platform and two upgrades to market for the water analysis market.
- Introduce new products to the microelectronics range..

Case study

Delivering new products

Seal Analytical has completely renewed its product range over the last four years. It will introduce a further new model and upgrade two existing products in 2017. It now has a market leading portfolio of laboratory water analysis products.

Adding value through targeted acquisitions

Our approach

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

In 2016 we acquired:

- 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.

Case study

New acquisition

TEM, a filter business serving the microelectronics industry offered the Group entry into a niche market where technical specifications are challenging and quality requirements high.

The Group has upgraded and expanded the product range, appointed new distributors and expects to introduce more products in 2017.

Generating shareholder returns through dividend payments and capital appreciation

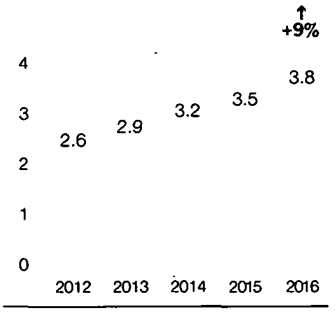
Our approach

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.

We aim to create long term, sustainable value in the form of steadily growing earnings and dividends through the delivery of growth in revenue and profits and a strong return on invested capital.

Dividend growth (pence)

3.8p



Case study

Consistent strategy delivering five years of growth, investment and returns

We have a robust and sustainable business model, our balance sheet continues to be strong, allowing us to fund and invest in further growth opportunities to generate enhanced shareholder returns.

Strategic report

Divisional performance

Metals Filtration division

Steady growth through development in US and China.

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.

Production and sales of aluminium filters from Xiaogan, China

Revenue from aluminium filters in China grew by 89% in the year.

Financial highlights 2016

	2016 £m	2015 £m	Growth %
Revenue	**34.7**	31.0	12
Operating profit	**2.2**	2.4	(12)

Performance

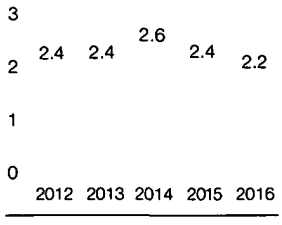
- Revenue up 12% to £34.7 million (2015: £31.0 million). 1% up in constant currency, following a strong second half.
- 89% sales growth in China and promising pipeline going into 2017.
- 12% operating profit decline to £2.2 million (2015: £2.4 million) largely due to planned start-up costs in China.
- Record aluminium filtration sales.

2017 outlook

- Development of sales of proprietary filters to Chinese market.
- Investments planned for:
  - productivity improvements;
  - Chinese foundry equipment; and
  - additive manufacture equipment.

Operating profit (£m)

£2.2m
Operating profit



2016 Revenue (£m)

£34.7m
Revenue

Approximate share of Group sales

Molten Metals

30%
2015: 30%

Divisional review – Metals Filtration

Performance in 2016

Revenue from the Metals Filtration division was £34.7 million. This was a record, albeit flattered by currency movements, with constant currency revenue for the year up 1%. Having been 4% down after six months trading, performance in the second half of the year was encouraging, particularly against a dollar headwind for this business which exports 40% of its production.

Operating profit fell 12%, principally due to a second year of planned losses in the Chinese start-up. These are expected to diminish in 2017 as the plant builds revenue and investments in staff and training start to take effect.

This division serves three market segments and has a well differentiated and patented product range:

- Selee CSX™ and Selee CSW™ for aluminium cast house filtration. These products have a unique environmental footprint in being free of phosphates and ceramic fibres.
- Selee IC™ for grey 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 proprietary additive manufacturing technique.

Sales of aluminium filters were at record levels, driven partly by revenue in China which grew by 89%. We expect our proprietary formulation will be attractive in higher quality Chinese aluminium cast houses. We are prepared to be patient in building our position in this market, selling on value rather than price.

The environmental and filtration benefits of our filters were recognised with a further exclusive multi-year supply contract for Arconic's (formerly Alcoa) global cast house filter needs. Sales of Selee CSX™ achieved another record in 2016.

We will make further modest investments in China in 2017 to expand our foundry market capacity there. We have made some productivity gains in the US using automation, robotics and additive manufacturing and will invest further in these in 2017.

Our geographic footprint: **page 06**
Market overview: **pages 07 to 11**

Divisional performance continued

Microfiltration division

New aerospace programmes are driving growth.

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.

787-9 Dreamliner increased production

The Group provides coolant filter solutions to the Boeing 787-9 and 787-10. Aircraft in service increased from 60 to 169 in the year.

Financial highlights 2016

	2016 £m	2015 £m	Growth %
Revenue	**74.6**	64.8	15
Operating profit	**11.8**	9.7	22

Performance

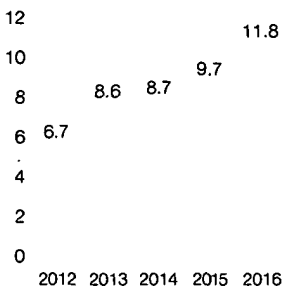
- Record revenue and profit. Revenue up 15% to £74.6 million (2015: £64.8 million), up 11% in constant currency.
- Operating profit up 22% to £11.8 million (2015: £9.7 million).
- Record revenue in aviation filtration.
- Record results at Seal Analytical.
- TEM, acquired in December 2015, delivered a strong first year.

2017 outlook

- New inerting filter into production.
- New high strength nuclear HEPA filter into production.
- Investment in bioscience capacity.
- Further expansion in the UK and US to accommodate demand.
- Large projects commissioning.

Operating profit (£m)

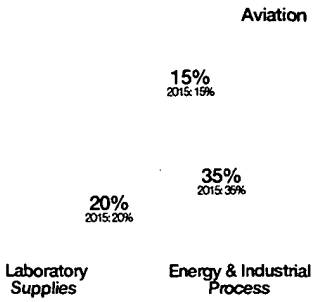
£11.8m
Operating profit



2016 Revenue (£m)

£74.6m
Revenue

Approximate share of Group sales



Our geographic footprint: page 06
Market overview: pages 07 to 11

Divisional review – Microfiltration

Performance in 2016

Record results were achieved in the Microfiltration division. Revenue was up 15% to £74.6 million (11% at constant currency) and operating profits were up 22% to £11.8 million.

General levels of demand were encouraging. Aviation revenues grew 21% and the new product pipeline is promising. Orders for new programmes, including the Airbus NEO, Airbus A350, Boeing 777X, Bombardier C Series and Mitsubishi MRJ, are starting to come through. Nuclear filtration had a good year with further orders anticipated for 2017. Revenues in the US from both general industrial and Seal Analytical were up 9%. The 2017 orderbook for bioscience filtration is good, with sales of our licenced technology to Thermo Fisher again growing. We will expand our bioscience production capabilities early in 2017.

Large gasification projects continue to be an area of focus. At the half year we expected commissioning in Korea to be largely complete by the year end, but delays in the wider project have slowed its final start-up. We have seen only minor issues with our equipment thus far and are pleased with progress. The project in India is expected to begin commissioning towards the end of 2017 and the one in China is on track. An Indian Joint Venture agreement with Mascot Dynamics and contracts to build the filter cleaning equipment we have designed have been signed.

As discussed in previous statements, the Group has adopted long term contract accounting for these large projects. Revenue is principally recognised through the manufacturing and shipping phase of each project: £19.5 million was reported in 2014; £5.5 million in 2015; and £9.7 million in 2016. Allowance is made for potential future costs arising during the commissioning and warranty stages of the projects. Profits are therefore recognised as the projects mature.

The microelectronics business acquired in December 2015 has started positively with both revenue and profit well ahead of expectations. New management has been appointed following the earn-out period, several new distributors are being appointed and new products will roll out in 2017.

Seal Analytical achieved another record result with revenue growing by 17%, 6% in constant currency. Seal is a leading supplier of equipment and consumables to laboratories and specialises in equipment for the detection of inorganic contamination in water. This niche market grows as water quality standards improve, with demand particularly strong in 2016 from China and the US. Seal distinguishes itself from its competitors with an active new product development programme. Four new platforms have been introduced over the last four years and one more will be introduced in 2017. Seal's annualised five year revenue growth is 11%. We plan to expand our German manufacturing footprint in 2017.

Ben Stocks
Group Chief Executive
27 January 2017

Strategic report

Finance Director's review

Strong financial performance supported by good growth and progress across our operations

Chris Tyler, Group Finance Director

In 2016, we delivered another strong financial performance underpinned by good progress across our operations.

Performance highlights

- Operating profit up 9% to £10.7 million (2015: £9.8 million).
- £4.5 million invested in capital expenditure.
- Return on capital employed 15% (2015: 16%).
- Return on operating capital employed was 48% (2015: 49%).

+10%

Profit before tax increased by 10% to £10.1 million.

Positive outlook

Investments in capacity and manufacturing capabilities allow room for further growth. £13.6 million of cash provides resources for further expansion.

Key performance indicators: **pages 23 to 25**

Principal risks and uncertainties: **pages 26 to 31**

Remuneration report: **pages 49 to 60**

Financial highlights 2016

	2016 £m	2015 £m	Growth %
Revenue	**109.4**	95.8	14
Operating profit	**10.7**	9.8	9
Profit before tax	**10.1**	9.2	10

Group operating performance

Reported revenue growth was 14%. At constant currency, translating overseas subsidiaries at the same rates in 2015 and 2016, revenue was up 8%. Operating profit was up 9% and profit before tax grew 10%.

Operating profit margins were 9.7% (2015: 10.2%), with margin improvements in the Microfiltration division offset by a reduction in Metals Filtration, as a result of start-up losses in the new China plant, and an increase in Other Unallocated expenses. Other Unallocated expenses cover central costs and increased to £3.3 million (2015: £2.4 million) largely due to currency contract mark-to-market provisions.

Operating profit includes amortisation charges on intangible assets arising on acquisition of £0.3 million (2015: £0.2 million); a charge of £0.1 million (2015: credit of £0.1 million) from the reassessment of acquisition consideration; acquisition expenses of £nil (2015: £0.1 million); and share based payment charges of £0.5 million (2015: £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 affect reported performance. The average rate used for translating the results of US operations into Sterling was US$1.38:£1 (2015: US$1.53:£1) and the Group's Euro denominated operations were translated at €1.25:£1 (2015: €1.37:£1). The rates used to translate the balance sheet at 30 November 2016 were US$1.25:£1 (2015: US$1.51:£1) and €1.18:£1 (2015: €1.43:£1). Weaker Sterling lifted reported revenues by 6%. Translation gains increased operating profit by 7% compared with 2015 but were offset by mark to market provisions on forward currency sales such that there was little net currency impact on operating profit or earnings.

The Group sold US$19.0 million and €6.75 million of its 2016 UK receipts during the financial year and achieved an average rate of US$1.50:£1 (2015: US$1.54:£1) and €1.23: £1 (2015: €1.39:£1), respectively.

At 30 November 2016, the Group had US$12.0 million (2015: US$8.8 million) of outstanding forward foreign exchange contracts taken out to translate the future receipts on the Group's dollar revenue generated by the UK operations; offset by US$3.4 million of net current assets on the UK operations' balance sheet. The Group has applied hedge accounting to US$1.0 million (2015: US$4.0 million) of these contracts.The reduction in the value of the hedge in the year of £0.1 million (2015: charge of £0.2 million) is shown in the consolidated statement of comprehensive income. Included in Other Unallocated, the Group has taken a £1.0 million provision on marking to market the US$7.6 million forward exchange contracts not covered by dollar denominated current assets.

Finance costs

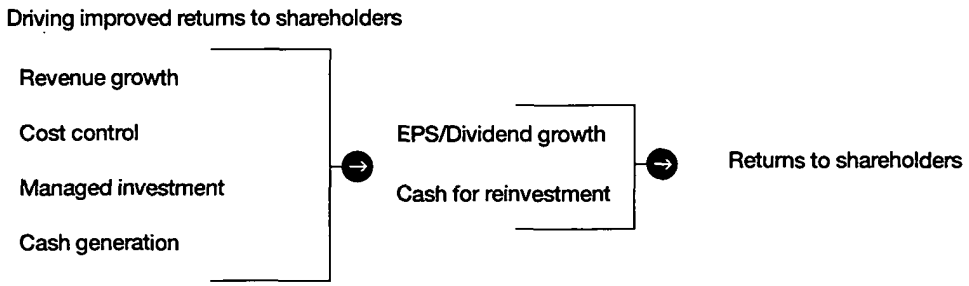
Net interest payable remained at £0.6 million (2015: £0.6 million). Included within interest payable are finance costs in relation to the defined benefit pension scheme, which were £0.4 million (2015: £0.4 million) in the year. The Group incurs non-utilisation fees on its unused borrowing facilities, which were at a rate of 50% of the facility's margin until the end of April 2016, when the rate dropped to 35% of the margin. Non-utilisation fees comprise the majority of the remaining interest cost.

Interest cover was 18 times (2015: 16 times); excluding the impact of the pension finance charge, the interest cover is 66 times (2015: 61 times).

Tax

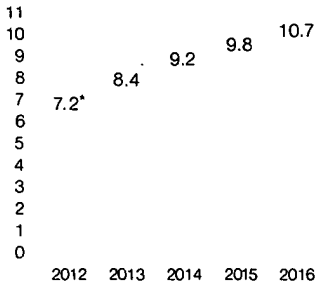
The Group tax charge was £2.3 million (2015: £2.2 million). This is an effective rate of 23% (2015: 24%), which is higher than the UK standard corporate tax rate of 20% (2015: 20.3%). Tax in the UK was reduced by the benefit of tax relief on the exercise of share options but the rates of tax are higher on profits made in Germany and the US. The tax charge comprises current tax of £2.4 million (2015: £2.3 million) and a deferred tax credit of £0.1 million (2015: £0.1 million).

The Group carries a deferred tax asset of £3.3 million (2015: £2.5 million) and a deferred tax liability of £1.7 million (2015: £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.



Operating profit trend (£m)

£10.7m ↑ +9%

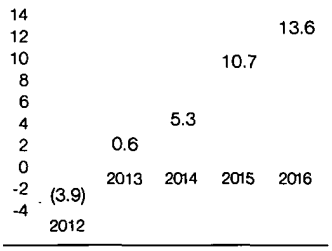


*2012 not adjusted for IAS 19.

Net cash/(debt) (£m)

£13.6m

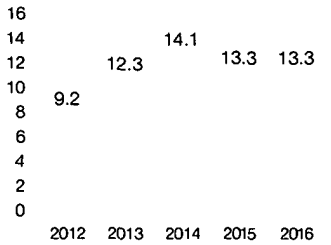
Net cash increased to £13.6 million. ↑ +27%



Cash generation (£m)

£13.3m

Cash generated from operations.



Total equity and distributable reserves

Total equity at 30 November 2016 was £71.4 million (2015: £59.1 million), an increase of 21% over the prior year. Increases in total equity arose from: profit after tax of £8.2 million (2015: £7.3 million) with the charge for employee share option schemes net of tax (2016: £0.5 million; 2015: £0.3 million) added back; exchange gains on translation of £9.2 million (2015: £0.9 million); and £0.2 million (2015: £nil) arising on the proceeds of the issue of shares on share option exercises. Reductions in total equity arose from a pension scheme actuarial loss net of tax of £3.5 million (2015: gains of £0.4 million); dividends paid of £1.6 million (2015: £1.5 million); purchases by the Employee Benefit Trust of the Company's own shares charged directly to equity of £0.1 million (2015: £nil) and a reduction of £0.1 million (2015: £0.1 million) in the value of hedge accounting instruments.

The Company had £9.9 million (2015: £8.3 million) of distributable reserves at 30 November 2016. Following the adoption of FRS101 in the Company accounts, distributable reserves as at 30 November 2015 have been restated from £18.2 million previously reported to £8.3 million. This arises principally as a result of including the Group's pension deficit on the Company balance sheet for the first time.

Return on capital employed

The Group's return on capital employed was 15% (2015: 16%). Excluding the impact of goodwill and the net pension liability, the return on operating capital employed was 48% (2015: 49%).

Cash flow

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

	2016 £m	2015 £m
Operating cash flow before working capital	**13.7**	12.5
Working capital movement	**(0.4)**	0.8
Cash generated from operating activities	**13.3**	13.3
Interest	**(0.2)**	(0.2)
Tax	**(2.1)**	(1.8)
Capital expenditure net of disposals	**(4.5)**	(3.3)
	6.5	8.0
Acquisitions	**(2.9)**	(1.1)
Dividends	**(1.6)**	(1.5)
Share issue proceeds	**0.1**	–
Net cash increase in the year	**2.1**	5.4
Exchange gains	**0.8**	–
Net cash at 1 December	**10.7**	5.3
Net cash at 30 November	**13.6**	10.7

Net working capital increased by £0.4 million (2015: reduced by £0.8 million). Cash receipts less payments from large contracts was £1.0 million higher than the profit recognised in the year ended 30 November 2016. This reduction in working capital was offset by increased working capital from strong trading in the final quarter and in China associated with the start up of production in the new plant.

Construction contracts and performance bonds

The income statement impact of the large contracts is described in the Divisional review above. At 30 November 2016, the Group had £0.8 million (2015: £nil) due from contract customers and amounts due to contract customers of £7.9 million (2015: £7.7 million), representing the amount by which progress billings at 30 November 2016 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 2016 there were US$5.0 million (2015: US$5.3 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 2016 the Group had US$7.2 million (2015: US$9.7 million) of performance bonds outstanding.

Capital expenditure

Capital expenditure was £4.5 million (2015: £3.8 million before disposal proceeds of £0.5 million). The principal investments in 2016 are described in the Strategic report. Capital expenditure in 2017 is expected to be at a similar level.

Acquisitions

On 4 December 2015, the Group acquired TEM Filter Company. The total consideration was US$5.2 million (£3.6 million), of which US$4.4 million (£2.9 million) was paid immediately. An estimated US$0.9 million (£0.7 million) is expected to be paid in contingent consideration in 2017 based upon the performance of the business in its first year of ownership by the Group. US$0.8 million of the contingent consideration is included in the original purchase cost and goodwill calculation, US$0.1 million has been written off to the profit and loss account.

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 £2.4 million (2015: £2.3 million). £2.0 million (2015: £1.9 million) was recorded as an operating cost: £1.3 million (2015: £1.2 million) related to funding defined contributions schemes; £0.6 million (2015: £0.6 million) related to the charge for the Group's defined benefit scheme and £0.1 million (2015: £nil) related to the pension protection levy. £0.4 million (2015: £0.4 million) was charged as a finance cost in relation to the defined benefit scheme.

The Group's net retirement benefit obligation was £16.1 million (2015: £12.0 million). The Company contributions paid to the defined benefit scheme in the UK were £1.1 million (2015: £1.0 million). The service cost, administrative expenses and finance cost were £1.0 million (2015: £1.0 million) and the actuarial loss in the year was £4.2 million (2015: gain of £0.8 million). All of the assumptions adopted were broadly in line with the previous year with the exception of the discount rate used to value the liabilities which was reduced from 3.7% to 2.9%. This broadly accounts for the 18% increase in the plan liabilities to £42.1 million (2015: £35.7 million). The plan's assets increased to £26.1 million (2015: 23.8 million).

The defined benefit scheme had 46 (2015: 48) active members, 261 (2015: 271) deferred members and 249 (2015: 249) pensioners at 30 November 2016. The life expectancy of members of the scheme reaching age 65 at 30 November 2016 is assumed to be 21.7 years (2015: 21.6 years) for men and 23.7 years (2015: 23.6 years) for women. The weighted average duration of the plan scheme liabilities at the end of the period is 20 years (2015: 20 years).

A full triennial actuarial valuation of the assets and liabilities of the defined benefit scheme was completed in 2016, based on data at 31 March 2015. As a result of this review, the Group and the Trustees agreed to alter the employer's contributions from 13.3% of salary to 18.9% of salary. Additionally, the Group committed to making a £0.2 million annual contribution towards the running costs of the scheme from April 2016, which will increase by 3.5% per annum thereafter.

The Group also committed to make additional annual contributions, to cover the past service deficit, of £1.0 million per annum commencing in December 2016. The next full actuarial valuation of the scheme will be based on the pension scheme's position at 31 March 2018 and is expected to be completed before June 2019.

Borrowings and bank finance
At the year end, the Group had cash balances of £13.6 million (2015: £10.7 million) and no borrowings (2015: £nil).

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 million by 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 2016, the Group had US$20 million (2015: US$20 million) of unused loan facilities and an unused overdraft facility of £2.5 million (2015: £2.5 million).

Finance and treasury policy
The treasury function at Porvair is managed centrally, under Board supervision. 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
27 January 2017

Key performance indicators

Measuring progress against our strategy

Financial KPIs

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.

Constant currency revenue growth presents a measure of the growth of the operations in their local functional currency.

Performance in 2016
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.

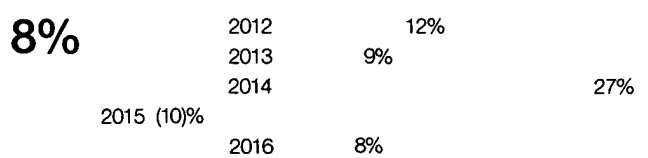
Revenue growth benefited from the weakness of Sterling in the second half of the year.

In constant currency the Metals Filtration revenue was up 1% following a strong second half of the year. Microfiltration constant currency revenue growth was 11%.

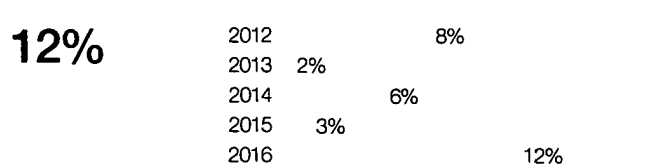
REVENUE GROWTH

❶❷❸❹❺

Revenue growth at constant currency



Revenue growth – Metals Filtration



Revenue growth – Microfiltration

Variable remuneration of the Executive Directors is based on EPS growth and cash generation from operations less interest. Senior management variable remuneration is based on cash generation from operations and longer term operating profit. Further details on remuneration policies and the metrics used to determine them are set out in the Remuneration Report.

We recognise that the management of risk has a key role to play in the achievement of our strategy and KPIs.

See strategy and business model: **pages 12 to 15**

Principal risks and uncertainties: **pages 26 to 31**

Remuneration report: **pages 49 to 60**

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

Financial KPIs

KPI description

Operating margins demonstrate the Group's propensity to turn revenue into profits.

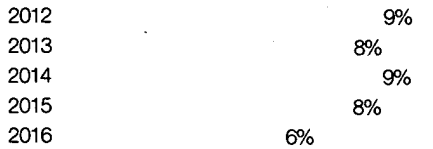
Performance in 2016
Operating margin in Metals Filtration reduced to 6% as a result of the impact of startup costs of the new Chinese plant. In Microfiltration the operating margin increased to 16%. The benefits of revenue growth and a higher margin from the large projects account for the improvement. The details of the revenue and profit profile of the large projects are explained in the Chief Executive's report.

OPERATING MARGIN – GROUP ❶❷❸

10%

Operating margin – Metals Filtration

6%



Operating margin – Microfiltration

16%

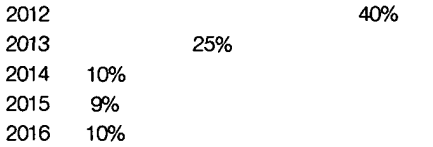
KPI description

A measure of the profits of the business after all costs and finance charges have been taken into account but before corporation tax.

Performance in 2016
The performance is described in full in the Chief Executive's report and the Finance Director's review.

PROFIT BEFORE TAX GROWTH ❶❷❸

10%



KPI description

Basic earnings per share growth gives a measure of our ability to deliver earnings growth for our shareholders.

Performance in 2016
Basic earnings per share growth is in line with the profit before tax growth. A lower tax rate is offset by a small increase in the shares in issue during the year.

BASIC EARNINGS PER SHARE GROWTH ❶❷❸

10%

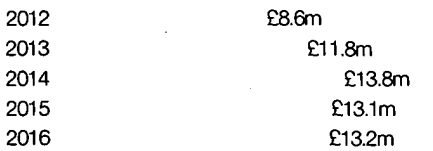
KPI description

Cash generated from operations less interest gives a measure of the cash generating capabilities of the underlying operations.

Performance in 2016
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.

CASH GENERATED FROM OPERATIONS LESS INTEREST ❺

£13.2m



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.

Financial KPIs

KPI description

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.

Performance in 2016
Interest cover is high as a result of the Group having very low gross borrowings throughout the year and a manageable pension deficit.

INTEREST COVER 5

18 times

2012	8
2013	11
2014	12
2015	16
2016	18

KPI description

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.

Performance in 2016
The Group's return on capital employed remained in line with the previous two years. It exceeded the Group's weighted average cost of capital of 8%.

POST TAX RETURN ON CAPITAL EMPLOYED 5

15%

2012	10%
2013	12%
2014	15%
2015	16%
2016	15%

KPI description

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.

It gives a simple measure of the Group's ability to make returns from its investments in plant and equipment and working capital.

Performance in 2016
The Group's return on operating capital employed remained in line the previous two years.

POST TAX RETURN ON OPERATING CAPITAL EMPLOYED 5

48%

2012	30%
2013	38%
2014	47%
2015	49%
2016	48%

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Governance | 38 to 60
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Strategic report

Principal risks and uncertainties

Managing risk effectively and robustly

Risk management framework

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 in line with the Group's overall strategy and the contribution of its divisions.

The Group operates in global markets. In pursuing its growth targets and strategic objectives, we are very clear about the specific risks faced by the Group and have robust actions in place to manage them. Our approach to each risk will vary over time and will depend on changing circumstances and the external environment.

Our approach to risk management

Risk management is embedded in the management processes of the Group. These processes were 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 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.
- Each operation maintains a register of risks, mitigations and weaknesses, which:
  - Makes an initial assessment of the risks identified;
  - Identifies the mitigation processes that are already in place; and
  - Highlights weaknesses that currently exist.
- This register is reviewed quarterly, which leads to mitigating actions which are 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

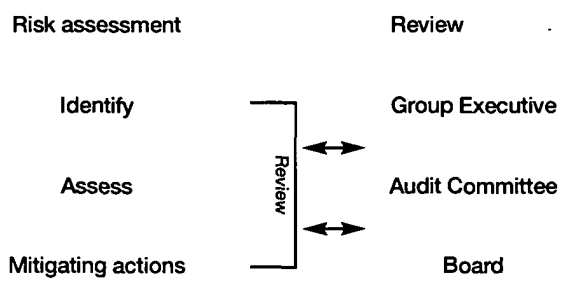
The Board has overall responsibility for ensuring that the Group maintains an effective risk management system and actively monitors the risk management process, specifically the Board:

- 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 for 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 27 to 31 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



Our principal risks

Revenue risks

- Existing market
- New products and markets
- Large contracts
- Regulation
- Competition

Manufacturing and operational risks

- Raw materials, resources and production
- Facilities and IT
- Cyber-attack
- Health & safety and environmental

Finance and management risks

- Acquisitions
- Pensions
- Product liability
- Financing
- Financial risk management

Risk trends

The ongoing review of the Group's principal risks focuses on how these risks may evolve. Since the publication of last year's annual report, we consider the following principal risks to have an increased risk exposure:

- Pensions risk
- Cyber-attack risk
- Foreign exchange risk

We consider the following principal risks to have reduced risk exposure:

- Large contract risk
- Financing risk

Risk appetite

The Group has a proactive approach to measuring performance and considers risk as an integral part of decision-making, both about current and future performance throughout the business. The Board manages this by linking risk appetite to its strategic objectives, defining risk impact and likelihood, in order to define where the level of risk sits.

The Board reviews the Group's principal risks throughout the year as part of its normal agenda. In addition the Board assesses the Group's principal risks, taking the strength of the Group's control systems and our appetite for risk into account.

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)

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:

- 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;
- 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.

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.

Mitigation — Change

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.

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.

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.

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.

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 improved filter formulations. 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.

Risk description and impact (1 2 3)

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.

Mitigation — Change

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.

Risk description and impact (1 2)

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.

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.

Mitigation — Change

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.

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. The risk on these contracts reduces as they progress towards completion.

Principal risks and uncertainties continued

REVENUE RISKS continued

Risk description and impact	1 2	Mitigation	Change
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. Following the UK Referendum result in favour of leaving the European Union the Group has considered the associated risks.		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. The Group maintains product liability and aviation liability insurance to cover the financial consequences of a product failure. Until specific trade arrangements and tariffs become clear a definitive statement of risks associated with leaving the European Union cannot be made. The Board notes that revenues between the UK and EU were less than 10% of total revenues in 2016.	

Risk description and impact	1 2	Mitigation	Change
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.		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. 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.	

MANUFACTURING AND OPERATIONAL RISKS

Risk description and impact	1 2 5	Mitigation	Change
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. 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. 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.		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. 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. The Group has regular planned shutdowns for maintenance and equipment is maintained to a high standard. Failures of critical equipment are therefore rare.	

Risk description and impact	1 2	Mitigation	Change
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. 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.		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. 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.	

MANUFACTURING AND OPERATIONAL RISKS continued

Risk description and impact		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.	1 2	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 no permanent 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 Board has conducted a review of the process in place to reduce the risk of cyber-attack. The Group is vigilant to attack and ensures that its systems are regularly improved to make them more secure and resilient. Although the systems are distributed, best practice ideas are shared within the Group's IT staff.	↗

Risk description and impact		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.	2 3	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		Mitigation	Change
Acquisitions risk The Group has an active programme of seeking and integrating complementary acquisitions. A poorly executed acquisition could severely constrain the Group.	4 5	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		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 impair the Group's ability to pay dividends and require the Group to make additional payments to the scheme.	5	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 and its investment strategy 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		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.	1 2 3	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		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.	5	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

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.

Mitigation

Change

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:

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.

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.

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. Following the UK referendum result in favour of leaving the European Union, Sterling weakened and could become more volatile. The international nature of the Group means that currency volatility could make results less predictable in the future.

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.

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.

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.

For the time being, while the Group has no borrowings, the Board has concluded that further interest rate swaps need not be taken out.

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 2016, the Board considered the prospects of the Group over the one and three year periods to 30 November 2017 and 2019, 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 26 to 30, including a severe economic recession, a forced plant shutdown and sourcing risks, and reviewing the current financial position, 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 and reviewing the current financial position, 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 twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these accounts.

Corporate and social responsibility report

Continuing to grow our business responsibly and sustainably

Introduction

We believe that operating sustainably and responsibly is fundamental to creating long term value; behaving ethically, attracting and developing our people, working safely, reducing our environmental impact and contributing to our communities.

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 2016, the Board reconfirmed its commitment to our CSR programme and we have continued to make good progress in these areas.

To support the delivery of our strategic objectives we have four key areas of responsible and sustainable focus:

Business integrity and ethics

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

Priorities

- Ensure we operate with integrity.
- Make sure we comply with laws and regulations.

Outcome for the business

- Maintain our reputation for integrity.

Health, Safety and Environmental performance

Porvair recognises its clear responsibilities for the health and safety of its employees and to the communities in which it operates. Many of the products developed by Porvair are used to the benefit of the environment.

Priorities

- Ensure the health and safety of our people at work.
- Minimise our environmental impact.
- Be accountable and transparent with regards to our environmental footprint.

Outcome for the business

- Maintain our reputation for consideration of health, safety and environmental matters.
- Gain commercial and cost benefits.

Our people

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

Priorities

- Promote equal opportunities and diversity.
- Provide career opportunities through training and engagement.
- Operate with due regard for human rights.

Outcome for the business

- Attract and retain the best people.

Building strong relationships and community impact

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

Priorities

- Engage with local communities and work in partnership.
- Recruit, train and develop local people.
- Participate in activities that make a difference.

Outcome for the business

- Build business reputation, longevity and contributes to local communities.

Our people support our growth ambitions

Our people

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

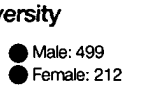
It is the Group's policy to recruit, train, promote and treat all personnel on grounds solely based on individual ability and performance. These principles are applied regardless of sex, sexual orientation, religion, age, nationality or ethnic origin.

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

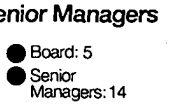
	Female	Male	Total
Directors	1	4	5
Senior Managers (General Managers and statutory officers of subsidiary entities)	1	13	14
Employees	210	482	692
Total at 30 November 2016	**212**	**499**	**711**

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



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.

In 2016 our training programmes mainly concerned:

- Technical skills;
- Team leadership;
- Training apprentices; and
- Health & Safety.

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Corporate and social responsibility report continued

Committed to effective health & safety management

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.

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 2016
Health and safety progress in the year has included:

- Ergonomics – Improved lighting, seating and workstations for resistance welding team in UK Microfiltration.
- Ergonomics – Improved manual handling equipment in US Metals Filtration.
- Safety – Sealed test cell installed for high pressure testing in UK Microfiltration.
- Safety – Active shooter protection in our larger US plants.
- Safety – Working towards Carolina Star status, a state specific safety standard in Hendersonville, NC.
- Safety – Improved fire prevention and First Aid stations in Xiaogan, China.
- Cleanliness – Improved plant layout and dust collection in Xiaogan, China.

Improved handling equipment, processes and safety equipment

In Metals Filtration we have improved the handling equipment and processes and safety equipment used in parts of the business where the heaviest loads are moved.

Established health & safety working practices

In Microfiltration, a comprehensive review and upgrade of the working conditions for the resistance welding team has resulted in improved lighting, improvements to workstation equipment and the installation of fully adjustable seating.

Driving improvements in environmental performance

The environment

Our products

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

- Seal Analytical: Water analysis equipment ensures drinking water is fit for consumption.
- The Group's nuclear filters prevent emissions of fissile material.
- The Group's Metals Filtration products prevent contamination of aluminium and iron.
- The Group's ballast water filters control emissions of petrochemicals into the sea.
- Many of the Group's filters provide protection from contamination for systems and processes, which helps improve their lifetime.

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.

Our operations

Recent environmental changes we have made include:

Microfiltration

- Requalified engineering approved replacement products for existing processes using Trichloroethylene (chlorinated solvent). New de-greasing equipment and cleaning product has been installed and the use of Trichloroethylene has been eliminated from the plant.
- All water authority consents throughout the UK plants have been reviewed and changes have been approved by local water authorities as appropriate. Discharge monitoring is in place to ensure that agreed discharge limits are not exceeded. Hazardous materials which might have a detrimental effect on the environment are managed through a contained waste system and are retained on site for later removal by licensed disposal contractors.

Metals Filtration

- The division has established a recycling team and a goal of eliminating all waste to landfill from its US plant. A significant step forward was taken this year with the transfer of all waste from the filter presses being used for compost rather than transferred to landfill. In addition, slurry reclamation, dust collection and fired waste reclamation are capturing wasted raw materials and recycling them within the plant.
- In Xiaogan, Metals Filtration has introduced filter presses to capture and reuse slurry waste and has modified its kilns to ensure that waste emissions are burnt off properly.

Reducing waste to landfill from US plant

Landfill requirements have reduced by 80 tonnes per month, approximately halving the previous output.

Corporate and social responsibility report continued

The environment continued

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 CO_2 emission per pound sterling of revenue' as a measure of intensity. The Group aims to reduce its total intensity ratio over time. Intensity in 2016 fell primarily as a result of the higher revenue in the year.

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 is 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) have had an impact on some Porvair processes.

As described in the environment section Porvair Filtration Group's Segensworth site eliminated Trichloroethylene from its processes. It has identified a replacement treatment (SURTEC) and begun re-qualifying products which are currently treated with Alocrom 1200 (contains Chrome 6). Both these materials appear on the ECHA Annex XIV list and are due to be phased out within the next three years.

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.

Greenhouse gas (GHG) emissions	Year ended 30 November 2016 tCO_2	Year ended 30 November 2015 tCO_2	Year ended 30 November 2010 tCO_2
Scope 1 - Direct GHG Emissions			
Gas	11,188	9,742	8,571
Owned vehicles	260	299	368
Total scope 1 gross emissions	11,448	10,041	8,939
Scope 2 - Indirect GHG Emissions			
Electricity	7,021	6,380	5,204
Total scope 2 gross emissions	7,021	6,380	5,204
Total gross emissions	**18,469**	**16,421**	**14,143**
	$kCO_2/£$	$kCO_2/£$	$kCO_2/£$
Scope 1 intensity ratio	0.105	0.105	0.142
Scope 2 intensity ratio	0.064	0.067	0.082
Total intensity ratio	**0.169**	**0.172**	**0.224**

Geographical breakdown (tonnes of CO_2)

	Year ended 30 November 2016			Year ended 30 November 2015			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	419	2,029	**2,448**	425	2,030	2,455	479	1,497	1,976
US	9,969	4,747	**14,716**	9,345	4,227	13,572	8,350	3,639	11,989
ROW	1,060	245	**1,305**	271	123	394	110	68	178
Total	**11,448**	**7,021**	**18,469**	**10,041**	**6,380**	**16,421**	**8,939**	**5,204**	**14,143**

Building relationships and contributing to local communities

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.

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
27 January 2017

Governance

Board of Directors

A strong and experienced Board

Board experience

The composition of the Board is balanced to align with our strategic objectives and corporate responsibilities. Our Board members combine to provide a strong and complementary mix of skills and experience and together are committed to building the long term success of the Group.

Charles Matthews OBE
Non-Executive Chairman

Appointed to the Board in January 2005.

Experience and external appointments:
Charles 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 and Remuneration Committees and a member of the Audit Committee.

Ben Stocks
Group Chief Executive

Appointed to the Board in February 1998.

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

Committee membership:
None.

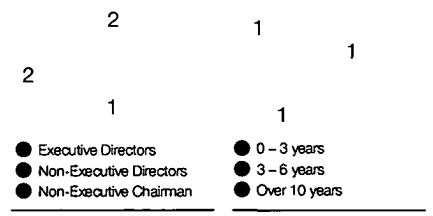
Chris Tyler
Group Finance Director

Appointed to the Board in September 2004.

Experience and external appointments:
Chris 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.

Composition of the Board



Paul Dean
Non-Executive Director

Appointed to the Board in August 2012.

Experience and external appointments:
Paul 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 Burmah 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.

Sally Martin
Non-Executive Director

Appointed to the Board in October 2016.

Experience and external appointments:
Sally is Vice President for Health, Safety, Security and Environmental in the Downstream division of Shell International Petroleum. In a thirty-year career with Shell, Sally has built a strong track record in strategy; M&A; international business development; and engineering and operations. She is a member of the Chartered Institute of Electrical Engineers.

Committee membership:
Member of the Audit, Remuneration and Nomination Committees.

Board Committee Membership
as at 30 November 2016

	Audit Committee	Remuneration Committee	Nomination Committee
Charles Matthews	●	▲	▲
Paul Dean	▲	●	●
Sally Martin	●	●	●

▲ Chairman
● Member

Nomination Committee report: **page 46**

Audit Committee report: **pages 47 and 48**

Remuneration report: **pages 49 to 60**

Chairman's introduction to governance

Good corporate governance provides the framework within which we conduct our business and deliver our strategic objectives

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
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. Sally Martin joined the Board in October 2016. Dr Krishnamurthy Rajagopal died on 10 November 2016 and was unwell for much of the year before then. He was unable to attend Board and Committee meetings after April 2016.

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.

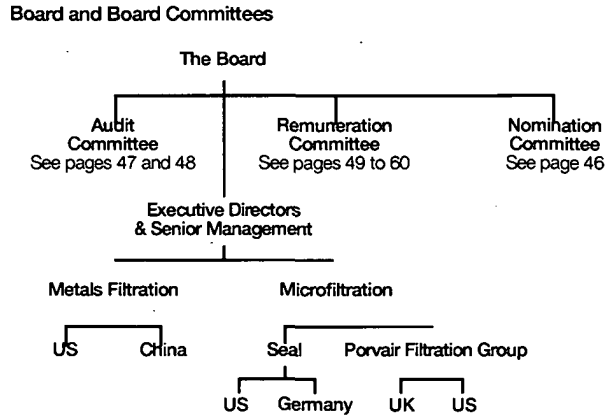
Compliance with the Code
The Board complied with all aspects of the UK Corporate Governance code throughout the year ended 30 November 2016, with the exception of:

- Fixed terms of employment for Non-Executive Directors. However, all of the Directors offer themselves for re-election at each Annual General Meeting.
- My Chairmanship of the Remuneration Committee following the death of Dr Krishnamurthy Rajagopal, until Sally Martin becomes Chairman of the Remuneration Committee at the AGM in April 2017.

Developments in 2016
In 2016 the Group continued to refine 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.

Charles Matthews OBE
Chairman
27 January 2017

Porvair's governance structure



Code principles – how they are applied

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.

Directors' report

The Directors are pleased to present their Annual Report and the audited accounts of the Group for the year ended 30 November 2016.

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 1.4 pence per share (2015: 1.3 pence per share) was paid on 2 September 2016. The Directors recommend the payment of a final dividend of 2.4 pence per share (2015: 2.2 pence per share) on 2 June 2017 to shareholders on the register on 28 April 2017; the ex-dividend date is 27 April 2017. This makes a total dividend for the year of 3.8 pence per share (2016: 3.5 pence per share).

Directors and their interests
The names and biographical details of the Directors are set out on page 38. Dr Krishnamurthy Rajagopal served as a director until his death on 10 November 2016. Sally Martin was appointed on 1 October 2016. All the other 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 44.

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 49 to 60. 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. During the year £3.5 million (2015: £3.2 million), of development expenditure was written off to the income statement and £0.1 million (2015: £nil) was capitalised. 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 36, 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 484,128 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 27 January 2017, 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	7,741,427	17.1
Vind LV AS	4,784,176	10.6
Alliance Trust PLC	3,964,566	8.8
Impax Asset Management	3,374,361	7.5
Standard Life Investments	2,271,503	5.0
AXA Investment Managers	1,930,749	4.3
Charles Stanley & Co. Ltd	1,500,191	3.3

Corporate governance
The Company's statement on corporate governance can be found in the Corporate governance report on pages 44 to 45 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 33, 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 26 to 30.

Acquisitions
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$5,220,000 (£3,576,000); 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, 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 31.

Annual General Meeting
The Annual General Meeting of the Company is to be held on Tuesday 11 April 2017. 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 2016.

Resolution 2 – Approval of the Directors' remuneration report.

Resolution 3 – To approve the final dividend of 2.4 pence per share.

Resolutions 4 to 8 – All of the Directors offer themselves for election or re-election.
Brief biographies of the Directors are set out on page 38 of the Annual Report. Sally Martin, appointed on 1 October 2016, offers herself for election. All the other Directors offer themselves for re-election.

Resolution 9 – To appoint Deloitte LLP as auditors.
The Group conducted a tender process in the final quarter of the financial year to select a new firm of auditors. Deloitte LLP were successful in that process and the Group intends to appoint them as auditors of the Company, subject to passing this resolution.

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 £302,051, being an amount equal to one third of the Company's issued share capital as at 27 January 2017. As at 27 January 2017, 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 12 April 2016.

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 £45,307 (being 5% of the Company's issued ordinary share capital as at 27 January 2017), without first offering the securities to existing shareholders.

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.

Directors' report continued

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 27 January 2017. 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 1,014,376 ordinary shares have been granted and are outstanding as at 27 January 2017 (being the latest practicable date prior to publication of this document) which if issued would represent 2.19% 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 27 January 2017 would represent 2.43% 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 13 renews a similar resolution passed at the Annual General Meeting of the Company held on 12 April 2016.

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), including Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101). 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 38 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 they ought to have taken as a Director in order to make themselves 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 that they will resign as auditors following the Annual General Meeting. Deloitte LLP have indicated their willingness to become the Company's auditors and a resolution concerning their appointment will be put to the Annual General Meeting.

By order of the Board

Chris Tyler
Company Secretary
27 January 2017

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.
- Charles Matthews has assumed the role of Chairman of the Remuneration Committee following the death of Dr Krishnamurthy Rajagopal. He will serve until the AGM in April 2017. Sally Martin will become the Chairman of the Remuneration Committee from the AGM.

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 six 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 due to ill health for three meetings.

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, review 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, Sally Martin and Charles Matthews 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 their 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 their 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 Report of the Audit Committee on pages 47 to 48 includes details of the Audit Committee's remit, composition, attendance, scope of work in the year and related judgements.

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

Remuneration Committee

The Board has established a Remuneration Committee to review and advise the Board on matters relating to the Executive Directors' remuneration.

The Remuneration report on pages 49 to 60 includes details on remuneration policy, practices and the remuneration of the Directors.

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

Nomination Committee

The Board has established a Nomination Committee to provide a transparent process and procedure for the appointment of new Directors to the Board.

The Report of the Nomination Committee on page 46 includes details of the Nomination Committee's remit, composition, attendance and scope of work in the year.

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 40.

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.

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 26.

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. There were no incidents in 2016.

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 2015 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
27 January 2017

Report of the Nomination Committee

Governance

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, diversity, knowledge and experience on the Board and the leadership needs of the organisation; and
- succession planning.

The balance of skills, diversity, knowledge and experience, the leadership of the organisation and succession planning are considered by the Board as a whole at least annually.

Boardroom diversity

Recruitment of Board candidates is conducted, and appointments made, on merit and suitability against objective selection criteria with consideration of, amongst other things, the benefits of diversity on the Board, including gender. The Board has not set a diversity quota. The Board encourages applications for roles being recruited from women subject to the selection criteria being met. Following the appointment of Sally Martin to the Board in October 2016, the gender ratio is 20% female: 80% male.

2016 activities

The Nomination Committee met twice during the year to consider the appointment of a new Non-Executive Director. Charles Mathews and Paul Dean attended both meetings, Dr Krishnamurthy Rajagopal was unavailable for each meeting due to ill health. The Group's leadership and succession planning was considered in a meeting of the full Board.

When recruiting new Directors, the Committee seeks to include candidates for a specific vacancy, if appropriate, from the existing employees. An external search consultancy will generally be appointed to advise on all appointments to the Board. An initial list of candidates are interviewed by the Chairman and Chief Executive. Following selection by the Chairman and Chief Executive, a shortlist, generally, of no more than three candidates are then interviewed by the other Directors. Once a suitable candidate has been identified, the Chairman of the committee recommends to the Board that the Company make a formal offer of employment to the candidate. During the year, the Committee recommended the appointment of Sally Martin as a Non-Executive Director, from a shortlist of candidates compiled by an independent external search consultancy.

The Company intends to recruit a new independent Non-Executive Director during 2017 to strengthen the Board following the death of Dr Krishnamurthy Rajagopal.

All Directors are required to submit themselves for re-election every year at the AGM.

Charles Matthews OBE
Chairman of the Nomination Committee
27 January 2017

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 put a particular emphasis in the year on:

- a change in the programme of the Group's internal audit reviews to focus on reviewing the Group's risk management procedures in the larger operations
- reporting on the risks related to and progress of the larger projects.
- selection of a new firm of auditors for the year ended 30 November 2017.

The Committee has been pleased to see a steady improvement in the financial controls and risk management of the business.

Paul Dean
Chairman of the Audit Committee
27 January 2017

Report of the Audit Committee

The Audit Committee has a formal timetable of meetings with formal agendas. 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 Audit Committee currently comprises all 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 has designated Paul Dean as the member of the Committee with recent and relevant financial experience. All other members of the Committee are deemed to have the necessary ability and experience to understand the financial statements. The Committee as a whole has competence relevant to the sector in which the Group operates.

The Audit Committee met three times during the year. There was full attendance by the members, except for Dr Krishnamurthy Rajagopal who was unavailable due to ill health for two meetings. 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 2016. 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 £9.7 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 £16.0 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 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 2016 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 45;
- 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;

Report of the Audit Committee continued

- 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.

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 previously been the subject of a competitive tender. The Committee have always been satisfied by the quality and independence of PricewaterhouseCoopers LLP's work. The Audit Committee have carefully considered 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 require the Group to change its auditors before 2020. In advance of this deadline, the Audit Committee carried out a competitive tender process in the final quarter of 2016 to select a new auditor for the financial year ending 30 November 2017. The year ended 30 November 2016 will be the final year that PricewaterhouseCoopers LLP act as auditors of the Company.

The Committee invited three audit firms judged to have suitable global coverage to serve the Group, not including PricewaterhouseCoopers LLP to tender for the audit. The tender process required each firm to:

- meet with senior executives of the Group;
- meet with the financial controllers of the principal operations;
- critically review the Group's 2015 Annual Report and Accounts; and
- submit a written proposal.

The Committee also considered the findings of the Financial Reporting Council Audit Quality Inspection reports on each firm.

The Chairman of the Audit Committee, in conjunction with the Group Finance Director and the Group Financial Controller, selected two firms to make a final presentation. Deloitte LLP were successful in winning the tender process, their appointment was ratified by the Audit Committee and a resolution to appoint them as auditors to the Company will be put to the Annual General Meeting in April 2017.

Neither PricewaterhouseCoopers LLP nor Deloitte LLP provide the Group's tax services and there are no other significant recurring services provided by either firm. Deloitte LLP provided due diligence services to the Group in 2016.

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.

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 2016. In line with the Government 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 2016; 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 2017. The remuneration policy which was approved at the 2015 AGM remains in force and will not be subject to a resolution at the 2017 AGM.

We would like to thank shareholders for their support of the 2015 Remuneration report. At the AGM on 12 April 2016, the advisory vote on the 2015 Directors' remuneration report received 96% of the votes in favour of the resolution.

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

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. £13.2 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). Progress was made towards some of the agreed strategic objectives, resulting in 7.5% of the available 15% of base salary for the non-financial component of the bonus being awarded.

In 2013 the Committee set a target to achieve 100% vesting of the long term incentive award that matures in February 2017 of earnings per share of 18.0 pence in the year ended 30 November 2016; this required growth in earnings per share over the three year period of 42%. Earnings per share in the year ended 30 November 2016 are 17.1 pence, a growth of 35% over the three year period. When adjusted according to the scheme rules this growth allows 95% of the long term incentive award maturing in February 2017 to vest.

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.

In the year the Group began funding the Employee Benefit Trust, approved at the 2015 AGM, to settle incentive share awards granted in 2016 and the future. At 30 November 2016 the Trust held 20,000 shares (2015: nil).

For 2017 the committee has decided that the bonus maximum will remain at 75% of the Executive Directors' salary. However the amount achieveable from financial performance targets will be reduced from 60% to 50% and the amount achieveable from strategic objectives will increase from 15% to 25%. This has been implemented to enhance the focus on the longer term objectives of the Group.

Charles Matthews OBE
Chairman of the Remuneration Committee
27 January 2017

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 2017.

The Committee

The Remuneration Committee recommends to the Board the framework or broad policy for the remuneration and long term incentive arrangements of the Company's Executive Directors. The Committee also has an advisory role in relation to major changes in employee benefit structures throughout the Company and the Group. The Committee uses external published benchmark data to guide its deliberations. The remuneration of the Non-Executive Directors, including the Chairman, is set by the Executive Directors.

The members of the Remuneration Committee are drawn solely from the independent Non-Executive Directors. The Remuneration Committee currently comprises all of the independent Non-Executive Directors of the Company. To be quorate at least two members of the Committee must attend.

Dr Krishnamurthy Rajagopal was the Chairman of the Committee until his death on 10 November 2016, after which Charles Matthews took over the role of Chairman of the Committee. Sally Martin will become Chairman of the Committee at the AGM in April 2017. 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.

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 2016 £'000**
Executive Directors						
B D W Stocks	292	28	66	197	408	991
C P Tyler	205	24	43	139	285	696

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

In 2016 the Executive Directors incurred PAYE tax and national insurance contributions amounting to £830,000 (2015: £1,034,000) including amounts payable on the exercise of Long Term Incentive share options. On 1 December 2016 Ben Stocks and Chris Tyler were awarded an increase to their basic salary of 1.75% (2015: 2%). 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 comprised 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 were 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 54 on 30 November 2016. 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 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.

Chris Tyler 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.

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 2015 and 2016, 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 2016:

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	£10.5m	£12.2m	20%	60%	£13.2m	60%
Strategic: Further development in gasification services; growth in Microfiltration in the US and Metals Filtration in China; bioscience growth; and developing the business through acquisition.	N/A	N/A	0%	15%	See below	7.5%

In 2016 the Committee noted that the operating cash flow target for the maximum award had been exceeded. A joint venture to provide gasification to Reliance was signed and equipment was commissioned. A new plant was opened in Ashland, VA; production commenced in Metals Filtration in China; bioscience has grown steadily; and the Group completed the acquisition of TEM. The Committee awarded 7.5% of the available 15% of salary for progress towards strategic objectives.

For 2017 awards will be capped at 75% of base salary. Up to 50% may be paid on achievement of financial performance targets, based on adjusted operating cash flow less interest, and up to 25% on achievement of strategic objectives. The targets for plan and maximum are £10.7 million and £12.0 million respectively. Non financial targets will subjectively be based upon driving the Group to grow the US Microfiltration business; grow Metals Filtration in China; and secure suitable acquisitions. The Committee considers these targets to be consistent with driving improved performance from the Group.

Vesting of Long Term Share Plan

2015 vesting
Options granted in 2013 under the 2008 scheme were exercisable in full if the Group achieved EPS of at least 15.5 pence in the financial year ended 30 November 2015 ('FY2015'). 30% of the award would have vested if the Group has achieved EPS of 11.0 pence in FY2015. 50% of the award would have vested if the Group had 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 vested 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.

2016 vesting
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. 95% of these options vested as a result of the performance in 2016. In the table of Executive Directors' remuneration these options were valued at 391 pence per share.

The EPS used to vest the shares included discretionary adjustments applied consistently to adjust for acquisition expenses, amortisation on intangibles on acquisitions completed in the performance period and the impact of the change in accounting standard for pension costs not anticipated at the time of grant. The total adjustment added 0.6 pence to EPS in 2016. A similar adjustment would have been made in 2015 except that the basic earnings per share achieved the required level for 100% vesting without adjustment.

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.

Remuneration report continued

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. The last of the 2005 Scheme options outstanding were exercised in 2016.

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 2014 and October 2016 and unexercised options outstanding in relation to the October 2011 scheme which matured in October 2016.

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 2016 was 418 pence (2015: 292 pence).

The range of market prices during the year was 280 pence to 418 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 2016 and 30 November 2015 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.

	2016		2015	
	Ordinary shares (number)	**Share options (number)**	Ordinary shares (number)	Share options (number)
Executive Directors				
B D W Stocks	**665,731**	**311,080**	609,487	401,500
C P Tyler	**432,450**	**234,948**	392,450	297,498
Non-Executive Directors				
P Dean	**5,000**	**–**	5,000	–
S J Martin	**–**	**–**	N/A	N/A
C L Matthews	**30,000**	**–**	30,000	–
K Rajagopal	**N/A**	**N/A**	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 2015 (number)	**Granted in the year (number)**	**Lapsed in the year (number)**	**Exercised in the year (number)**	**At 30 November 2016 (number)**	Exercise price	Grant date	Exercisable from	Expiry date
B D W Stocks									
Vested									
2008	181,600	–	–	**(181,600)**	–	2p	01/02/2013	01/02/2016	01/02/2023
2008	110,400	–	**(5,520)**	–	**104,880**	2p	30/01/2014	30/01/2017	30/01/2024
Unvested									
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
2008	–	**96,700**	–	–	**96,700**	2p	27/01/2016	27/01/2019	27/01/2026
	401,500	**96,700**	**(5,520)**	**(181,600)**	**311,080**				
C P Tyler									
Vested									
2008	126,600	–	–	**(126,600)**	–	2p	01/02/2013	01/02/2016	01/02/2023
SAYE	16,586	–	–	–	**16,586**	93p	01/10/2011	01/10/2016	01/04/2017
2008	77,000	–	**(3,850)**	–	**73,150**	2p	30/01/2014	30/01/2017	30/01/2024
Unvested									
SAYE	6,312	–	–	–	**6,312**	240p	01/10/2014	01/10/2019	01/04/2020
2008	71,000	–	–	–	**71,000**	2p	28/01/2015	28/01/2018	28/01/2025
2008	–	**67,900**	–	–	**67,900**	2p	27/01/2016	27/01/2019	27/01/2026
	297,498	**67,900**	**(3,850)**	**(126,600)**	**234,948**				

Scheme interests awarded during the financial year
The table below sets out the options granted during 2015 and 2016:

	Date of grant	Scheme	Number	Exercise price	Share price used to value grant	Face value of grant £'000
B D W Stocks	28 January 2015	2008	102,000	2p	283p	289
	27 January 2016	2008	96,700	2p	302p	292
C P Tyler	28 January 2015	2008	71,000	2p	283p	201
	27 January 2016	2008	67,900	2p	302p	205

For performance over the three year period to 30 November 2019 the Committee has decided that Ben Stocks will be awarded 76,200 2 pence options and Chris Tyler will be awarded 53,500 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 391 pence.

The Long Term Share Plan shares granted in 2014, 2015 and 2016 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, 30 November 2014 and 30 November 2015 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 2015 and 2016 are determined from average share price over the final quarter of the financial years ended 30 November 2014 and 2015 respectively.

Performance conditions of the unvested share options
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.

Options granted in 2016 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 Committee intends to grant options in 2017, 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 2019 ('FY2019'), the Group has achieved EPS of at least 23.2 pence. 30% of the award will vest if the Group has achieved EPS of 18.0 pence in FY2018. 50% of the award will vest if the Group has achieved EPS of 19.2 pence in FY2018. A sliding scale will operate if the EPS are between 18.0 pence and 19.2 pence and between 19.2 pence and 23.2 pence. No shares vest if the EPS in FY2018 are below 18.0 pence.

The options granted under the SAYE scheme in 2014 and 2016 were issued at a 20% discount to the market price at the date of grant. These options have no performance conditions.

The Company funds the Employee Benefit Trust, approved at the 2015 AGM, to settle incentive share awards granted in 2016 and the future. At 30 November 2016 the Trust held 20,000 shares (2015: nil).

Remuneration report continued

The table below sets out the options exercised during 2016:

	Date of exercise	Scheme	Number	Exercise price	Share price on date of exercise
B D W Stocks	1 February 2016	2008	181,600	2p	288p
C P Tyler	1 February 2016	2008	126,600	2p	288p

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 Executive Directors' total gain on the exercise of options in 2016 was £881,000 before deduction of income tax and national insurance. On exercise, the Executive Directors sold some shares to fund the option acquisition costs and the related PAYE and national insurance costs and certain other personal financial commitments. 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 50,000 shares and 40,000 shares, respectively.

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.

Non-Executive Directors

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

2016	Basic salary and fees £'000
P Dean	35
C L Matthews	79
S J Martin (appointed on 1 October 2016)	6
K Rajagopal (deceased 10 November 2016)	33
	153

2015	Basic salary and fees £'000
P Dean	34
C L Matthews	77
K Rajagopal	34
	145

Payments to Directors leaving the Group

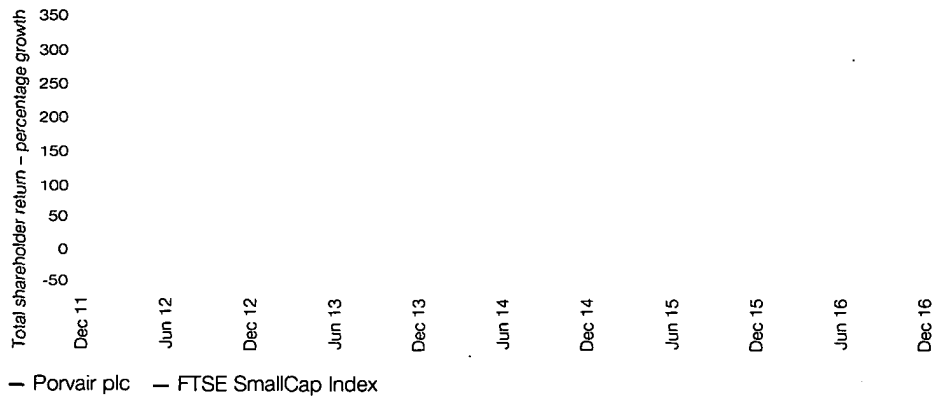
No payments (2015: £nil) were made during the year ended 30 November 2016 to any former director of the Company or any other Group company.

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 eight years.

Year	CEO	Single figure total remuneration £'000	Annual variable element % of max	Long term incentives % of max
2016	Ben Stocks	991	90%	95%
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 1.75% (2015: 2%) on 1 December 2016. 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

Strategic report | 04 to 37
Governance | 38 to 60
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Other information | 108 to ibc

Remuneration report continued

Statement of voting at the Annual General Meeting
A resolution to approve the Report of the Remuneration Committee included in the 2015 Report and Accounts was passed by the shareholders at the AGM on 12 April 2016. 96.38% of votes were cast in favour of the resolution. 3.62% of votes were cast against the resolution and 726,125 votes were withheld.

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.

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

Charles Matthews OBE
Chairman of the Remuneration Committee
27 January 2017

REMUNERATION POLICY AS APPROVED AT THE 2015 AGM

This section, shaded in blue, is drawn from the 2014 Report and Accounts and is the Remuneration Policy that was approved by shareholders at the 2015 AGM. It is unadjusted and therefore some of the tables of data are out of date.

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	• To attract and retain executives of high quality.	Initial salaries on joining or appointment to the role are set by reference to: • 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. Salaries are reviewed annually and fixed for a twelve month period from 1 December each year. The rate of increase is influenced by: • 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.	Salary increases will normally not exceed average salary increases across the Group. 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. 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.
Annual bonus	• 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.	• 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.	Financial: set by the Committee in line with near term priorities for the Group, typically adjusted profit before tax or operating cash flow. Strategic: Two or three strategic targets based on the requirements of the Group's annual or three year operating plan.	The Remuneration Committee may increase the annual bonus up to a maximum of 100% of base salary. The minimum payout is £nil.
Benefits	• To provide a competitive package for Executive Directors.	Benefits comprise: • A company car or allowance. • Medical insurance and health benefits. • Life insurance and spouse's pension. • Permanent health insurance.	None.	The Committee reserves the power to deliver benefits which, in aggregate, have a cost of 25% of base salary. 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).

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	• To motivate and incentivise Executive Directors to deliver sustained performance over the longer term in line with shareholder interests.	Awards are made under the Porvair Long Term Share Plan 2008 to the Executive Directors. The Remuneration Committee determines: • 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.	• 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.	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.
Pensions	• To provide a competitive package for Executive Directors.	• 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.	None.	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.

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.

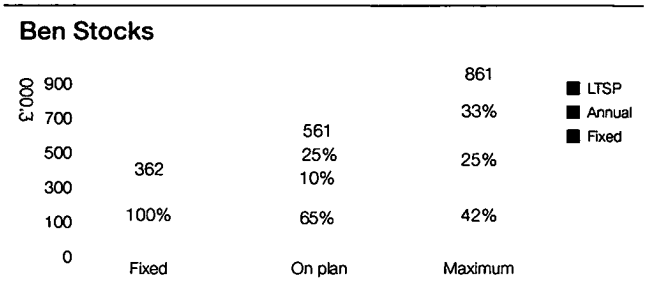
• Pensions are assumed to be in line with current practice.

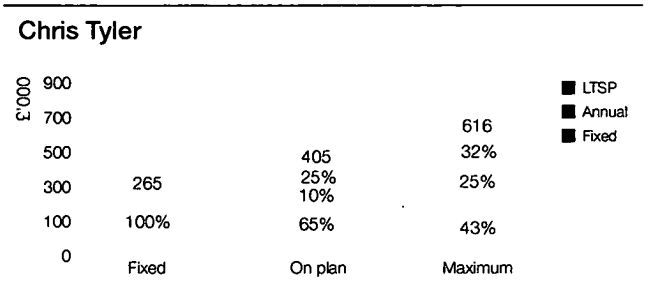
For performance in line with both the annual and three year operating plan

- 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.





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.

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 2016 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 and Accounts (the "Annual Report"), comprise:

- the consolidated balance sheet as at 30 November 2016;
- 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 IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

Materiality	• Overall Group materiality: £500,000 which represents, approximately, 5% of profit before tax.
Audit scope	• Work performed on 11 out of 17 reporting units, accounting for: – 86% of Group revenue. – 82% of Group profit before tax.
Areas of focus	• Accounting for large long term contracts. • Pension assumptions.

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.

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 table on page 62. 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	How our audit addressed the area of focus
Accounting for large long term contracts *Refer to page 47 (Report of the Audit Committee), note 1 (Significant accounting policies) and note 16 (Construction contracts).* The Group has four large long-term contracts in the Microfiltration division in 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 £9.7 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 an appropriate 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 and warranty risks, the estimation of which is inherently subject to judgement. As certain contracts have reached substantial milestones in the period, some warranty and re-work costs, previously recognised as forecast costs, have been recognised as costs in the year, with liabilities totalling £1.8 million included within provisions at the year end. Consequently, the focus of our audit was on the judgements around the future costs including the level of provisions/liabilities for re-work and warranty costs.	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 discussed with management the recognition of revenue and costs to complete; • Sample tested the estimated warranty costs by agreeing to supporting data; and • 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. 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; 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. For warranty and re-work costs recognised as liabilities at the year end, we tested the amounts recorded for reasonableness. No exceptions were noted during our testing.
Pension assumptions *Refer to page 47 (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 £16.0 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, and mortality rates) can have a material impact on the calculation of the liability.	We obtained the pension valuation report from the external actuary and through discussion with them gained an understanding of the methodology used to derive the key assumptions. We compared the inflation rates and discount rates used in the valuation of the pension liability by the external actuary to our internally developed benchmarks. 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.

How we tailored the audit scope

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 geographic structure 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 17 reporting components, comprising of 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 in 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, which were either individually financially significant or required a local statutory audit.

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 six 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 audit work in respect of the Group financial statements was undertaken by the Group engagement team. For the three components selected for testing in the USA we had the assistance from a PwC team in the USA. We held telephone calls with the PwC team in the USA both as part of planning and also following our review of the results of the work performed by them.

Taken together the Group companies over which we performed our audit procedures accounted for 86% of Group revenue and 82% of Group profit before tax.

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	£500,000 (2015: £465,000).
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 £25,000 (2015: £23,250) 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 31, 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 reporting
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:

• 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 Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 42, 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 position and 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.
• the section of the Annual Report on page 47, 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:

• the Directors' confirmation on page 26 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.
• 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.
• the Directors' explanation on page 31 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 page 42, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andy Grimbly (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
27 January 2017

Consolidated income statement

For the year ended 30 November	Note	2016 £'000	2015 £'000
Continuing operations			
Revenue	2	**109,363**	95,828
Cost of sales		**(73,350)**	(63,474)
Gross profit		**36,013**	32,354
Distribution costs		**(1,418)**	(1,207)
Administrative expenses		**(23,926)**	(21,346)
Operating profit	2,3	**10,669**	9,801
Finance income		**9**	12
Finance costs	5	**(595)**	(616)
Profit before income tax	2,3	**10,083**	9,197
Income tax expense	6	**(2,347)**	(2,241)
Profit for the year attributable to shareholders		**7,736**	6,956
Earnings per share (basic)	7	**17.1p**	15.5p
Earnings per share (diluted)	7	**17.1p**	15.4p

Consolidated statement of comprehensive income

For the year ended 30 November	2016 £'000	2015 £'000
Profit for the year	**7,736**	6,956
Other comprehensive income/(expense):		
Items that will not be reclassified to profit or loss		
Actuarial (loss)/gain in defined benefit pension plan net of tax	**(3,486)**	368
Items that may be subsequently reclassified to profit or loss		
Exchange gains on translation of foreign subsidiaries	**9,243**	890
Changes in fair value of foreign exchange contracts held as a cash flow hedge	**(67)**	(156)
	9,176	734
Other comprehensive income for the year, net of tax	**5,690**	1,102
Total comprehensive income for the year attributable to the owners of Porvair plc	**13,426**	8,058

Financial statements

Consolidated balance sheet

Company registered number 01661935

As at 30 November	Note	2016 £'000	2015 £'000
Non-current assets			
Property, plant and equipment	9	**18,102**	14,216
Goodwill and other intangible assets	10	**52,578**	43,547
Deferred tax asset	18	**3,291**	2,529
		73,971	60,292
Current assets			
Inventories	12	**15,001**	12,350
Trade and other receivables	13	**18,593**	14,621
Cash and cash equivalents	14	**13,633**	10,738
		47,227	37,709
Current liabilities			
Trade and other payables	15	**(25,873)**	(23,192)
Current tax liabilities		**(1,921)**	(1,405)
Derivative financial instruments	11	**(1,578)**	(154)
		(29,372)	(24,751)
Net current assets		**17,855**	12,958
Non-current liabilities			
Deferred tax liability	18	**(1,739)**	(1,465)
Retirement benefit obligations	19	**(16,117)**	(11,993)
Provisions for other liabilities and charges	20	**(2,524)**	(728)
		(20,380)	(14,186)
Net assets		**71,446**	59,064
Capital and reserves			
Share capital	21	**906**	896
Share premium account	21	**35,513**	35,359
Cumulative translation reserve		**10,949**	1,706
Retained earnings		**24,078**	21,103
Total equity		**71,446**	59,064

The financial statements on pages 65 to 96 were approved by the Board of Directors on 27 January 2017 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	2016 £'000	2015 £'000
Cash flows from operating activities			
Cash generated from operations	23	**13,364**	13,294
Interest paid		**(170)**	(155)
Tax paid		**(2,090)**	(1,836)
Net cash generated from operating activities		**11,104**	11,303
Cash flows from investing activities			
Interest received		**9**	12
Acquisition of subsidiaries (net of cash acquired)	24	**(2,930)**	(1,087)
Purchase of property, plant and equipment	9	**(4,362)**	(3,823)
Purchase of intangible assets	10	**(162)**	(16)
Proceeds from sale of property, plant and equipment		**14**	502
Net cash used in investing activities		**(7,431)**	(4,412)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	21	**164**	34
Purchase of EBT shares		**(77)**	–
Repayment of borrowings		**–**	(2,630)
Dividends paid to shareholders	8	**(1,625)**	(1,479)
Net cash used in financing activities		**(1,538)**	(4,075)
Net increase in cash and cash equivalents		**2,135**	2,816
Exchange gains on cash and cash equivalents		**760**	31
		2,895	2,847
Cash and cash equivalents at 1 December		**10,738**	7,891
Cash and cash equivalents at 30 November	14	**13,633**	10,738

Reconciliation of net cash flow to movement in net cash

	2016 £'000	2015 £'000
Net increase in cash and cash equivalents	**2,135**	2,816
Effects of exchange rate changes	**760**	28
Repayment of borrowings	**–**	2,630
Net cash at 1 December	**10,738**	5,264
Net cash at 30 November	**13,633**	10,738

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 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		–	–	890	–	890
Changes in fair value of foreign exchange contracts held as a cash flow hedge		–	–	–	(156)	(156)
Actuarial gain in defined benefit pension plan 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
Profit for the year		–	–	–	7,736	7,736
Other comprehensive income/(expense):						
Exchange differences on translation of foreign subsidiaries		–	–	9,243	–	9,243
Changes in fair value of foreign exchange contracts held as a cash flow hedge		–	–	–	(67)	(67)
Actuarial loss in defined benefit pension plan net of tax		–	–	–	(3,486)	(3,486)
Total comprehensive income for the year		–	–	9,243	4,183	13,426
Transactions with owners:						
Consideration paid for purchase of own shares (held in trust)		–	–	–	(77)	(77)
Employee share options scheme						
– Value of employee services net of tax		–	–	–	494	494
Proceeds from shares issued	21	10	154	–	–	164
Dividends paid	8	–	–	–	(1,625)	(1,625)
Total transactions with owners recognised directly in equity		10	154	–	(1,208)	(1,044)
Balance at 30 November 2016		**906**	**35,513**	**10,949**	**24,078**	**71,446**

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"), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101), and these are presented on pages 99 to 107.

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 £344,000/£353,000, 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.

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

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.

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.

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.

1 Summary of significant accounting policies continued

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.

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.

Notes to the consolidated financial statements continued

1 *Summary of significant accounting policies* continued

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's 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.

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.

1 Summary of significant accounting policies continued

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.

Where any Group company purchases the Company's equity share capital ("treasury shares"), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

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.

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.

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

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 2016:

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 December 2015 have had a material impact on the Group.

(b) Standards, amendments and interpretations that are not yet effective and have not been early adopted:

- 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 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.

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 2016, 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, laboratory supplies 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 2016 are as follows:

30 November 2016	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	**Group £'000**
Revenue		34,745	74,618	–	**109,363**
Operating profit/(loss)		2,156	11,848	(3,335)	**10,669**
Net finance costs	5	–	–	(586)	**(586)**
Profit/(loss) before income tax		2,156	11,848	(3,921)	**10,083**
Income tax expense		–	–	(2,347)	**(2,347)**
Profit/(loss) for the year		2,156	11,848	(6,268)	**7,736**

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

Notes to the consolidated financial statements continued

2 **Segment information** continued

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

30 November 2016	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	**Group £'000**
Depreciation, impairment and amortisation (property, plant and equipment and intangible assets)	9,10	979	1,574	–	**2,553**

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

The segment assets and liabilities at 30 November 2016 are as follows:

30 November 2016	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	**Group £'000**
Segmental assets		36,683	65,762	5,120	**107,565**
Cash and cash equivalents	14	–	–	13,633	**13,633**
Total assets		36,683	65,762	18,753	**121,198**
Segmental liabilities		(4,650)	(22,565)	(6,420)	**(33,635)**
Retirement benefit obligations	19	–	–	(16,117)	**(16,117)**
Total liabilities		(4,650)	(22,565)	(22,537)	**(49,752)**

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)
Total liabilities		(3,851)	(19,087)	(15,999)	(38,937)

2 Segment information continued

Geographical analysis

Revenue	2016 By destination £'000	2016 By origin £'000	2015 By destination £'000	2015 By origin £'000
United Kingdom	**16,460**	**44,826**	15,516	40,051
Continental Europe	**14,964**	**8,969**	13,050	7,572
United States of America	**41,178**	**52,541**	36,758	46,601
Other NAFTA	**7,827**	**–**	6,925	–
South America	**1,802**	**–**	1,415	–
Asia	**26,058**	**3,027**	21,027	1,604
Africa	**1,074**	**–**	1,137	–
	109,363	**109,363**	95,828	95,828

Non-current assets	2016 £'000	2015 £'000
United Kingdom	**19,819**	19,617
Continental Europe	**3,915**	3,756
Americas	**44,691**	32,997
Asia	**2,255**	1,393
Unallocated deferred tax asset	**3,291**	2,529
	73,971	60,292

Capital expenditure (including intangibles)	2016 £'000	2015 £'000
United Kingdom	**901**	1,335
Continental Europe	**136**	47
Americas	**3,187**	1,687
Asia	**237**	770
	4,461	3,839

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:

	2016 £'000	2015 £'000
Staff costs	**32,929**	29,866
Inventories – Cost of inventories recognised as an expense (included in cost of sales)	**38,418**	33,925
Net realised foreign exchange gains	**793**	97
Depreciation on property, plant and equipment – owned	**2,173**	1,816
Amortisation of intangible assets	**380**	340
Profit on sale of property, plant and equipment and intangible assets	**(12)**	(17)
Other operating lease rentals payable:		
– Plant and machinery	**97**	124
– Property	**1,410**	1,240
Repairs and maintenance on property, plant and equipment	**1,622**	1,662
Trade receivables impairment	**54**	31
Research and development expenditure	**3,469**	3,207

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

	2016 £'000	2015 £'000
Fees payable to Company's auditors and its associates for audit of parent company and consolidated financial statements	**55**	53
Fees payable to Company's auditors and its associates for other services:		
– The audit of Company's subsidiaries	**84**	82
– Audit-related assurance services	**17**	18
– Other non-audit services	**–**	1
	156	154

	2016 £'000	2015 £'000
Fees in respect of The Porvair plc Pension and Death Benefit Plan audit	**14**	11

4 Employee benefit expense

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

	2016 Average number	2015 Average number
Number		
Metals Filtration	**192**	184
Microfiltration	**506**	472
Head office	**7**	7
	705	663
North American employees included above	**272**	245

	2016 £'000	2015 £'000
Staff costs		
Wages and salaries	**26,595**	24,370
Social security costs	**4,139**	3,522
Other pension costs	**1,719**	1,472
Share based payments	**476**	502
	32,929	29,866

Detailed disclosures of Directors' emoluments and interests in share options are shown in the Remuneration report on pages 49 to 60. The key management comprise the Directors of Porvair plc and their remuneration is disclosed in note 28.

5 Finance income and costs

	2016 £'000	2015 £'000
Finance income		
Bank interest receiveable	**9**	12
	9	12

	Note	2016 £'000	2015 £'000
Finance costs			
Interest payable on bank loans and overdrafts		**(156)**	(160)
Unwinding of discount on provisions	20	**(14)**	(12)
Pension scheme finance expense	19	**(425)**	(444)
		(595)	(616)
Net finance costs		**(586)**	(604)

6 Income tax expense

	Note	2016 £'000	2015 £'000
Current tax			
UK Corporation tax		**1,018**	870
Adjustment in respect of prior periods		**(587)**	(347)
Overseas tax		**1,989**	1,777
		2,420	2,300
Deferred tax			
Origination and reversal of temporary differences – UK		**(112)**	(40)
Origination and reversal of temporary differences – Overseas		**(22)**	(82)
Adjustment in respect of prior periods		**61**	63
	18	**(73)**	(59)
		2,347	2,241

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:

	2016 £'000	2015 £'000
Profit before tax	**10,083**	9,197
Tax at the UK Corporation tax rate of 20% (2015: 20.33%)	**2,017**	1,870
Current tax adjustments in respect of prior periods	**(587)**	(347)
Deferred tax adjustments in respect of prior periods	**61**	63
Deferred tax on share based payments within the income statement	**(89)**	(48)
Tax effect of expenses not deductible in determining taxable profit	**184**	202
Effect of different tax rates of subsidiaries operating in other jurisdictions	**761**	501
Tax charge	**2,347**	2,241

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

	2016 £'000	2015 £'000
Deferred tax on share based payments (direct to equity)	**(18)**	184
Deferred tax on actuarial losses on the pension fund (direct to comprehensive income)	**(693)**	504
	(711)	688

The standard rate of Corporation tax in the UK remained at 20% during the year. Accordingly, the theoretical effective tax rate applied to the Group's profits for this accounting year is 20%.

Changes to the UK Corporation tax rates were introduced by Finance (No.2) Act 2015, being the reduction of the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. The latter was superseded by Finance Act 2016, which was substantively enacted in September 2016 and reduced the rate to apply from 1 April 2020 to 17%. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Notes to the consolidated financial statements continued

7 Earnings per share

Earnings	2016 £'000	2015 £'000
Profit for the year – attributable to ordinary shareholders	**7,736**	6,956

Number of shares	Number	Number
Weighted average number of ordinary shares in issue	**45,113,873**	44,736,977
Weighted average number of ordinary shares owned by the Employee Benefit Trust	**(3,799)**	–
Average number of ordinary shares in issue for basic earnings	**45,110,074**	44,736,977
Dilutive impact of share options oustanding	**260,875**	455,668
Diluted weighted average number of ordinary shares in issue	**45,370,949**	45,192,645

Earnings per share	pence	pence
Basic EPS	**17.1**	15.5
Dilutive impact of share options oustanding	**–**	(0.1)
Diluted EPS	**17.1**	15.4

8 Dividends per share

	2016		2015	
	Per share (pence)	£'000	Per share (pence)	£'000
Final dividend paid – in respect of prior year	**2.20**	**993**	2.00	896
Interim dividend paid – in respect of current year	**1.40**	**632**	1.30	583
	3.60	**1,625**	3.30	1,479

The Directors recommend a final dividend of 2.4 pence for the financial year ended 30 November 2016 to be paid on 2 June 2017.

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 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

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 2015	7,516	1,172	26,544	35,232
Reclassification	41	(1,154)	1,113	–
Additions	140	667	3,555	4,362
Acquisitions	–	–	44	44
Disposals	(36)	–	(386)	(422)
Exchange differences	774	134	3,093	4,001
At 30 November 2016	**8,435**	**819**	**33,963**	**43,217**
Accumulated depreciation				
At 1 December 2015	(2,216)	–	(18,800)	(21,016)
Charge for year	(288)	–	(1,885)	(2,173)
Disposals	36	–	384	420
Exchange differences	(335)	–	(2,011)	(2,346)
At 30 November 2016	**(2,803)**	**–**	**(22,312)**	**(25,115)**
Net book value at 30 November 2016	**5,632**	**819**	**11,651**	**18,102**

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 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
Year ended 30 November 2016					
Opening net book amount	42,825	124	11	587	43,547
Reclassification	–	96	–	(96)	–
Additions	–	74	88	–	162
Acquisitions	3,048	–	–	66	3,114
Amortisation charges	–	(70)	(39)	(271)	(380)
Exchange differences	5,970	45	6	114	6,135
Closing net book amount	**51,843**	**269**	**66**	**400**	**52,578**
At 30 November 2016					
Cost	70,526	841	1,166	1,483	74,016
Accumulated amortisation and impairment	(18,683)	(572)	(1,100)	(1,083)	(21,438)
Net book amount	**51,843**	**269**	**66**	**400**	**52,578**

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 £380,000 (2015: £340,000) 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 according to its operating segment.

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

	2016			2015		
	Metals Filtration £'000	Microfiltration £'000	Total £'000	Metals Filtration £'000	Microfiltration £'000	Total £'000
	17,998	**33,845**	**51,843**	17,565	25,260	42,825

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%	32%	32%
Growth rate used to extrapolate cash flows beyond the budget period	3%	3%	3%	3%
Weighted average cost of capital (pre-tax)	8.5%	8.5%	7.2%	6.0%

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 year impairment review, no impairment charges have been recognised by the Group in the year ended 30 November 2016. 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 2016.

11 Derivative financial instruments

	2016		2015	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward foreign exchange contracts – current	–	**(1,421)**	–	(64)
Forward foreign exchange contracts – cash flow hedge – current	–	**(157)**	–	(90)
	–	**(1,578)**	–	(154)

The loss recognised in the income statement in the year for non-hedged derivatives amounted to £1,357,000 (2015: gain of £54,000).

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 2016 is £9.6 million (2015: £5.8 million) which mature by October 2017.

12 Inventories

	2016 £'000	2015 £'000
Raw materials	**5,398**	3,761
Work in progress	**4,666**	4,485
Finished goods	**4,937**	4,104
	15,001	12,350

The Group has recognised a charge in the income statement of £655,000 (2015: £242,000) for the write-down of its inventories during the year ended 30 November 2016. The Group has utilised provisions of £278,000 (2015: £63,000) during the year ended 30 November 2016.

13 Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	**17,136**	12,855
Less: provision for impairment	**(228)**	(254)
Trade receivables – net	**16,908**	12,601
Other debtors	**178**	390
Prepayments	**1,507**	1,630
	18,593	14,621

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 £16,908,000 (2015: £12,601,000). 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; £2,944,000 (2015: £4,138,000) is less than 3 months past due but not impaired at the year end, of which £2,430,000 (2015: £2,881,000) is less than 30 days overdue.

	2016			2015		
Trade receivables:	Not yet due £'000	Past due not impaired £'000	Impaired £'000	Not yet due £'000	Past due not impaired £'000	Impaired £'000
Not yet due	**13,278**	**–**	**–**	8,289	–	–
0-3 months overdue	**–**	**2,944**	**198**	–	4,138	231
3-6 months overdue	**–**	**5**	**13**	–	145	16
>6 months overdue	**–**	**681**	**17**	–	29	7
Total	**13,278**	**3,630**	**228**	8,289	4,312	254

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

	2016 £'000	2015 £'000
At 1 December	**254**	355
Provision for receivables impairment	**54**	31
Receivables written off during the year as uncollectable	**(118)**	(138)
Exchange differences	**38**	6
At 30 November	**228**	254

Foreign exchange risk in relation to trade receivables is disclosed in note 25.

14 Cash and cash equivalents

	2016 £'000	2015 £'000
Cash at bank and in hand	**13,633**	10,738
Cash and cash equivalents	**13,633**	10,738

The credit risk associated with cash and cash equivalents is mitigated by holding funds with banks with high credit ratings from AA- to A (2015: AA- to A) as assigned by international credit rating agencies.

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

	2016 £'000	2015 £'000
Pound Sterling	**8,053**	3,699
US dollar	**2,740**	5,164
Euro	**2,533**	1,494
Other	**307**	381
	13,633	10,738

Notes to the consolidated financial statements continued

15 Trade and other payables

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade payables	**9,144**	6,741
Taxation and social security	**626**	724
Other payables	**61**	64
Accruals and deferred income	**16,042**	15,663
	25,873	23,192

16 Construction contracts

	2016 £'000	2015 £'000
Amounts due from contract customers included in trade receivables	**827**	–
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in other receivables	**300**	–
Amounts due to contract customers included in accruals and deferred income	**(8,208)**	(7,730)
Net amounts due to contract customers	**(7,908)**	(7,730)
Contract costs incurred plus recognised profits less recognised losses to date	**44,854**	35,160
Less: progress billings	**(52,762)**	(42,890)
Contracts in progress at the balance sheet date	**(7,908)**	(7,730)

At 30 November 2016, retentions held by customers for contract work amounted to £nil (2015: £nil). Advances received from customers for contract work amounted to £nil (2015: £2,471,000).

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

17 Borrowings

Borrowings at 30 November 2016 are £nil (2015: £nil).

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 by 30 November 2015) and a £2.5 million multi-currency overdraft facility.

At 30 November 2016, the Group had a US$20.0 million/£16.0 million (2015: US$19.9 million/£13.2 million) unused credit facility and an unutilised £2.5 million (2015: £2.5 million) overdraft facility.

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

18 Deferred tax

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 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
Credited/(charged) to income statement	(133)	(139)	265	89	(9)	73
Charged to equity in respect of share options	–	–	–	18	–	18
Charged to comprehensive income in respect of pension liabilities	–	–	–	–	693	693
Exchange differences	(338)	12	30	–	–	(296)
At 30 November 2016	**(2,204)**	**232**	**177**	**525**	**2,822**	**1,552**

There were no unrecognised deferred tax amounts at 30 November 2016 (2015: £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 £1,552,000 (2015: £1,064,000) are deferred tax liabilities of £1,739,000 (2015: £1,465,000), which relate to Group entities based in the USA.

19 Retirement benefit obligations

	2016 £'000	2015 £'000
Defined benefit scheme deficit	**16,001**	11,876
Additional pension commitments	**116**	117
	16,117	11,993

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 2016, this amounted to £364,000 (2015: £304,000). In 2016, the Group also made payments of £362,000 (2015: £314,000) 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 £590,000 (2015: £568,000).

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.

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 2015.

The principal actuarial assumptions adopted in the 2015 valuation were:	2015 valuation assumptions %
Past service investment return:	
Pre-retirement discount rate	4.55
Post-retirement discount rate	2.35
Salary increases	3.25

A full triennial actuarial valuation of the assets and liabilities of the defined benefit scheme was completed in 2016, based on data at 31 March 2015. The actuarial value of the assets on the funding basis was sufficient to cover 64% of the benefits that had accrued to members after allowing for expected increases in pensionable remuneration, and the current funding deficiency amounted to £15.4 million. As a result of the review, the Group and the Trustees agreed to alter the employer's contributions from 13.3% of salary to 18.9% of salary. A £214,600 annual cash contribution towards the running costs of the scheme started in April 2016, increasing by 3.5% per annum. The Group also committed to make additional annual contributions to cover the past service deficit of £1,000,000 per annum commencing in December 2016. The funding shortfall is expected to be eliminated by December 2028. The next full actuarial valuation of the scheme will be based on the pension scheme's position at 31 March 2018 and is expected to be completed before June 2019.

The pension charge for the year was £588,000 (2015: £607,000) and the funding via employer contributions was £1,067,000 (2015: £1,011,000). The Group expects to make contributions of £1,572,000 to the Plan in the next financial year.

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 2016.

Balance sheet

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

	2016	2015
Valuation method	Projected Unit	Projected Unit
Discount rate	**2.9%**	3.7%
RPI inflation rate	**3.3%**	3.3%
CPI inflation rate	**2.3%**	2.3%
General salary increases	**3.0%**	3.0%
Rate of increase of pensions in payment	**2.3%**	2.3%
Rate of increase for deferred pensioners	**1.8%**	1.9%

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 (2015: 1.25% per annum). These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

Notes to the consolidated financial statements continued

19 Retirement benefit obligations continued

	2016 Years	2015 Years
Retiring at the end of the reporting period:		
– Male	**21.7**	21.6
– Female	**23.7**	23.6
Retiring 15 years after the end of the reporting period:		
– Male	**22.9**	22.9
– Female	**25.1**	25.0

The Plan's membership numbers as at the year end is:

	2016 Number of members	2015 Number of members
Active	**46**	48
Deferred	**261**	271
Pensioner	**249**	249
	556	568

Sensitivities have been calculated by valuing the Plan's defined benefit obligation at 30 November 2016 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 1.9%	Increase of 2.0%
Inflation rate	0.1%	Increase of 1.3%	Decrease of 1.2%
Life expectancy	1 year	Increase of 2.5%	Decrease of 2.6%

The assets in the Plan, all of which are quoted, are:

	Value at 30 November 2016 £'000	Value at 30 November 2015 £'000
Equities	**13,707**	12,670
Bonds	**9,792**	2,197
Gilts	**2,487**	8,830
Other quoted	**78**	104
Fair value of Plan assets	**26,064**	23,801
Present value of unfunded obligations	**(42,065)**	(35,677)
Deficit in the Plan (excluding deferred tax)	**(16,001)**	(11,876)

The analysis of movement in the deficit in the Plan for the year is as follows:

	2016 £'000	2015 £'000
Deficit at 1 December	**(11,876)**	(12,708)
Contributions paid	**1,067**	1,011
Current service cost	**(297)**	(325)
Administration expense	**(291)**	(282)
Other finance expense	**(425)**	(444)
Actuarial (loss)/gain	**(4,179)**	872
Deficit at 30 November	**(16,001)**	(11,876)

19 Retirement benefit obligations continued

The change in the present value of the Plan assets during the year is as follows:

	2016 £'000	2015 £'000
Plan assets at the start of the year	**23,801**	23,662
Benefit payments	**(1,645)**	(1,562)
Company contributions	**1,067**	1,011
Administration expense	**(291)**	(282)
Member contributions	**108**	113
Interest income on plan assets	**867**	838
Return on Plan assets (excluding interest income)	**2,157**	21
Plan assets at 30 November	**26,064**	23,801

The actual return on Plan assets was £3,024,000 (2015: £859,000).

The change in the present value of the Plan liabilities during the year is as follows:

	2016 £'000	2015 £'000
Plan liabilities at the start of the year	**(35,677)**	(36,370)
Current service cost	**(297)**	(325)
Interest cost	**(1,292)**	(1,282)
Member contributions	**(108)**	(113)
Benefits paid	**1,645**	1,562
(Loss)/gain on change in financial and demographic assumptions	**(6,651)**	851
Experience gains on the defined benefit obligation	**315**	–
Plan liabilities at 30 November	**(42,065)**	(35,677)

The Plan liabilities by participant member status are as follows:

	2016 £'000	2015 £'000
Active	**(7,958)**	(8,173)
Deferred	**(16,847)**	(16,013)
Pensioner	**(17,260)**	(11,491)
Plan liabilities at 30 November	**(42,065)**	(35,677)

The weighted average duration of the Plan scheme liabilities at the end of the reporting period is 20 years (2015: 20 years).

The movements in the Plan during the year are as follows:

Income statement	2016 £'000	2015 £'000
Analysis of amounts chargeable to operating profit:		
Current service cost	**(297)**	(325)
Administration expense	**(291)**	(282)
Amount chargeable to operating profit	**(588)**	(607)
Analysis of amounts (charged)/credited to other finance income and costs:		
Interest on Plan liabilities	**(1,292)**	(1,282)
Expected return on assets in the Plan	**867**	838
Net amount charged to other finance income and costs	**(425)**	(444)
Total chargeable to the income statement before deduction of tax	**(1,013)**	(1,051)
Other items		
Analysis of amounts recognised in the consolidated statement of comprehensive income:		
Actual return on assets in excess of expected return	**2,157**	21
(Loss)/gain on change in financial and demographic assumptions	**(6,651)**	851
Experience gains on the defined benefit obligation	**315**	–
Total actuarial (loss)/gain recognised in the consolidated statement of comprehensive income	**(4,179)**	872
Cumulative actuarial loss recognised in the consolidated statement of comprehensive income	**(9,547)**	(5,368)

Notes to the consolidated financial statements continued

20 Provisions for other liabilities and charges

	Dilapidations £'000	Warranties £'000	Total £'000
At 1 December 2015	150	578	728
Charged to the consolidated income statement:			
– Unwinding of discount	14	–	14
– Warranties	–	1,782	1,782
At 30 November 2016	**164**	**2,360**	**2,524**

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 sale warranties, which are 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 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
At 1 December 2015	44,823,552	896	35,359	36,255
Issue of shares on exercise of share options	484,128	10	154	164
At 30 November 2016	**45,307,680**	**906**	**35,513**	**36,419**

In January 2016, 308,200 ordinary shares of 2 pence each were issued on the exercise of Long Term Share Plan share options for cash consideration of £6,000. In July 2016, 25,000 ordinary shares of 2 pence each were issued on the exercise of EMI share options for cash consideration of £18,000. In October and November 2016, 150,928 ordinary shares of 2 pence each were issued on the exercise of Save As You Earn share options for cash consideration of £140,000.

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.

The Group uses an Employee Benefit Trust (EBT) to purchase shares in the Company to satisfy entitlements, granted since the Company's AGM in 2015, under the Group's Long Term Incentive Plan. During the year the Group purchased 20,000 ordinary shares of 2 pence (2015: none) for a total consideration of £77,000 (2015: £nil). The cost of the shares held by the EBT is deducted from retained earnings. The EBT is financed by a repayable-on-demand loan from the Group of £77,000 (2015: £nil). As at 30 November 2016 the EBT held a total of 20,000 ordinary shares of 2 pence (2015: none) at a cost of £77,000 (2015: £nil) and a market value of £84,000 (2015: £nil).

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 49 to 60.

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.

22 **Share options and share based payments** continued

Details of the share options are:

Scheme	Year of grant	Exercise period	Subscription price (pence)	**2016 Number of shares**	2015 Number of shares
2005 EMI	2009	2012 – 2019	69.50	**–**	25,000
2011 5yr Save As You Earn Scheme	2011	2016 – 2017	93.00	**35,825**	186,753
2008 Long Term Share Plan	2013	2016 – 2023	2.00	**–**	308,200
2008 Long Term Share Plan	2014	2017 – 2024	2.00	**178,030**	187,400
2014 3yr Save As You Earn Scheme	2014	2017 – 2018	240.00	**156,540**	172,665
2014 5yr Save As You Earn Scheme	2014	2019 – 2020	240.00	**92,661**	108,693
2008 Long Term Share Plan	2015	2018 – 2025	2.00	**173,000**	173,000
2008 Long Term Share Plan	2016	2019 – 2026	2.00	**164,600**	–
2016 3yr Save As You Earn Scheme	2016	2019 – 2020	300.00	**160,020**	–
2016 5yr Save As You Earn Scheme	2016	2021 – 2022	300.00	**53,700**	–
At 30 November				**1,014,376**	1,161,711

Movements in share options during the year were:

	2016 Weighted average exercise price (pence)	2015 Weighted average exercise price (pence)	**2016 Number of shares**	2015 Number of shares
At 1 December	**75.70**	66.47	**1,161,711**	1,479,127
Options granted	**170.96**	2.00	**380,120**	173,000
Options forfeited	**191.02**	240.00	**(43,327)**	(30,195)
Options exercised	**32.58**	6.77	**(484,128)**	(460,221)
At 30 November	**126.47**	75.70	**1,014,376**	1,161,711
Options exercisable at 30 November	**93.00**	69.50	**35,825**	25,000
Options not exercisable at 30 November	**127.69**	75.84	**978,551**	1,136,711
Total	**126.47**	75.70	**1,014,376**	1,161,711

	Year of grant	Scheme	Exercise price (pence)	**2016 Number of shares**	2015 Number of shares
Options granted during the year were:	2015	2008	2.00	**–**	173,000
	2016	2008	2.00	**164,600**	–
	2016	2016	300.00	**161,820**	–
	2016	2016	300.00	**53,700**	–
Total				**380,120**	173,000

	Year of grant	Scheme	Exercise price (pence)	**2016 Number of shares**	2015 Number of shares
Options forfeited during the year were:	2014	3yr SAYE	240.00	**16,125**	22,242
	2014	5yr SAYE	240.00	**16,032**	7,953
	2016	3yr SAYE	300.00	**1,800**	–
	2014	2008	2.00	**9,370**	–
Total				**43,327**	30,195

	Year of grant	Scheme	Exercise price (pence)	**2016 Number of shares**	2015 Number of shares
Options exercised during the year were:	2011	3yr SAYE	93.00	**–**	7,763
	2006	EMI	151.00	**–**	10,000
	2012	2008	2.00	**–**	441,000
	2014	3yr SAYE	240.00	**–**	1,458
	2013	2008	2.00	**308,200**	–
	2009	EMI	69.50	**25,000**	–
	2011	5yr SAYE	93.00	**150,928**	–
Total				**484,128**	460,221

Notes to the consolidated financial statements continued

22 Share options and share based payment continued

For options exercised in the year, the weighted average share price at the date of exercise was 326 pence (2015: 301 pence).

A summary of the outstanding share option fair value assumptions is given below:

Grant date Scheme	30/01/14 Porvair LTSP	01/10/14 SAYE 2014 3 year	01/10/14 SAYE 2014 5 year	28/01/15 Porvair LTSP	27/01/16 Porvair LTSP	01/10/16 SAYE 2016 3 year	01/10/16 SAYE 2016 5 year
Share price at grant date	285.75p	300.00p	300.00p	301.50p	302.00p	373.00p	373.00p
Exercise price	2.00p	240.00p	240.00p	2.00p	2.00p	300.00p	300.00p
Shares under option	187,400	196,740	121,696	173,000	164,600	161,820	53,700
Vesting period (years)	3	3	5	3	3	3	5
Expected volatility	30%	30%	30%	30%	30%	30%	30%
Expected life (years)	3	3	5	3	3	3	5
Risk free rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Dividend yield	1.01%	0.97%	0.97%	1.06%	1.16%	0.97%	0.97%
Fair value per option (£)	2.75211	0.85809	0.97057	2.90081	2.89710	1.05545	1.19660

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	2016 £'000	2015 £'000
Charge for the year	**476**	502

23 Cash generated from operations

	2016 £'000	2015 £'000
Operating profit	**10,669**	9,801
Adjustments for:		
– Post-employment benefits	**23**	75
– Share based payments	**476**	502
– Depreciation, amortisation and impairment	**2,553**	2,156
– Profit on disposal of property, plant and equipment and intangibles	**(12)**	(17)
Operating cash flows before movement in working capital	**13,709**	12,517
Changes in working capital (excluding the effects of exchange differences on consolidation):		
– Increase in inventories	**(1,114)**	(904)
– (Increase)/decrease in trade and other receivables	**(798)**	2,492
– Increase/(decrease) in payables	**230**	(1,389)
– Increase in provisions	**1,337**	578
(Increase)/decrease in working capital	**(345)**	777
Cash generated from operations	**13,364**	13,294

24 Acquisitions

Acquisition of 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$5,220,000 (£3,576,000); 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 contingent consideration is estimated based on the forecast performance of the acquired business in its first year of ownership by the Group. At the time of acquisition this was expected to be US$750,000 (£497,000). Based on the actual performance of the division, this amount is estimated to be US$870,000 (£696,000). The difference between the initial assessment of contingent consideration and the revised estimate of US$120,000 (£87,000) has been taken to the income statement in the year. The maximum contingent consideration would be US$1,200,000 (£960,000). The direct costs of acquisition, which have been charged to the income statement, were US$58,000 (£38,000). In the period since acquisition, the business has contributed US$3,691,000 (£2,678,000) sales and US$916,000 (£665,000) operating profit to the Group results.

24 Acquisitions continued

	£'000
Purchase consideration:	
Cash paid	2,880
Deferred consideration estimate at acquisition	497
Total purchase consideration	3,377
Fair value of net assets acquired (see below)	(329)
Goodwill	**3,048**

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.

	Fair value £'000
Property, plant and equipment	44
Non-compete agreement (included in intangible assets)	66
Inventory	93
Trade receivables	162
Other working capital (net)	(36)
Net assets acquired	**329**
Purchase consideration settled in cash	2,880
Cash outflow on acquisition	**2,880**

Summary of deferred and contingent consideration on acquisitions:

	Fiber Ceramics £'000	TEM Filter Company £'000	Total £'000
At 1 December 2015	56	–	56
Purchase consideration addition in year	–	3,377	3,377
Cash paid in year	(50)	(2,880)	(2,930)
Recognised in the income statement	(7)	87	80
Exchange movement	1	112	113
At 30 November 2016	**–**	**696**	**696**

	2016 Total £'000	2015 Total £'000
Included within other payables:		
– Deferred and contingent consideration – current	**696**	56
At 30 November 2016	**696**	56

25 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 page 26 to 31 of the Strategic report and page 41 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.

Notes to the consolidated financial statements continued

25 Financial risk management continued

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:

	2016 $'000	2015 $'000
Outstanding forward contracts	**12,000**	8,800

The Group has the following current assets and liabilities denominated in US dollars:

	2016 $'000	2015 $'000
Trade receivables	**12,990**	11,746
Cash balances	**3,423**	7,773
Other current assets	**8,103**	7,396
Trade payables	**(5,753)**	(5,618)
Other current liabilities	**(17,114)**	(14,809)
	1,649	6,488

For illustrative purposes, if the US dollar exchange rate were to move by 10% against Sterling, the Group would make the following gains/(losses):

	2016 £'000	2015 £'000
US dollar strengthens	**146**	479
US dollar weakens	**(120)**	(392)

(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:

	2016 €'000	2015 €'000
Trade receivables	**2,148**	1,384
Cash balances	**2,985**	2,129
Other current assets	**1,565**	1,570
Trade payables	**(1,342)**	(1,763)
Other current liabilities	**(782)**	(665)
	4,574	2,655

For illustrative purposes, if the Euro exchange rate were to move by 10% against Sterling, the Group would make the following gains/(losses):

	2016 £'000	2015 £'000
Euro strengthens	**430**	208
Euro weakens	**(354)**	(169)

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 £8,000 (2015: £9,000) 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.

25 Financial risk management continued

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	16,553	–	–
At 30 November 2016	**16,553**	**–**	**–**

	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	–	–

The table below 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).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial liabilities at fair value through profit or loss:				
– Trading derivatives	–	(1,421)	–	(1,421)
Deferred consideration	–	–	(696)	(696)
Foreign exchange contracts used for hedging	–	(157)	–	(157)
At 30 November 2016	**–**	**(1,578)**	**(696)**	**(2,274)**

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets/(liabilities) at fair value through profit or loss:				
– Trading derivatives	–	(64)	–	(64)
Deferred and contingent consideration	–	–	(56)	(56)
Foreign exchange contracts used for hedging	–	(90)	–	(90)
At 30 November 2015	–	(154)	(56)	(210)

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 24 for movement in level 3 liabilities.

Notes to the consolidated financial statements continued

25 Financial risk management continued

The tables below analyse financial instruments by category:

	2016				2015			
	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								
Trade and other receivables excluding prepayments	**17,086**	**–**	**–**	**17,086**	12,991	–	–	12,991
Cash and cash equivalents	**13,633**	**–**	**–**	**13,633**	10,738	–	–	10,738
At 30 November	**30,719**	**–**	**–**	**30,719**	23,729	–	–	23,729

	2016				2015			
	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	**–**	**(1,421)**	**(157)**	**(1,578)**	–	(64)	(90)	(154)
Trade and other payables excluding non-financial liabilities	**(16,553)**	**–**	**–**	**(16,553)**	(13,999)	–	–	(13,999)
At 30 November	**(16,553)**	**(1,421)**	**(157)**	**(18,131)**	(13,999)	(64)	(90)	(14,153)

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 2016 was not applicable because the Group had a net cash position (2015: 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 2016.

26 Contingent liabilities

At 30 November 2016, the Group has advanced payment bonds totalling US$5,024,000, (2015: US$5,273,000) relating to monies received in advance on contracts. The advanced payment bonds are released 6 months after the date of invoice. The Group has performance bonds totalling US$7,179,000 (2015: US$9,728,000). The bonds are released after a warranty period and in any event no later than November 2019.

27 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 2016 were £1,187,000 (2015: £1,062,000).

Operating lease commitments – minimum lease payments

	2016		2015	
	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	**1,485**	**85**	1,236	80
Later than one year and no later than five years	**4,679**	**260**	3,791	145
Later than five years	**2,471**	**–**	2,735	–
At 30 November	**8,635**	**345**	7,762	225

28 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.

	2016 £'000	2015 £'000
Salaries and other short term employee benefits	**1,038**	1,045
Post employment benefits	**109**	122
Share based payments	**408**	456
	1,555	1,623

29 Revenue at constant currency estimation

	2016 £'000	2015 £'000	Growth %
Metals Filtration			
Revenue at constant currency*	**30,080**	29,701	1
Exchange	**4,665**	1,283	
Revenue as reported	**34,745**	30,984	12
Microfiltration			
Revenue at constant currency*	**70,765**	63,950	11
Exchange	**3,853**	894	
Revenue as reported	**74,618**	64,844	15
Group			
Revenue at constant currency*	**100,845**	93,651	8
Exchange	**8,518**	2,177	
Revenue as reported	**109,363**	95,828	14

* Revenue at constant currency is based upon fixed exchange rates in both years of US$1.6:£1 and €1.4:£1

Notes to the consolidated financial statements continued

30 Subsidiary undertakings

Details of the Group's subsidiary undertakings at 30 November 2016 are as follows:

Name of subsidiary	Activity	Country of incorporation and operation	% holding in ordinary shares
Held directly:			
Porvair Corporation	Holding	USA	100%
Porvair Filtration Limited	Holding	England	100%
Porvair Selee Filtration Technology (Hubei) Company Limited	Trading	China	100%
Seal Analytical Limited	Trading	England	100%
Seal Analytical Shanghai Company Limited	Trading	China	100%
Held indirectly:			
Microfiltrex Limited	Dormant	England	100%
Porvair Filtration Group Inc.	Trading	USA	100%
Porvair Filtration Group Limited	Trading	England	100%
Porvair Sciences Limited	Trading	England	100%
Pulse Instrumentation GmbH	Trading	Germany	100%
Seal Analytical GmbH	Trading	Germany	100%
Seal Analytical Inc.	Trading	USA	100%
Selee Corporation	Trading	USA	100%

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 2016;
- 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 and Accounts (the "Annual Report"), comprise:

- the Parent Company balance sheet as at 30 November 2016;
- the Parent Company 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 United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 reporting
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 page 42, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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 2016.

Andy Grimbly (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
27 January 2017

Financial statements

Porvair plc – Parent Company Balance Sheet (under FRS 101)

Company registered number 01661935

As at 30 November	Note	2016 £'000	2015 £'000
Fixed assets			
Property, plant and equipment	4	**11**	13
Investments	5	**49,435**	49,371
Deferred tax	11	**3,138**	2,646
		52,584	52,030
Current assets			
Amounts receivable from Group undertakings	6	**16,301**	14,008
Other receivables	7	**491**	514
Cash and cash equivalents	8	**36**	308
		16,828	14,830
Current liabilities			
Trade and other payables	9	**(1,602)**	(1,514)
Borrowings	10	**(3,801)**	(8,657)
Derivative financial instruments	12	**(1,578)**	(154)
		(6,981)	(10,325)
Net current assets		**9,847**	4,505
Non-current liabilities			
Retirement benefit obligations	13	**(16,117)**	(11,993)
		(16,117)	(11,993)
Net assets		**46,314**	44,542
Capital and reserves			
Share capital	14	**906**	896
Share premium account		**35,513**	35,359
Retained earnings		**9,895**	8,287
Total equity		**46,314**	44,542

The financial statements on pages 99 to 107 were approved by the Board of Directors on 27 January 2017 and were signed on its behalf by:

B D W Stocks

C P Tyler

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Parent Company – Profit/(loss) for the financial year

As permitted by Section 408 of the Companies Act 2006, no income statement is presented for the parent company. The profit for the financial year is £6,387,000 (2015: £11,352,000).

Parent Company – Statement of changes in equity

	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
Balance at 1 December 2014		887	35,334	(2,300)	33,921
Profit for the year		–	–	11,352	11,352
Other comprehensive income/(expense):					
Changes in fair value of foreign exchange contracts held as a cash flow hedge	12	–	–	(156)	(156)
Actuarial gain in defined benefit pension plans net of tax		–	–	368	368
Total comprehensive income for the year	–	–	11,564	11,564	
Transactions with owners:					
Employee share options scheme					
– Value of employee services net of tax		–	–	502	502
Proceeds from shares issued	14	9	25	–	34
Dividends paid		–	–	(1,479)	(1,479)
Total transactions with owners recognised directly in equity		9	25	(977)	(943)
Balance at 30 November 2015		896	35,359	8,287	44,542
Profit for the year		–	–	6,387	6,387
Other comprehensive income/(expense):					
Changes in fair value of foreign exchange contracts held as a cash flow hedge	12	–	–	(67)	(67)
Actuarial loss in defined benefit pension plans net of tax		–	–	(3,486)	(3,486)
Total comprehensive income for the year	–	–	2,834	2,834	
Transactions with owners:					
Employee share options scheme					
– Value of employee services net of tax		–	–	476	476
Purchase of own shares held in trust		–	–	(77)	(77)
Proceeds from shares issued	14	10	154	–	164
Dividends paid		–	–	(1,625)	(1,625)
Total transactions with owners recognised directly in equity		10	154	(1,226)	(1,062)
Balance at 30 November 2016		**906**	**35,513**	**9,895**	**46,314**

Parent Company – Notes to the financial statements

1 Summary of significant accounting policies

Basis of accounting

The Company financial statements are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard ("FRS") 100 issued by the Financial Reporting Council. Accordingly, the financial statements have been prepared in accordance with FRS 101 "Reduced Disclosure Framework" as issued by the Financial Reporting Council. A reconciliation of the impact of adopting FRS 101 is included in note 18.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial Instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 'Property, plant and equipment';
  - (iii) paragraph 118(e) of IAS 38 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), (statement of cash flows),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

The preparation of financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The critical accounting estimates and judgements are the assumptions used in the calculation of share based payments and the parameters for measuring pension provisions.

Property, plant and equipment

Plant, machinery and equipment is capitalised at cost and is depreciated by equal annual amounts over their estimated useful lives. Annual depreciation rates are between 10% and 33.33% straight line.

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.

All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Parent Company – Notes to the financial statements continued

1 Summary of significant accounting policies continued

Taxation

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 Company'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 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.

Pensions

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.

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.

Derivative financial instruments and hedge accounting

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses foreign exchange forward contracts and interest rate swap agreements to hedge these exposures. The Company does not use derivative financial instruments for speculative purposes.

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 Company designates certain derivatives as cash flow hedges.

For cash flow hedges the Company 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 Company 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.

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 income statement 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.

1 Summary of significant accounting policies continued

Operating leases

Rentals payable under operating leases are charged to the income statement 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 income statement over the period of the borrowings.

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.

Where the Company purchases its equity share capital ("treasury shares"), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2 Profit before income tax

During the year the Company obtained the following services from the Company's auditors at costs as detailed below:

	2016 £'000	2015 £'000
Fees payable to Company's auditors for audit of parent company financial statements	**15**	15
	15	15

3 Employees and Directors

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

	2016 Number	2015 Number
Administration	**7**	7
	7	7

Detailed disclosures of Directors' individual remuneration and share options are given in the Remuneration report on pages 49 to 60, and in note 28 of the Group financial statements.

4 Property, plant and equipment

	Plant, machinery and equipment £'000
Cost	
At 1 December 2015	163
Additions	3
At 30 November 2016	**166**
Accumulated depreciation	
At 1 December 2015	(150)
Charge for year	(5)
At 30 November 2016	**(155)**
Net book value	
At 30 November 2016	**11**
At 30 November 2015	13

Parent Company – Notes to the financial statements continued

5 Fixed asset investments

Investments in subsidiary undertakings

	2016 £'000	2015 £'000
Cost		
At 1 December	**49,371**	49,327
Capital contributions arising from share based payments charge	**64**	44
At 30 November	**49,435**	49,371
Accumulated provisions		
At 1 December	**–**	(2,598)
Write-back of investment provision	**–**	2,598
At 30 November	**–**	–
Net book value		
At 30 November	**49,435**	49,371
At 1 December	**49,371**	46,729

The capital contributions arising from the share based payment charge represent 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.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

Details of the Company's subsidiary undertakings are given in Note 30 of the Group financial statements.

6 Amounts receivable from Group undertakings

	2016 £'000	2015 £'000
Loans to subsidiary undertakings	**16,301**	14,008
	16,301	14,008

Amounts owed by group undertakings are interest free and unsecured with no fixed terms for repayment.

7 Other receivables

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Corporation tax recoverable	**428**	476
Prepayments	**63**	38
	491	514

8 Cash and cash equivalents

	2016 £'000	2015 £'000
Cash at bank and in hand	**36**	308

9 Trade and other payables

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade creditors	**78**	111
Taxation and social security	**82**	79
Accruals and deferred income	**1,442**	1,324
	1,602	1,514

10 Borrowings

	2016 £'000	2015 £'000
Bank overdraft offset against cash balances in other Group companies under a Group banking offset arrangement	**3,801**	8,657
	3,801	8,657

Bank and other loans of the Company are repayable as follows:

	2016 £'000	2015 £'000
Within one year	**3,801**	8,657
	3,801	8,657

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.

At 30 November 2016, the Company had £16.0 million (2015: £13.2 million) unused loan facility and an unutilised £2.5 million (2015: £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

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

	Accelerated capital allowances £'000	Other short term timing differences £'000	Share based payments £'000	Retirement obligations £'000	Total £'000
At 1 December 2014	4	–	401	2,635	3,040
Credited to income statement	4	17	–	7	28
Credited to equity in respect of share options	–	–	82	–	82
Charged to comprehensive income in respect of pension liabilities	–	–	–	(504)	(504)
At 30 November 2015	8	17	483	2,138	2,646
Credited/(charged) to income statement	–	(262)	–	(9)	(271)
Credited to equity in respect of share options	–	–	70	–	70
Credited to comprehensive income in respect of pension liabilities	–	–	–	693	693
At 30 November 2016	**8**	**(245)**	**553**	**2,822**	**3,138**

There were no unrecognised deferred tax amounts at 30 November 2016 (2015: £nil).

12 Derivative financial instruments

Forward foreign exchange contract liabilities

	2016 £'000	2015 £'000
Forward foreign exchange contracts – current	**1,421**	64
Forward foreign exchange contracts – cash flow hedge – current	**157**	90
	1,578	154

The loss recognised in the income statement in the year for non-hedged derivatives amounted to £1,357,000 (2015: gain of £54,000).

Parent Company – Notes to the financial statements continued

13 Retirement benefit obligations

	2016 £'000	2015 £'000
Defined benefit scheme deficit	**16,001**	11,876
Additional pension commitments	**116**	117
	16,117	11,993

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. Further details of the retirement benefit obligations are disclosed in note 19 of the Group financial statements.

14 Called up share capital

	2016 £'000	2015 £'000
Allotted and fully paid:		
45,307,680 ordinary shares of 2 pence each (2015: 44,823,552)	**906**	896

Details of shares issued and share options are disclosed in notes 21 and 22 of the Group financial statements, respectively.

15 Dividends

Details of dividends paid in the year are disclosed in note 8 of the Group financial statements.

16 Contingent liabilities

The Company has no contingent liabilities at 30 November 2016 (2015: none).

17 Financial Commitments

At 30 November 2016 the Company has future aggregate minimum lease payments under non-cancellable operating leases expiring as follows:

	2016		2015	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	**48**	**2**	48	–
Later than one year and less than five years	**60**	**2**	108	–
	108	**4**	156	–

18 Adoption of FRS 101

This is the first year that the Company has presented its financial statements in accordance with FRS 101. Comparative information for the year ended 30 November 2016, the year ended 30 November 2015, has been represented under FRS 101, the date of transition being 1 December 2014.

Reconciliation of Total Equity as at 1 December 2014 and 30 November 2015

	Note	1 December 2014 £'000	30 November 2015 £'000
Total equity			
UK GAAP – as previously reported ('old UK GAAP')		44,045	54,433
Retirement benefit obligations	a	(12,707)	(11,875)
Foreign exchange contract held as a cash flow hedge	b	66	(90)
Foreign exchange contract – not hedged	b	(118)	(64)
Deferred tax	c	2,635	2,138
Total equity - FRS 101		33,921	44,542

18 Adoption of FRS 101 continued

Reconciliation of the Income Statement for the year ended 30 November 2015

	Note	2015 £'000
Profit for the financial year		
UK GAAP – as previously reported ('old UK GAAP')		11,048
Pension costs		404
Pension interest costs		(444)
Foreign exchange contract – not hedged	b	54
Deferred tax impact of adjustments	c	7
Foreign exchange on loan balances	d	283
Profit for the financial year – FRS 101		11,352

Explanations of FRS 101 adjustments

a) Retirement benefit obligations

The Company operates a defined benefit pension scheme, The Porvair plc Pension and Death Benefit Plan, covering a number of employees in the UK. Under 'old UK GAAP', the defined benefit pension scheme was not accounted for by the Company, whereas under FRS 101 it is.

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.

The additional liability recognised on the Company balance sheet in respect to these obligations is £12,707,000 as at 1 December 2014, and £11,875,000 as at 30 November 2015.

A pension administration credit of £404,000 and pension interest costs of £444,000 that were previously not accounted for under 'old UK GAAP' have been recognised in the income statement for the year to 30 November 2015 under FRS 101.

b) Financial derivative instruments

FRS 101 requires that derivative financial instruments are recognised at fair value. Previously under 'old UK GAAP' the Company did not recognise these instruments in the financial statements.

The method of recognising the resulting gains and losses on these contracts depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Accordingly, at 1 December 2014, a liability of £90,000 was recognised on the balance sheet and at 30 November 2015, an asset of £66,000 was recognised in respect of foreign exchange contracts held as a cash flow hedge. A loss of £156,000 was recognised in equity in respect of these derivatives for the year to 30 November 2015.

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. Accordingly, at 1 December 2014, a liability of £118,000 was recognised on the balance sheet and at 30 November 2015, a liability of £64,000 was recognised in respect of foreign exchange contracts that do not qualify for hedge accounting. A gain of £54,000 was recognised in the income statement in respect of these derivatives for the year to 30 November 2015.

c) Deferred tax

The changes on implementation of FRS 101 recognised by the Company had an impact on the deferred tax calculation, according to the requirements in IAS 12. The impact on the Company's equity at 1 December 2014 and 30 November 2015 was to increase it by £2,635,000 and £2,138,000, respectively. The impact in comprehensive income for the year ended 30 November 2015 was a net loss of £497,000, and £7,000 of this was recognised as a credit in the income statement.

d) Foreign exchange

Previously under 'old UK GAAP' hedged loan exchange movements were taken to the exchange reserve. Under IAS 21, the Company is required to realise all exchange differences on the revaluation of loan balances in the income statement. This has resulted in no net change in the Company's equity at any year end, but a credit of £283,000 was recognised in the income statement for the year ended 30 November 2015.

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 12p a minute plus network extras, lines are open 8.30am-5.30pm Mon-Fri) (from outside the UK: +44 (0) 371 664 0300). 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

0371 664 0445 – telephone dealing (from outside the UK: +44 (0) 371 664 0445).

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.

Financial calendar 2017

30 November 2016
Financial year end 2016

30 January 2017
Full year 2016 results

11 April 2017
AGM

27 April 2017
Ex-dividend date

28 April 2017
Record date for dividend

31 May 2017
Half year 2017 period end

2 June 2017
Payment date for dividend

27 June 2017
Half year 2017 results announcement

27 July 2017
Ex-dividend date

28 July 2017
Record date for dividend

1 September 2017
Payment date for dividend

30 November 2017
Financial year end 2017

29 January 2018
Full year 2017 results

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porvair

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