porvair

A **strong** performance
Positioned for **growth**

Overview
Inside this year's report

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www.porvair.com

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Overview

Key performance highlights in 2013

Delivering a strong performance

Financial highlights

Strong financial performance ahead of expectations:

- Revenues grew by 10% to a record for the Group of £84.3 million (2012: £76.5 million).
- 25% increase in profit before tax to £7.8 million (2012: £6.3 million).
- Basic earnings per share rose 26% to 12.7 pence (2012: 10.1 pence).
- Strong cash generation resulting in net cash of £0.6 million at 30 November 2013 (2012: net debt of £3.9 million).
- £5.1 million invested in two small acquisitions. Both fully integrated and performing as expected.
- Final dividend of 1.8 pence per share (2012: 1.6 pence per share) recommended.

Operating highlights

Metals Filtration division:

- Revenue increased to £28.5 million (2012: £28.0 million), another record level.
- Stronger second half driven by margin and market share gains from patented products.

Microfiltration division:

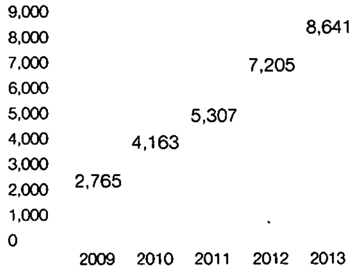
- Revenue increased 15% to £55.8 million (2012: £48.5 million). Record revenue and operating profits for this division.
- Several larger contracts signed and progressing well.
- Good core business progress in aviation, nuclear and bioscience.
- Seal Analytical revenues up 13%.
- Healthy order position going into 2014.

Outlook:

- High capital investment in 2014 to support long term organic growth plans.
- Significant one-off boost to revenue from large contracts expected in 2014 with profits spread from 2014 to 2017.
- Board expects steady underlying progress with an additional beneficial impact from the large contracts.

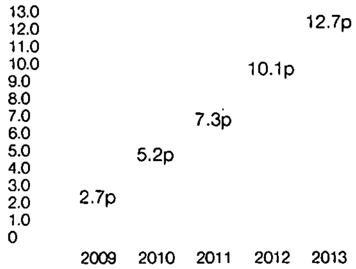
Operating profit (£'000)

£8.6m
+20%



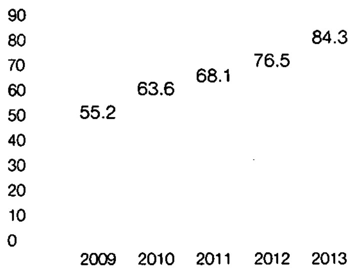
Basic earnings per share (pence)

12.7p
+26%



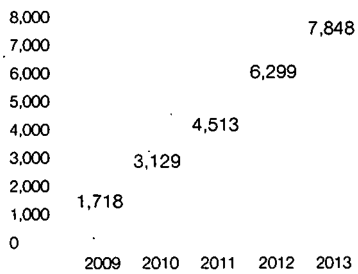
Turnover (£m)

£84.3m
+10%



Profit before tax (£'000)

£7.8m
+25%



*All amounts shown before exceptional items

Read more on pages: 6 to 15

Overview
Porvair at a glance

Specialist filtration and environmental technology

Porvair is a specialist filtration and environmental technology group with two operating divisions, Metals Filtration and Microfiltration. We employ about 650 people, with operations in the UK, US, Germany and China.

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

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.

Microfiltration – Division

The Microfiltration division provides bespoke filtration solutions to a diverse range of customers and markets. It has operations in the UK, US and Germany and employs 470 people. Its sales are global.

Main operating companies
- Porvair Filtration Group
- Seal Analytical
- Porvair Sciences

Markets served
- **Aviation**
- **Energy & Industrial Process**
- **Environmental Laboratory Supplies**

What we do
The Microfiltration division principally serves aviation, environmental laboratory and energy markets:

- Porvair's aviation filters are specified on almost all commercial airframes.
- We supply filter systems and spares principally for the gasification and nuclear remediation markets.
- Systems and consumables principally for the laboratory analysis of water.
- Water quality laboratories across the world use Porvair's systems.

Read more on pages: 8 and 9

2013 Annual sales and revenue growth

£55.8m
Annual sales

+15%
Revenue growth

£8.6m
Operating profit

Approximate share of Group sales

Aviation
15%

Energy & Industrial Process
30%

Environmental Laboratory Supplies
20%

Divisional highlights 2013
- Revenue increased 15% to £55.8 million (2012: £48.5 million). Record revenue and operating profits for this division.
- Several larger contracts signed and progressing well.
- Good core business progress in aviation, nuclear and bioscience.
- Seal Analytical revenues up 13%.
- Healthy order position going into 2014.

Read more on pages: 14 and 15

See Market overview pages: 8 and 9

Metals Filtration – Division

The Metals Filtration division serves the market for the filtration and handling of molten metal. It has operations in the US and China and employs 180 people. Its sales are global.

Main operating companies

- Selee USA
- Selee China

Markets served

- **Aluminium**
- **Iron foundry**
- **Super alloys**

What we do

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

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

Read more on page: 9

2013 Annual sales and revenue growth

£28.5m
Annual sales

+2%
Revenue growth

£2.4m
Operating profit

Approximate share of Group sales

Molten Metals

35%

Divisional highlights 2013

- Revenue increased to £28.5 million (2012: £28.0 million) to another record level.
- Stronger second half driven by margin and market share gains from patented products.
- Opened new plant in Xiaogan, China.
- Promising development pipeline.
- Positive start to 2014.

Read more on pages: 12 to 13

Overview
Where we operate

Our global operations support our key markets

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.

Mequon, WI
Gilberts, IL

Caribou, ME

Ashland, VA

Hendersonville, NC
Metals Filtration principal plant

Our principal operations

USA

Ashland, VA
Caribou, ME
Gilberts, IL
Hendersonville, NC
Mequon, WI

UK

Fareham
King's Lynn
New Milton
Wrexham

Europe

Hamburg, Germany

Asia

Shanghai, China
Xiaogan, China

US developments

The Group continues to expand its footprint in North America:

- The Group acquired the trade and assets of Eisenmann Metallurgical in Caribou, ME in June 2013, adding powder metal filtration expertise to the USA.
- In 2014 an enlarged US management team is planning to expand the Caribou facility.
- The Group acquired the trade and assets of Thomas Cain in September 2013, adding a further block digester product line to Seal.
- Developments continue on next generation molten metal filters for specialist metal alloy filtration.

Microfiltration

Metals Filtration

Revenue by destination (%)

Americas
46%

UK
21%

Asia
18%

Europe
13%

ROW
2%

Fareham, UK
Microfiltration principal plant

UK

Germany

Xiaogan, China

Shanghai, China

UK & Europe developments

Phased investments in the UK Microfiltration business will increase capacity:

- A new plant in New Milton will provide additional manufacturing capacity.
- New capacity in Fareham will allow room for further growth.

Asia developments

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

- The plant was completed on time and to budget in 2013.
- Provides additional capacity to serve the Asian market.

Revenue growth coming from US & Asia (£m)

90
80
70
60
50
40
30
20
10
0

2007 2013

Others
Asia
Americas
Europe
United Kingdom

Read more on pages: 6 to 15

Strategic report
Chairman's statement

Strong performance and continued progress

Charles Matthews
Chairman

Summary

- Strong financial results.
- Progressive dividend.
- Positive outlook.

Profit before tax

+25%

Profit before tax up 25% to £7.8 million.

Earnings per share

12.7p

Earnings per share up 26% to 12.7 pence per share.

Progressive dividend

2.9p

Dividend increased by 12% to 2.9 pence per share.

Introduction

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

Results

Revenues in the year to 30 November 2013 were £84.3 million (2012: £76.5 million) and profit before tax rose by 25% to £7.8 million (2012: £6.3 million). These are record results for the Group. Basic earnings per share were 12.7 pence (2012: 10.1 pence), an increase of 26%.

Cash generated from operations was £12.3 million (2012: £9.2 million). After interest and tax, net cash generated from operating activities was £9.7 million (2012: £7.4 million). At 30 November 2013 the Group was net cash positive for the first time with net cash on hand of £0.6 million (2012: net debt of £3.9 million).

Dividends

The Directors recommend an improved final dividend of 1.8 pence per share (2012: 1.6 pence), making the full year dividend 2.9 pence per share (2012: 2.6 pence), an increase of 12%.

Board composition

Michael Gatenby retired from the Board at the 2013 AGM in April. Andrew Walker will retire at the 2014 AGM, having been a director for nine years. They have both made a substantial contribution to the Group's direction and strategy during their time on the Board. We thank them and wish them well. Following the 2013 AGM, Andrew Walker succeeded Michael Gatenby as senior Non-Executive Director and Paul Dean succeeded him as Chairman of the Audit Committee. Paul Dean will succeed Andrew Walker as senior Non-Executive Director following the 2014 AGM.

Governance

The Board sets high standards for its corporate governance and has in place monitoring systems to ensure that those standards are upheld throughout the Group. The Board complied with all aspects of the UK Corporate Governance code throughout the year ended 30 November 2013 with the exception of fixed terms of employment for Non-Executive Directors, however all of the Directors offer themselves for re-election at each AGM.

New formats have been adopted for our Strategic and Remuneration Reports, as required by latest governance guidelines. For the first time at the 2014 AGM, shareholders will have the opportunity to approve the Group's remuneration policies as well as the Remuneration Report.

Staff

Looking back over the last five or six years, it is remarkable how much has changed at Porvair. In sales terms we are almost double the size we were in 2007, a significant achievement by our staff. This year we have been joined by employees of Eisenmann Metallurgical and Thomas Cain, and we are pleased to welcome them to the Group. The Board is most grateful to all Porvair's staff for their hard work and commitment.

Current trading and outlook

Porvair's strategic direction remains consistent and continues to produce good results. 2013 finished well and order books are healthy. The fundamentals of the markets in which we operate look satisfactory. The larger contracts announced during the year are progressing well and are expected to have a positive impact on the Group, with their accounting implications outlined on page 7. The Board expects that provided economic conditions allow, the underlying business will continue to grow. The Group expects to invest in additional manufacturing capacity in 2014 in the UK, USA and China to meet growing demand, and notes that the Group's new product pipeline is promising. A positive start has been made to 2014.

Charles Matthews OBE
Chairman

24 January 2014

See Governance report on pages: 29 to 46

Strategic report

Chief Executive's report

Well positioned for future growth

Ben Stocks
Group Chief Executive

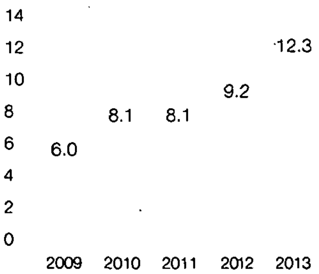
Summary performance

- Strong financial performance:
  - revenue up 10%
  - profit before tax up 25%.
- 39% return on operating capital.
- Year of investment in 2014.
- Large projects boost 2014 revenue.

Cash generated from operations £m

£12.3m

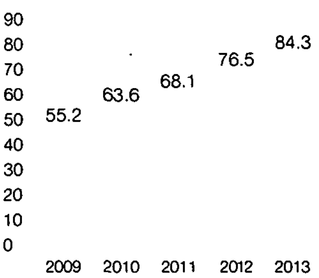
Cash generated from operations up 34% to £12.3 million



Revenue growth £m

£84.3m

Revenue up 10% to £84.3 million



Overview of 2013

Financial highlights 2013

	2013 £m	2012 £m	Growth %
Revenue	**84.3**	76.5	10%
Profit before tax	**7.8**	6.3	25%
Cash generated from operations	**12.3**	9.2	34%
Net cash/(debt)	**0.6**	(3.9)	115%
Earnings per share	**12.7p**	10.1p	26%

The Group achieved record results in 2013 with annual revenue growth of 10%. Profit before tax grew 25% and earnings per share 26%. Notwithstanding capacity expansion investments and two small acquisitions, strong cash generation enabled the Group to finish the year free of net debt for the first time. Order books carried forward into 2014 are healthy.

Orders for aviation filtration products grew 14% in 2013 driven by recent new product introductions. Nuclear and bioscience orders were also strong. Sales to environmental laboratories were up 13%. After a slow start, revenues from Metals Filtration improved in the second half to finish up 2% for the year.

Several large contracts were announced in energy markets during the year. These will have a significant beneficial impact on the Group results through to 2017, with the initial benefits showing in the 2013 results.

Capital investments were made in 2013 to expand UK aviation and Chinese manufacturing capacity. Further such investments are planned for 2014 in order to support longer term growth.

Plans for investment and future development
In 2013 Porvair achieved two significant milestones. Large contracts were secured that will underpin manufacturing activity in Microfiltration for at least the next two years and strong underlying trading enabled the Group to finish the year with net cash on the balance sheet.

Together these will enable a period of accelerated investment. In 2014 we plan to increase capital investment substantially:

- We intend to consolidate and expand our UK facilities at New Milton in order to free space for aviation and industrial filtration growth in Fareham. Aviation sales have grown strongly recently and we need more capacity.
- Following the acquisition of the trade and assets of Eisenmann Metallurgical LLC in June 2013 we will expand its manufacturing facility in Caribou, Maine, during 2014 and invest in production equipment to increase its capacity.
- Having built a new factory at Xiaogan, China, for Metals Filtration in 2013 we expect to expand its production capability and capacity in 2014.
- We will make further investments in the production capabilities in the US.

These and other projects will increase expected capital investment in 2014 to around three times its level of recent years. Capacity increases and equipment upgrades are necessary due to the impact that new product introductions have had on the business. We expect this capacity pressure to continue, with the 2014 product development pipeline looking promising. Interesting work is going on in bioscience filtration, metals filtration manufacturing, water analysis, nuclear filtration and others. Encouraging these projects is central to Porvair's business model.

The 2013 results show the early benefits of the large contract wins, and these will become even more apparent in 2014. The contracts in question are principally those with Posco, the UK Government and Reliance Industries. All of which have been previously announced. The financial impact of these contracts is expected to cause the published results over the next three to four years to fluctuate more than has generally been the case.

- Multi-year contracts are recognised under long-term accounting rules, which means that revenues are expected to receive a one-off boost in 2014, causing them to be higher than the underlying growth rate the Group would normally deliver. Revenues might then be expected to return to the underlying levels in 2015.
- Profits are recognised only after due consideration of the potential risks, outstanding liabilities and warranties on each project. Profit recognition could therefore be spread over the period between 2013 and 2017.
- Net cash inflows are expected to arise principally in 2013 and 2014. Whilst we will maintain suitable cash reserves against the possible needs of the contracts, this cash will be used to re-invest in the business as outlined above.

See more on pages: 10 to 15

Strategic report
Market overview

Strong niche positions in 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.

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.

Aviation

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

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
- The frequency of maintenance schedules

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

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

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.

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 NEO applications

Read more on pages: 14 and 15

Energy & Industrial Process

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

Market trends and growth drivers
The Group has a wide industrial filtration range, with a particular expertise in nuclear containment and gasification filtration. The US DOE estimates that gasification output is growing at 11.5% per annum.

Niche positions
The Group has niche expertise in:

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

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.

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

- Two large gasification contracts
- An £11 million UK nuclear remediation contract

Read more on pages: 14 and 15

Environmental Laboratory Supplies

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

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

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.

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.

Recent new products
The Group continues to broaden its range of water analysis equipment with upgrades to its QuAAtro and AQ2 ranges, 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™.

Read more on pages: 14 and 15

Molten Metals

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

Market trends and growth drivers
The Group's molten metal business grows as the demand for clean metal increases. Alcoa estimates that annual production of aluminium is growing at about 6.5% per annum, US car and light truck production, a proxy for the rate of use of iron foundry filters, has been growing at 8% per annum and the growth in the aviation industry is driving growth in the use of high grade alloys.

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

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

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

Read more on pages: 12 and 13

Strategic report
Strategy and business model

How our strategy and business model work together

Our strategy

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

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

Since 2007 this strategy has delivered revenue growth of 85% (11% CAGR) and cash from operations of £48 million. In 2013 the Group's after tax operating profit return on operating capital was 39% (2012: 30%).

Our business model

Porvair's business model is as follows:

1 Focus on end-markets which show long term growth potential and where product use is mandatory.

2 Make new product development a core business activity.

3 Establish geographic presence where end-markets require.

4 Maintain a conservative balance sheet. Re-invest in both organic and acquired growth and pay a progressive dividend.

This business model determines the Group's day-to-day activities:

- We focus on four end-markets: aviation; energy and industrial; environmental laboratories; and molten metals. All have clear structural growth drivers.
- Our products are specialist in nature: they typically protect more costly or complex downstream systems. As a result they are replaced regularly. Over 80% of our annual revenues are from repeat orders.
- We encourage new product development in order to generate growth rates in excess of the underlying market. Around 35% of our annual revenues are now derived from recent product introductions. We try to build good intellectual property around our product developments. About 30% of our revenues are derived from patent protected products.
- Our geographic presence follows the markets we serve. 46% of revenues are from The Americas, where aviation and metals filtration are strong. 18% of revenues are in Asia and Australasia, where sales into water analysis markets are growing.
- Porvair is a cash generative business. We aim to maintain a conservative balance sheet, meeting dividend and investment needs within our existing debt facilities and generating free cash flow to pay down debt. In the last two years we have expanded manufacturing capacity in the UK and China and made five small acquisitions.

Operating structure

- The Group has two divisions. The Microfiltration division serves the aviation, environmental laboratory and energy/industrial markets. The Metals Filtration division serves global aluminium, NAFTA iron foundry and super alloy markets.
- The Group manufactures in the UK, US, Germany and China.

Our strengths

The experience and expertise of our staff

Technological innovation

Product quality

Manufacturing capabilities

Customer service excellence

Delivering long term sustainable growth

Positioned for growth

Capital investment to support growth

Investing for the future

Since 2007 Porvair has delivered 11% CAGR revenue growth. During that period:

- The Group's aviation revenue has grown strongly;
- New products have driven sales and margin growth;
- Our presence in Asia has increased to 18% of revenue; and
- Our net debt has been eliminated.

In 2014, capacity increases are planned across the Group to allow room for further growth. With the 2014 new product pipeline looking promising we expect capital expenditure in 2014 to be around three times its level of recent years.

Our investment priorities for 2014 are:

- To consolidate and expand our UK facilities at New Milton in order to free space for aviation and industrial filtration growth.
- To expand the manufacturing facilities and production capacity in Caribou, ME.
- To expand the production capability of our new factory at Xiaogan, China for Metals Filtration.
- To make further investments in Metals Filtration and Seal Analytical production capabilities in the US.

New product development drives organic growth

New product development

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 interesting work is going on in bioscience filtration, water analysis, nuclear filtration and aviation product development.

Our priorities for 2014 include:

- Development and trials of a new aluminium filter for high grade lithium alloys.
- Further customer trials of a new design of metal filtration filters.
- Further development of a patented DNA filtration product and other bioscience applications.
- Exploitation of the design rights of the range of water analysers.
- Development of more robust, longer lasting industrial filtration media.

Adding value through acquisitions

Enhancing our capabilities

Our business model encourages investment in both organic and acquired growth. Over the last two years the Group has invested £8.6 million in five small acquisitions:

- Block digester range from Aim Lab Automation Technologies;
- Trade and assets of Pell Industries;
- Trade and assets of Pulse Instrumentation;
- Trade and assets of Eisenmann Metallurgical; and
- Trade and assets of Thomas Cain.

These acquisitions contribute to the steady growth of the Group and extend our product ranges and geographic presence in our markets.

Our priorities for 2014 include:

- Expanding the manufacturing facilities and production capacity of Eisenmann Metallurgical.
- Completing the integration of the 2013 acquisitions.
- Identifying further potential opportunities.

Cash generated from operations

£12.3m

Cash generated from operations amounted to £12.3 million

Read more on pages: 7 and 12 to 18

Patented products

30%

Over 30% of our revenue comes from patented products

Read more on pages: 7 and 12 to 18

Value added acquisitions

£8.6m

Invested £8.6 million in five small acquisitions in the last two years

Read more on pages: 7 and 12 to 18

Strategic report

Divisional performance

Metals Filtration Division

Performance

- Stronger second half leading to record revenues of £28.5 million
- Profits of £2.4 million in line with the prior year

Strategic progress

- Better margins enabled the business to cope with a slower start to 2013
- Market share gains from superior product performance

Forward focus

- Promising development pipeline
- New high grade lithium aluminium alloy filter in trials
- Entirely new design of filter in development
- Further capacity investments in Xiaogan, China
- Positive start to 2014

Case study

Lithium Aluminium Filter

Customer need

Lithium aluminium is a stronger lighter alloy than aluminium with a growing use in the aerospace industry. In common with aluminium it needs to be filtered to produce high purity metal, however in its molten state it corrodes traditional filters.

Porvair's response

Porvair has developed and is testing a new filter using a different ceramic formulation to significantly reduce corrosion and thereby produce higher purity metal.

Operating profit

£2.4m

Operating profit growth

3
2
1
0
-1

2009: (1.2)
2010: 0.5
2011: 1.5
2012: 2.4
2013: 2.4

Annual sales

£28.5m

Metals Filtration annual sales grew to £28.5 million.

Revenue growth

+2%

Metals Filtration revenue up 2%.

Operating profit

£2.4m

Metals Filtration operating profit £2.4 million.

Divisional review – Metals Filtration

Financial highlights 2013

	2013 £m	2012 £m	Growth %
Revenue	**28.5**	28.0	2%
Operating profit	**2.4**	2.4	–

Performance in 2013

After a slow start to 2013 the Metals Filtration division had a stronger second half, finishing the year with record revenues of £28.5 million. The Board was pleased to note that this division was better able to cope with a modest sales downturn in early 2013 than had previously been the case. This is mainly due to higher operating margins achieved in recent years, with patented products accounting for the majority of sales in this division. Despite the slower start to the year, operating profits finished in line with 2012's record result of £2.4 million.

Conditions in this division's end-markets have been mixed across the year, with global aluminium pricing relatively low but NAFTA auto production staying at satisfactory levels. In this environment we have been able to build market share by demonstrating superior product performance. We have three main product ranges, all patented:

- Selee CSX™ for aluminium filtration, where we have a high global market share. This product has a unique environmental footprint in being free of phosphates.
- Selee IC™ for gray and ductile iron filtration. This range is sold principally in the US and offers excellent filtration efficiency.
- Selee SA™ for the filtration of nickel-cobalt alloys. This niche application requires exceptional filtration performance and uses a highly proprietary manufacturing technique.

The product development pipeline in this division is promising. In recent months we have successfully trialed a new aluminium filter for high grade lithium alloys that are increasingly used in aerospace applications. As previously noted, we have been developing an entirely new design of filter over the last 18 months, and this work continues to go well. Several successful customer trials have been held and we are making modest revenues from this project. In 2014 we will start to see whether this remains a niche application or whether it can develop into a more substantial programme.

A new plant was built at Xiaogan, in China, in the year. The new facility is substantially larger than its predecessor and was built on time and under budget. Production started in the final quarter. We plan to develop this facility to meet the needs of the domestic Chinese market. Further investment in production equipment will be necessary, with installation likely towards the end of 2014.

Strategic report

Divisional performance continued

Microfiltration Division

Performance

- Revenue increased 15% to £55.8 million
- Seal Analytical revenue up 13%
- Operating profit up 29% to £8.6 million

Strategic progress

- Several large contracts progressing well
- Core business progress in aviation, nuclear and bioscience
- Two US based acquisitions completed

Forward focus

- Healthy order books going into 2014
- One off revenue boost from larger contracts expected in 2014
- Larger contract profits spread over next three to four years
- Significant investment in facilities and capacity in UK and US planned

Case study

Reliance Contract

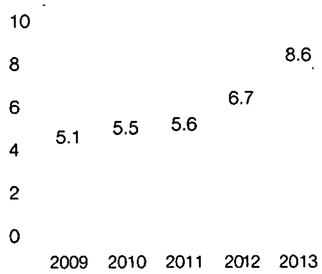
Customer need
The Reliance contract is a multi-year project to install gasification filtration systems for a gasification plant being built by Reliance Industries at the Jamnagar oil refinery in India.

Porvair's response
The project was won in a competitive bid, the Group being selected on the basis of a strong technical presentation. Its design stage is complete, manufacturing has begun and will continue throughout 2014 with installation commencing thereafter.

Operating profit

£8.6m

Operating profit growth



Annual sales

£55.8m

Microfiltration annual sales grew to £55.8 million.

Revenue growth

+15%

Microfiltration revenue up 15%.

Operating profit

£8.6m

Microfiltration operating profit £8.6 million.

Divisional review – Microfiltration

Financial highlights 2013

	2013 £m	2012 £m	Growth %
Revenue	**55.8**	48.5	15%
Operating profit	**8.6**	6.7	29%

Performance in 2013

The Microfiltration division had a good year with revenues increasing 15% to a record £55.8 million. Order books going into 2014 are healthy.

Several large contracts are now underway in this division. All are proceeding satisfactorily. A second delivery under the US$10 million POSCO contract was made towards the end of 2013. POSCO expect to start production trials of its plant that turns coal to substitute natural gas at Gwangyang, South Korea, later in 2014. A much larger contract for a similar project was signed in February 2013 with Reliance Industries for their plant at Jamnagar, India. The scope of this work was extended in April and again in August. Finally, an £11.3 million contract with the UK Government was announced in January 2013, for deliveries starting in 2014. The likely beneficial financial impact of these projects is discussed on page 7.

Orders in aviation and nuclear filtration have grown again in 2013, with a 14% increase in aviation orders, meaning we are starting to hit capacity constraints. As noted on page 7, we will expand our facilities both in the UK and US to provide room for further growth.

The US based operation grew 24% in 2013, a good result, excluding the maiden contribution from Eisenmann Metallurgical ("CEM"), acquired in June 2013. CEM is a good bolt-on acquisition for the Group, bringing product and market expertise with a committed and skillful workforce in Caribou, Maine. As noted on page 7, we will invest in this facility in 2014 to allow room for growth, and have an expanded management and commercial team in place to drive further growth. Trading at CEM since acquisition has been satisfactory, with integration activities focused on IT and financial systems. This work is complete, with the Caribou facility now operating well as a satellite plant.

We have been working for several years on some interesting intellectual property in bioscience filtration. A patented DNA filtration product is under development in collaboration with the University of Swansea and with some financial support from the Welsh Government. In an unrelated project, an agreement was struck with Thermo Fisher Scientific ("Thermo") under which Porvair will licence its technology to Thermo who will market frit-less solid phase extraction columns under the SOLA brand. Porvair will receive licence and royalty income and manufacture the product for Thermo. This sort of opportunity, where Porvair technology is licenced to others, is of interest to the Board and results will be monitored closely.

Seal Analytical revenues grew 13%, helped by small acquisitions in 2012 and 2013. Seal is the market leading supplier of equipment and consumables for the detection of inorganic contamination in water, a well defined niche market that will grow as water quality standards improve across the world. Although its US markets remained quiet for most of the year, demand from China was robust, and parts of Europe showed the first signs of improvement in several years. Design rights to a range of water analysers were acquired early in the year, and these have transferred to Seal's US operation. Cost savings have been found and manufacturing is now fully integrated. In September the Group purchased the trade and assets of Thomas Cain Inc. ("Cain"), a manufacturer of complementary instruments and consumables. Initial trading at Cain has been satisfactory and the outlook for 2014 is good.

Ben Stocks Group Chief Executive

24 January 2014

Strategic report

Finance Director's review

Strong financial performance

Chris Tyler
Group Finance Director

Summary performance

- Operating profit margin improved to10.3%.
- Net debt eliminated.
- £5.1 million invested in two acquisitions.

Profit before tax

+25%

Profit before tax increased by 25% to £7.8 million.

Operating margin

10%

Group operating margin improved to 10%.

ROCE

13%

Return on capital employed increased to 13%.

Financial highlights 2013

	2013 £m	2012 £m	Growth %
Revenue	**84.3**	76.5	10%
Operating profit	**8.6**	7.2	20%
Profit before tax	**7.8**	6.3	25%

Group operating performance

The operating profit margin improved to 10.3% (2012: 9.4%). This improvement arises from the benefit of higher revenue driving operational gearing and a steady improvement in the quality of business throughout the Group. Following several years of steadily improving margins in Metals Filtration, operating margins were maintained in the year and the growth in Microfiltration was accompanied by a 1.7% improvement in operating margins in the year.

The operating performance of the Microfiltration and Metals Filtration divisions are described in detail in the Chief Executive's report and below. The operating loss associated with the Other Unallocated segment was £2.4 million (2012: £1.9 million), which mainly comprises Group corporate costs. These include new business development costs and general financial costs.

The operating profit includes amortisation charges on intangible assets arising on acquisition of £0.2 million (2012: £0.1 million), acquisition expenses written off of £0.1 million (2012: £0.1 million) and share based payment charges of £0.5 million (2012: £0.4 million).

Impact of exchange rate movements on performance

The international nature of the Group's business means that relative movements in exchange rates can have a significant impact on reported performance. The average rate used for translating the results of US operations into Sterling was US$1.57:£ (2012: US$1.58:£) and the Group's Euro denominated operations were translated at €1.18:£ (2012: €1.22:£). The slightly stronger dollar and stronger Euro rates accounted for 1% of the revenue growth and 1% of the operating profit growth such that currency differences on translation had only a marginal impact compared with the prior year.

The Group sold forward the majority of its UK business' 2013 US dollar revenue during the financial year and achieved rates between $1.51:£ and $1.6:£ similar to the rates achieved in 2012.

At 30 November 2013 the Group had US$19 million of outstanding forward foreign exchange contracts taken out to hedge the future revenue on the Group's large contracts. The Group has applied hedge accounting to these transactions and a gain of £0.9 million is shown in the consolidated statement of comprehensive income.

Finance costs

Net interest payable decreased to £0.8 million (2012: £0.9 million). Included within interest payable are finance costs in relation to the defined benefit pension scheme, which were £0.4 million (2012: £0.4 million) in the year. Other net interest payable reduced as a result of lower borrowings and a lower margin on the new facilities in place from January 2013.

The Group has a policy of maintaining between 40% and 60% of its borrowings on fixed interest terms. It achieved this by taking out interest rate swaps to fix the interest rates on certain of its borrowings. These provided some protection for the Group in the event of interest rate rises. As a result of the significant decline in the Group's borrowings in the year, the Group had approximately 75% of its gross borrowings held at a fixed rate at 30 November 2013, however the fixed rate contracts expire shortly after the year end. For the time being, while the Group's gross borrowings are low, the Board has concluded that further interest rate swaps need not be taken out and the Group's borrowings are at a floating rate from 13 December 2013. The contracts in place during the year are summarised below:

Fixed rate	Principal amount	Principal terms
1.88%	$5 million	Effective from 12 December 2010 to 12 December 2013
2.29%	$2.5 million	Effective from 12 December 2011 to 12 December 2013

Interest cover was 11 times (2012: 8 times); excluding the impact of the pension finance charge the interest cover is 21 times (2012: 14 times).

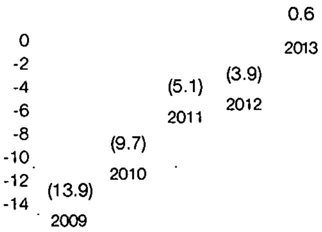
Tax

The Group tax charge was £2.4 million (2012: £2.0 million). This is an effective rate of 30% (2012: 32%), higher than the UK standard corporate tax rate of 23.3% (2012: 24.7%), mainly as a result of higher tax rates on profits made in Germany and the US. The tax charge

Net (debt)/cash (£m)

£0.6m

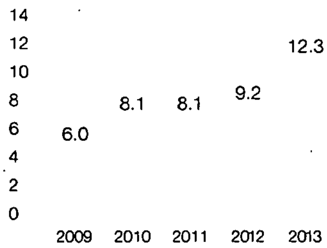
Net debt reduced by 115% to a £0.6 million net cash position.



Cash generation (£m)

£12.3m

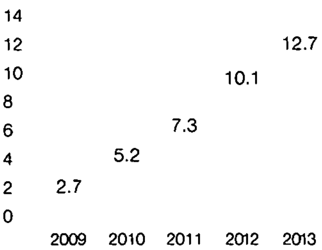
Cash generated from operations.



EPS growth trend (pence)

12.7p

Earnings per share.



comprises current tax of £2.3 million (2012: £1.8 million) and a deferred tax charge of £0.1 million (2012: £0.2 million).

The deferred tax asset of £2.4 million (2012: £2.0 million) relates to the deficit on the pension fund and share based payments totaling £3.7 million (2012: £3.1 million) offset by a net £1.3 million (2012: £1.1 million) deferred tax liability in relation to accelerated capital allowances, capitalised development costs and other timing differences. The Group no longer has any unrecognised deferred tax assets arising from previous losses.

Total equity

Total equity at 30 November 2013 was £47.7 million (2012: £45.2 million), an increase of 6% over the prior year. Increases in total equity arose from: profit after tax of £6.0 million (2012: £4.9 million), after adding back the charge for employee share option schemes; £0.7 million (2012: £nil) in relation to share issues on option exercises; and £1.0 million (2012: £0.1 million) arising from hedge accounting instruments. Dividends paid of £1.2 million (2012: £1.0 million); an actuarial loss of £3.1 million net of tax (2012: £0.6 million); and exchange losses on translation of £0.9 million (2012: loss of £0.3 million) reduced total equity.

Return on capital employed

The increase in the profits of the Group compared with a stable asset base led to an increase in the return on capital employed to 13% (2012: 10%). Excluding the impact of goodwill, the return on operating capital employed increased to 39% (2012: 30%).

Cash flow

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

	2013 £m	2012 £m
Operating cash flow before working capital	**11.2**	9.5
Working capital movement	**1.1**	(0.3)
Cash generated from operating activities	**12.3**	9.2
Interest	**(0.4)**	(0.5)
Tax	**(2.1)**	(1.2)
Capital expenditure net of disposals	**(1.5)**	(2.0)
	8.3	5.5
Acquisitions	**(3.3)**	(3.3)
Dividends	**(1.2)**	(1.0)
Share issue proceeds	**0.7**	–
Net debt at 1 December	**(3.9)**	(5.1)
Net cash/(debt) at 30 November	**0.6**	(3.9)

Net working capital was tightly controlled and reduced by £1.1 million, although revenue rose by 10% in the year. Inventories increased as a result of the increased revenue. Trade and other receivables also increased a little as a result of higher revenue but the majority of the increase relates to advance payments made to suppliers in relation to the Group's large contracts. Trade and other payables increased significantly, in part because of the receipt of cash ahead of the recognition of revenue on the Group's large projects.

Net interest paid represents the bank interest charged in the year. It reduced as bank borrowings fell in the year.

Tax payments in the US have increased, following the final utilisation in 2012 of past tax losses in the Metals Filtration division. Tax payments are now more closely in line with the Group's tax charge.

Capital expenditure

Capital expenditure was £2.0 million (2012: £2.0 million) offset by £0.5 million (2012: £nil) received on the disposal of a UK property. The principal investments in 2013 were a new plant in Xiaogan, China, for Metals Filtration and additional plant in the Microfiltration division to increase capacity, principally to deliver growth in aerospace business.

Looking forward the Board is planning significant capital projects in 2014 to provide new and upgraded plants in the UK, US and further increases to production capacity throughout the Group. Capital expenditure is likely to rise to around three times the normal level.

Acquisitions

The Group invested £5.1 million in two US based acquisitions in the year: on 4 June 2013 the Group purchased the trade and assets of Eisenmann Metallurgical LLC, a manufacturer of specialist filters; and on 20 September 2013 the Group purchased the trade and assets of Thomas Cain Inc., a manufacturer of environmental laboratory equipment and consumables. These acquisitions gave rise to goodwill of £3.7 million. £3.3 million was paid in cash in the year. Up to a further £1.9 million deferred and contingent consideration is due, including £0.1 million in relation to acquisitions made in 2012.

Strategic report

Finance Director's review continued

The acquisitions contributed £1.5 million of revenue and £0.1 million of operating profit in the year after charging £0.1 million of acquisition costs.

It is estimated that had the acquisitions been owned for a full year they would have contributed £3.8 million of revenue and £0.7 million of operating profit in the year.

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's total pension cost was £1.4 million (2012: £1.2 million). £1.0 million (2012: £0.8 million) was recorded as an operating cost and £0.4 million (2012: £0.4 million) was recorded as a finance charge. The Group continues to account for its pension schemes under IAS 19 and will adopt IAS 19 revised in the year ending 30 November 2014. Had the Group adopted IAS 19 revised it is estimated that the Group's pension charge in the year would have been £0.2 million higher.

The Group recorded a retirement benefit obligation of £11.9 million (2012: £8.5 million). The increase in the deficit principally related to an actuarial loss in the year of £3.6 million (2012: £1.2 million), which in turn arose as a result of a change in the mortality assumptions. The other assumptions adopted were in line with the previous year.

The scheme had 53 (2012: 54) active members, 289 (2012: 295) deferred members and 265 (2012: 265) pensioners at 30 November 2013. The life expectancy of members of the scheme at age 65 is assumed to be 21.5 years (2012: 19.7 years) for men and 23.7 years (2012: 22.3 years) for women.

A full triennial actuarial valuation of the assets and liabilities of the defined benefit scheme was completed in 2013, based on data at 31 March 2012. As a result of this review, the Group and the Trustees agreed to alter the employer's contributions from 8.2% of salary to 13.3% of salary. Additionally, the Group committed to make a £194,000 annual contribution towards the running costs of the scheme from March 2014, which will increase by 3.25% per annum thereafter. The Group also committed to make additional annual contributions, to cover the past service deficit, of £456,000 per annum commencing in December 2013, increasing by 5% per annum thereafter. The funding shortfall is expected to be eliminated by December 2027.

The next full actuarial valuation of the scheme will be based on the pension scheme's position at 31 March 2015 and is expected to be completed before June 2016.

Borrowings and bank finance
At the year end, the Group had net cash balances of £0.6 million (2012: net debt of £3.9 million) comprising cash balances of £6.8 million (2012: £7.3 million) offset by gross borrowings of £6.2 million (2012: £11.2 million). Borrowings of £4.6 million (US$7.5 million) (2012: £6.4 million (US$10.3 million)) are held in US dollars.

The Group signed new five year borrowing facilities on 25 January 2013 comprising a five year US$20 million revolving credit facility, a £2.5 million term loan (reduced to £1.75 million at 30 November 2013) and a £2.5 million overdraft facility. These facilities have margins ranging between 1.95% and 2.25%, a considerable reduction on the margins of the previous facilities, which had margins of 2.7%. The new facilities provide adequate operating headroom until January 2018.

At 30 November 2013, the Group had £7.6 million of unused loan facilities (2012: £1.0 million of unused facilities), an unutilised overdraft facility of £2.5 million (2012: £2.5 million) and cash balances of £6.8 million (2012: £7.3 million). The £1.4 million cash balance held as restricted cash at 30 November 2012 was released in March 2013.

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

At the year end, the Group had US$7.5 million (2012: US$10.3 million) of US dollar borrowings exposure which partially hedged underlying US net assets on the balance sheet of US$39.9 million (2012: US$35.8 million).

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

Chris Tyler
Group Finance Director

24 January 2014

Strategic report

Key performance indicators

How we measure performance

KPIs are used to measure our progress on strategic priorities. The Board considers that the Group has performed ahead of the expectations set at the start of the financial year as measured by these Key Performance Indicators.

Revenue growth

10%

2011	7%
2012	12%
2013	10%

Revenue growth at constant currency

9%

2011	9%
2012	12%
2013	9%

Revenue growth – Metals Filtration

2%

2011	15%
2012	8%
2013	2%

Revenue growth – Microfiltration

15%

2011	4%
2012	15%
2013	15%

Description

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

Revenue growth in constant currency is a good measure of the underlying growth within each division.

Operating margin – Group

10%

2011	8%
2012	9%
2013	10%

Operating margin – Metals Filtration

8%

2011	6%
2012	9%
2013	8%

Operating margin – Microfiltration

15%

2011	13%
2012	14%
2013	15%

Description

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

Microfiltration has improved its operating margin by 1% as a result of the revenue growth being higher than the increase in the underlying operating cost base. Metals Filtration's operating margin has reduced by 1% as a result of increasing its technical costs to support product development.

Strategic report

Key performance indicators continued

Profit before tax growth

25%

2011	44%
2012	40%
2013	25%

Description

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

Earnings per share growth

26%

2011	40%
2012	38%
2013	26%

Description

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

Interest cover

11 times

2011	7
2012	8
2013	11

Description

Interest cover is a measure of the number of times our operating profits could pay our finance costs. A figure higher than 3 times indicates that the Group can comfortably service its debt.

Post tax return on capital employed

13%

2011	7%
2012	10%
2013	13%

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.

Post tax return on operating capital employed

39%

2011	21%
2012	30%
2013	39%

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.

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

Strategic report

Principal risks and uncertainties

Managing risk in delivering our strategy

Key and links to strategy:

1 Focus on regulated markets with long term growth prospects

2 Concerted investment in new product development

3 Geographic expansion

4 Maintain conservative balance sheet

No change to risk · Risk exposure reduced · Risk exposure increased

Effective risk management underpins the delivery of our key strategic and operational objectives.

Our approach to risk management

We aim to identify key risks at an early stage and develop actions to eliminate or mitigate their impact.

Risk management processes are embedded throughout the Group and form an integral part of day-to-day business activity.

Risk governance

The Board has overall responsibility for ensuring that the Group maintains an effective risk management system.

Principal risks and uncertainties

There are a number of risks and uncertainties, described on pages 21 to 24, which could have a material impact on the Group's long term performance and prospects.

Risk description and impact	Mitigation	Change
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. However, its activities are spread across four key markets as follows: • aviation filtration, where quality and accreditation of products are critical; • energy and industrial process filtration, where projects tend to be large and demand would be affected by a sustained economic downturn; • environmental laboratory supplies, where revenue can be affected by access to capital in customers' markets (municipal/utilities and industrial labs); and • aluminium filtration, where demand for aluminium can fluctuate. Each of the above markets contribute more than 10% of the Group's revenue and the Group would be exposed to a significant decline in any of these markets.	No single market represents more than 30% of revenue. 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 provided very steady business as product cycles are 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 long term supply contracts. There is unlikely to be such a rapid decline in aerospace demand 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. 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. This 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 a new filter formulation. The production of aluminium is gradually moving to larger smelters in regions of low cost energy. The Group is developing its sales presence accordingly.	

Read more on Governance pages: 33 to 35

Strategic report

Principal risks and uncertainties continued

Risk description and impact 1

Large contracts risk

The Group currently 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.

Mitigation Change

These 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 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.

Risk description and impact 2

New products and markets risk

The Group invests significant amounts into the development of new products often driven either by environmental imperatives or legislation. In the early stage of development there is a risk that these products will either not be adopted, or that the legislation or regulation will not develop as anticipated.

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 and is now less exposed to the risks associated with new products. The Group maintains a close review of each of its major developments and is not significantly exposed if the market for any one product does not develop.

Risk description and impact

Raw materials, resources and facilities risk

The Group uses raw materials in its production processes. Prices for these 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.

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.

Mitigation Change

Where practical the Group seeks to fix its raw materials prices in long term contracts with suppliers and in certain cases uses forward contracts to manage its exposure to fluctuating prices.

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.

Risk description and impact 1

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, pricing, technological innovations, product quality, customer service, manufacturing capabilities and the employment 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 its customers and its results could be adversely affected.

Mitigation Change

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.

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.

Key and links to strategy:

1 Focus on regulated markets with long term growth prospects
2 Concerted investment in new product development
3 Geographic expansion
4 Maintain conservative balance sheet

No change to risk | Risk exposure reduced | Risk exposure increased

Risk description and impact 2

Technological risk
Porvair has a broad portfolio of products delivered to a diverse range of markets. The Group's business could be affected if it does not continue to win new mandates for filtration solutions with designs that provide technical or cost advantages over its competitors.

Mitigation

Change

The design and testing cycle of many of the Group's products takes several years before a product is accepted by the customer. Once the product is accepted, and production commences, products often have a very long lifecycle. The Group therefore has good visibility of its pipeline of opportunities for revenue growth. However, the ultimate commercial success of a project can often only be judged when the development cycle is close to completion.

Risk description and impact 3

Acquisitions risk
The Group is actively involved in searching for complementary acquisitions. A poorly executed acquisition could weaken the Group.

Mitigation

Change

The Group engages in thorough due diligence on its target companies and adopts a cautious approach in its selection and completion of acquisitions.

Risk description and impact 4

Financing risk
The Group maintains a level of borrowing to finance its operations. Damage to, or loss of, its banking relationships could have a material impact on the profitability of the Group.

Mitigation

Change

To mitigate this risk, the Group has sufficient long-term facilities in place for its expected requirements and has progressively reduced its gearing. It maintains a close relationship with its bankers and carefully monitors the restrictions on its borrowings.

Risk description and impact 4

Pensions risk
The Group operates a defined benefit pension scheme which is closed to new members but remains open for future accrual for the existing active members. The Group retains the ultimate responsibility for ensuring that the trust has sufficient funds to ensure that all current and future pensions can be paid in full. A significant shortfall in the value of the assets of the scheme compared with its liabilities could require the Company to make additional payments to the scheme.

Mitigation

Change

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 Group has a deficit recovery plan in place that is affordable 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

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.

Mitigation

Change

The Group seeks to minimise liabilities through limitations of liability in its contracts and carries insurance cover in the event that claims are made.

Strategic report

Principal risks and uncertainties continued

Risk description and impact	4	Mitigation	Change
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 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 to around 15% of its US dollar net assets. 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 operations functional currency, is certain, and can be specifically assigned to individual transactions, the Group takes out forward foreign exchange contracts to minimise the impact of currency fluctuations. The Group applies hedge accounting to these transactions. **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 that is 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. As a result of the significant decline in the Group's borrowings in the year, the Group has approximately 75% of its gross borrowings held at a fixed rate at 30 November 2013, however the fixed rate contracts expired shortly after the year end. For the time being, while the Group's gross borrowings are low, the Board has concluded that further interest rate swaps need not be taken out and the Group's borrowings are at a floating rate from 13 December 2013.	

Strategic report

Corporate and social responsibility report

Managing our business responsibly

Summary

- The Board's policy is to enhance shareholder value in an ethical and socially responsible manner.
- Porvair prides itself on its people and their ability to provide innovative solutions for its customers.
- 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.
- Porvair is committed to building relationships with its customers, its suppliers and the local communities in which it operates.

Policy

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.

Employment

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

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.

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

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

	Female	Male	Total
Directors	–	5	5
Senior managers (statutory directors of subsidiary entities)	–	16	16
Employees	179	437	616
Total	**179**	**458**	**637**

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.

Health and safety

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 counseling staff at certain operations. The Group's regular reporting procedures include a review 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.

Health and safety achievements in the year have included:

- An IOSH (Institution of Occupational Safety and Health) accredited training program has been launched this year to develop knowledge of modern health and safety management techniques. The training which is mandatory is being rolled out to all our UK managers over the next 12 months with the aim of:
  - Creating and encouraging common standards for health and safety across all of our UK sites and operations;
  - Developing employee involvement in health and safety programs; and
  - Improving Group health and safety communications and information sources.

Strategic report

Corporate and social responsibility report continued

- In the Metals Filtration business the safety leadership team has been strengthened and safety improvement highlights include:
  - Improved factory layouts to separate forklift trucks and pedestrians;
  - Improved safety clothing for all employees who are required to do electrical work;
  - New systems to replace manual handling of furnace carts and raw materials; and
  - Defensive driver training for the sales team.

The environment

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

- Seal water analysis equipment, which is used, inter alia, to ensure drinking water is fit for consumption, and to analyse sea and river water for signs of pollution or changes to normal mineral composition;
- The patented Selee CSX™ aluminium filter, which is manufactured without phosphates or ceramic fibres, has other improved filtration and manual handling benefits over competitor products; and
- The Group's nuclear filters, which have been fitted to a range of demonstration plants being assessed as part of the decontamination and decommissioning work being carried out at the major US and UK nuclear waste sites.

This year the Group has begun to introduce filters which will filter lithium alloys. These alloys are less dense and stronger than aluminium and will allow aircraft of the future to be made lighter and more fuel efficient.

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, and its Metals Filtration division manages the emissions from its kiln firing operations within agreed regulatory parameters.

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 the 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.

Greenhouse gas (GHG) emissions	Year ended 30 November 2013 tCO_2	Year ended 30 November 2012 tCO_2	Year ended 30 November 2010 tCO_2
Scope 1 - Direct GHG Emissions			
Gas	8,470	8,706	8,571
Owned vehicles	349	347	368
Total scope 1 gross emissions	8,819	9,053	8,939
Scope 2 - Indirect GHG Emissions			
Electricity	5,611	5,644	5,204
Total scope 2 gross emissions	5,611	5,644	5,204
Total gross emissions	**14,430**	**14,697**	**14,143**
	kCO_2/£	kCO_2/£	kCO_2/£
Scope 1 intensity ratio	0.105	0.118	0.142
Scope 2 intensity ratio	0.067	0.074	0.082
Total intensity ratio	**0.172**	**0.192**	**0.224**

Geographical breakdown (tonnes of CO_2)

	Year ended 30 November 2013			Year ended 30 November 2012			Year ended 30 November 2010		
	Scope 1 tCO_2	Scope 2 tCO_2	**Total tCO_2**	Scope 1 tCO_2	Scope 2 tCO_2	Total tCO_2	Scope 1 tCO_2	Scope 2 tCO_2	Total tCO_2
UK	425	1,883	**2,308**	438	1,806	2,244	479	1,497	1,976
US	8,173	3,636	**11,809**	8,406	3,752	12,158	8,350	3,639	11,989
RoW	221	91	**312**	209	86	295	110	68	178
Total	**8,819**	**5,610**	**14,429**	**9,053**	**5,644**	**14,697**	**8,939**	**5,204**	**14,143**

Building relationships

+80%

Over 80% of the Group's annual revenue comes from repeat business from existing customers.

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. Over 80% 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 our anti-bribery and corruption policy.

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.

Human rights
The Group is aware of its requirements to respect human rights in all jurisdictions in which it operates. There has however never been a human rights issue that has had a direct impact on the activities of the business and accordingly the Group has nothing further to disclose.

Chris Tyler
Company Secretary

24 January 2014

Governance
Board of Directors

Charles Matthews OBE
Non-Executive Chairman

Experience and external appointments:
Appointed to the Board in January 2005 and became Chairman on 12 April 2006. He is also Chairman of Norican Group ApS, Beck & Pollitzer Ltd and African Petroleum Corp Ltd. He was previously Non-Executive Director of FKI plc, Chief Executive of Cosworth, Managing Director of Rolls Royce and Bentley Motor Cars and a member of the Vickers Group plc Executive Board.

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

Ben Stocks
Group Chief Executive

Experience and external appointments:
Joined the Group in February 1998. He 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

Experience and external appointments:
Appointed to the Board in September 2004. He had previously held a number of senior financial positions at Cable & Wireless, latterly as Chief Financial Officer of Cable & Wireless in the Caribbean. He is a chartered accountant.

Committee membership:
Group Company Secretary and Pension Scheme Trustee.

Andrew Walker
Non-Executive Director

Experience and external appointments:
Appointed to the Board in January 2005. He is a Non-Executive Director of API Group plc and Plastics Capital plc. He is Chairman of Mainstay Ltd. He was previously Chief Executive of McKechnie plc and South Wales Electricity plc.

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

Paul Dean
Non-Executive Director

Experience and external appointments:
Appointed to the Board in August 2012. He was Finance Director of Ultra Electronics Plc from 2009 to 2013 having previously been Finance Director of Foseco from 2001 until its acquisition by Cookson plc in 2008. From 1989 to 2001, he held a number of senior finance roles in Burmah Castrol plc. He is a chartered management accountant.

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

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.

Governance

Directors' report

The Directors are pleased to present their Annual Report and the audited accounts of the Group for the year ended 30 November 2013.

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.

Acquisitions

On 4 June 2013 the Group, through its subsidiary Porvair Filtration Group Inc., purchased the goodwill, trade and assets of Eisenmann Metallurgical LLC. The trade is the manufacture of specialist filters and is based in the USA. The total consideration is US$5,995,000 (£3,890,000); US$3,995,000 (£2,582,000) was paid in the year ended 30 November 2013, with further payments due up to 4 June 2015.

On 20 September 2013 the Group, through its subsidiary Seal Analytical Inc., purchased the trade and assets of Thomas Cain Inc., a manufacturer of environmental laboratory equipment and consumables. Total consideration is up to US$1,987,000 (£1,241,000); US$1,087,000 (£679,000) was paid in the year ended 30 November 2013 and the remaining US$900,000 (£562,000) is contingent upon achievement of agreed profit performance in the year ending 30 November 2014.

Dividends

An interim dividend of 1.1 pence per share (2012: 1.0 penny per share) was paid on 6 September 2013. The Directors recommend the payment of a final dividend of 1.8 pence per share (2012: 1.6 pence per share) on 6 June 2014 to shareholders on the register on 2 May 2014; the ex-dividend date is 30 April 2014. This makes a total dividend for the year of 2.9 pence per share (2012: 2.6 pence per share).

Directors and their interests

The names and biographical details of the Directors are set out on page 28. Paul Dean, Charles Matthews, Ben Stocks, Chris Tyler and Andrew Walker all served throughout the year. Michael Gatenby retired from the Board at the Annual General Meeting on 16 April 2013. Andrew Walker will retire from the Board at the Annual General Meeting on 8 April 2014.

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 33.

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 37 to 46. 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 transform the growth of the Group. The cost to the Group in the year under review was £3.2 million (2012: £3.1 million), which was written off to the income statement and no development expenditure was capitalised in the year or the preceding year. The expenditure is of a development nature and is largely undertaken in-house rather than by third parties.

Greenhouse gas emissions

The disclosure of the Group's greenhouse gas emissions is given in the Corporate and social responsibility report on pages 26 and 27, 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 1,121,026 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 on page 74.

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.

Governance

Directors' report continued

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 24 January 2014, the Company has been notified of the following substantial shareholdings, held indirectly, comprising 3% or more of the issued share capital of the Company.

	Ordinary shares (number)	Percentage (%)
GGG Spa	7,369,430	16.9
M&G Group Limited	6,080,987	13.9
Alliance Trust PLC	3,929,155	9.0
Impax Environmental plc	1,872,782	4.3
Cavendish Asset Management	1,532,423	3.5
Old Mutual Asset Managers	1,440,000	3.3

Corporate governance

The disclosure requirements set out in the Disclosure and Transparency rules, paragraph 7.2, are included within the Corporate governance report on pages 33 to 35, which forms part of this 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 25, 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 21 to 24.

Going concern

After having made appropriate enquiries, including a review of the Group's budget for 2014, its medium term plans and taking into account the available banking facilities, the Directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these accounts.

Annual General Meeting

The Annual General Meeting of the Company is to be held on Tuesday 8 April 2014. 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 2013.

Resolution 2 – Approval of the Directors' remuneration report.

Resolution 3 – Approval of the Directors' remuneration policy. The Remuneration Committee has presented a remuneration policy which will bind the Company in its awards of remuneration to the Directors until a new resolution is approved by shareholders. A resolution will be put to shareholders at least every three years.

Resolution 4 – To approve the final dividend of 1.8 pence per share.

Resolutions 5 to 8 – All of the Directors, with the exception of Andrew Walker, offer themselves for re-election. Brief biographies of the Directors are set out on page 28 of the Annual Report.

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

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 £291,557, being an amount equal to one third of the Company's issued share capital as at 24 January 2014. As at 24 January 2014, 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 16 April 2013.

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 £43,733 (being 5% of the Company's issued ordinary share capital as at 24 January 2014), 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.

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 24 January 2014. 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 16 April 2013. 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 1,613,544 ordinary shares have been granted and are outstanding as at 24 January 2014 (being the latest practicable date prior to publication of this document) which if issued would represent 3.6% 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 13 the options outstanding as at 24 January 2014 would represent 3.9% 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's 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 16 April 2013.

Resolution 14 – To establish a new Save As You Earn ("SAYE") scheme.
Resolution 14 to be proposed at the Annual General Meeting seeks to reintroduce an HM Revenue & Customs approved SAYE scheme. The existing SAYE scheme that was implemented in 2003 expired in 2013. The scheme was implemented to incentivise and reward all employees. It is proposed that a new SAYE plan be implemented to enable all UK employees to benefit from the future growth and success of the Company.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether 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 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.

Governance

Directors' report continued

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 work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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 Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on page 28, confirm 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 Chairman's statement, the Chief Executive's report, the Finance Director's review and the Directors' report, when taken together, 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. Each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

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

By order of the Board

Chris Tyler
Company Secretary

C. M. Tyler

24 January 2014

Governance
Corporate governance

Compliance
The following sets out the main principles of good governance in the 2012 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 where explicitly set out below.

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

The Board has a fixed 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 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.

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

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

Board of Directors
The Board consists of five Directors; two Executive Directors and three Non-Executive Directors, including the Chairman. The Board is chaired by Charles Matthews. Ben Stocks is the Group Chief Executive and Chris Tyler is the Group Finance Director. Paul Dean, Charles Matthews and Andrew Walker are Independent Non-Executive Directors. Andrew Walker 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.

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 considers that, following the application of the Board's formal performance evaluation programme, each Director's performance continues to be effective and each Director has demonstrated commitment to his role.
On joining the Board a new Director receives appropriate induction including meeting with other Directors, visiting the Group's principal operations and meeting with senior management and the Group's principal advisers.

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

The Company maintains Directors' and Officers' liability insurance.

Corporate governance continued

Board Committees

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

The Audit Committee currently comprises all of the Independent Non-Executive Directors of the Company. The Chairman of the Audit Committee is Paul Dean, who succeeded Michael Gatenby following the Annual General Meeting in April 2013. The Committee includes Charles Matthews, the Chairman of the Company. The Board considers that all members of the Audit Committee have recent and relevant financial experience to enable it to discharge its function.

The Report of the Audit Committee on page 36 includes details of the audit committee's remit, scope of work in the year and related judgments.

The Audit Committee met four times during the year. There was full attendance by the members.

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

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

The Remuneration Report on pages 37 to 46 includes details on remuneration policy, practices and the remuneration of the Directors.

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

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

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

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

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

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

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

Takeover Directive
Disclosures relating to the Takeover Directive are included in the Directors' Report (under "Share capital") on page 29.

Internal control
The Turnbull Guidance issued in 2005 gives guidance for directors on reviewing internal controls and reporting. The Company has complied in full throughout the year, and up to the date the financial statements were approved, with the recommendations of the Turnbull Guidance.

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 his 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.

Information and control systems – each operating business maintains its own internal systems and controls designed to provide management with regular and reliable management information. The Group has a comprehensive process of annual budgets 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. 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. This process is monitored by an internal audit cycle conducted by peer review by the Group's financial controllers directed by the Group Finance Director. The Board considers that the peer review process provides an appropriate level of review. The Group has a formal whistle blowing procedure which gives employees the opportunity to escalate their concerns, ultimately to the Senior Non-Executive Director.

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 2012 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

24 January 2014

Governance

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.

New requirements this year require the Committee to disclose the significant accounting judgments it has considered in the course of its review of the Annual report; and to consider whether the Annual report is fair, balanced and understandable.

Paul Dean
Chairman of the Audit Committee

24 January 2014

Report of the Audit Committee

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

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

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

The Committee's significant judgment in respect of the year under review related to the forecasts adopted in the accounting for large long-term contracts. Specifically, the Committee considered whether the judgments used to forecast the percentage completion and the costs to complete (including provisions for rework costs and other contractual obligations) in each of the contracts were reasonable.

In addition, certain judgments, which are inherent to the preparation of the financial statements and are considered each year, including the choice of an appropriate weighted average cost of capital used in assessing whether goodwill is impaired and the assumptions underlying the valuation of the pension liabilities, were carefully considered by the Committee.

The Committee also reported to the Board that it considered that, taken as a whole, the 2013 Annual Report was fair, balanced and understandable and included the necessary information to assess the performance, business model and strategy of the Company.

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

- monitored the Company's internal financial controls and the Company's internal control and risk management systems and ensured that these are properly reviewed by the Group's management;
- reviewed the scope of the internal audit work done in reviewing the operating companies' internal controls and procedures. The internal audit work is undertaken through a system of peer reviews by the Group's finance function. The Committee considers the Group to be too small to justify a dedicated internal audit function;
- made recommendations to the Board in relation to the appointment of the external auditor and approved the remuneration and terms of engagement of the external auditor;
- monitored the external auditor's effectiveness, independence and objectivity. The Committee, in conjunction with the 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 Company 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. The fees paid to the auditor for audit services, audit related services and other non-audit services are set out in note 3 of the consolidated financial statements. The audit has always been conducted by PricewaterhouseCoopers LLP or its predecessor firms and has not been the subject of a competitive tender. The Audit Committee do, however, carefully consider the reappointment of the auditors each year prior to making their recommendation to the shareholders. The auditors are also engaged to provide a review of the Group's interim results and are auditors to the Group's pension scheme. During the course of the year, the Group reviewed the provision of its tax services, which were previously provided by the auditors. These services were put out to competitive tender and the Group appointed Grant Thornton UK LLP to provide them. There are no other significant services provided by the Group's auditors.

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

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

Governance

Remuneration report

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

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 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 termination. This includes ensuring that: any payments made are fair to the individual and the Group; that failure is not rewarded; and that the duty to mitigate loss is fully recognised.

The Company is now subject to new remuneration reporting regulations (The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013) (the "Remuneration Regulations"), and this report therefore takes a different form to previous years. 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 remuneration policy is subject to shareholder approval and a resolution will be proposed at the Company's 2014 AGM to approve the policy. The Remuneration Report, excluding the remuneration policy report, remains subject to an advisory shareholder approval as previously.

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 Group and its staff and shareholders;
- maintain a substantial proportion of total remuneration as performance related;
- enable the Executive Directors, through excellent performance, to attain and keep a substantial shareholding in the business.

Andrew Walker
Chairman of the Remuneration Committee

24 January 2014

Annual Report on Remuneration

This report complies with the UK Corporate Governance Code published in September 2012 (the "UK Corporate Governance Code") and other relevant regulation, including 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 2014.

The Committee

The members of the Remuneration Committee are drawn solely from the independent Non-Executive Directors. To be quorate the Committee is required to comprise at least two members. During the year, the Committee comprised Paul Dean, Michael Gatenby (until his resignation on 16 April 2013), Charles Matthews and Andrew Walker (Chairman).

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

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

This part of the Remuneration Report has been 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, a cash allowance in lieu of a company car, medical insurance and wellness benefits, life insurance and permanent health insurance.

Governance

Remuneration report continued

Executive Directors' remuneration

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

	Salary and fees £000	Taxable benefits £000	Pension £000	Annual bonus £000	Long term incentives £000	**Total 2013 £000**
Executive Directors						
B D W Stocks	276	28	32	200	633	**1,169**
C P Tyler	192	25	30	140	443	**830**

	Salary and fees £000	Taxable benefits £000	Pension £000	Annual bonus £000	Long term incentives £000	Total 2012 £000
Executive Directors						
B D W Stocks	269	27	64	189	378	927
C P Tyler	188	23	34	131	252	628

In 2013 the Executive Directors incurred PAYE tax and national insurance contributions amounting to £1,200,000 (2012: £352,000) including amounts payable on the exercise of Long Term Incentive share options. In 2012 the Executive Directors did not exercise any Long Term Incentive share options.

Benefits

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

Pension entitlements

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

Pension benefits up to the capped limit of £138,000 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 51 on 30 November 2013. In the event that he retires early he may, at the discretion of the Trustees of the Plan, apply to draw a reduced pension. There is no actuarial benefit to the individual to retiring early. Ben Stocks also received a 15% contribution to a Self Invested Pension Plan ("SIPP") on the difference between his full salary and the capped limit covered by the Plan.

Pension benefits were provided for Chris Tyler by a contribution of 15% of full salary to a SIPP.

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 2012 and 2013, 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 2013:

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	£3.8m	£5.4m	20%	60%	£11.5m	60%
Strategic: securing at least two large scale long term key contracts and improving aerospace delivery performance	N/A	N/A	0%	15%	See below	12.5%

In assessing the non-financial targets for 2013 the Committee noted that the key objective of securing two major contracts had been achieved securing a 10% bonus and that delivery performance had improved but not to the level required for a full bonus payout, so only a 2.5% bonus of the 5% available was paid.

In 2012, all financial performance targets were exceeded, but one strategic objective was not met. Accordingly, a bonus of 70% of salary was awarded to the Executive Directors.

Vesting of long term share plan

2012 vesting
Options granted in 2010 under The Porvair Long Term Share Plan 2008 (the "2008 Scheme") are exercisable in full if the Group achieved earnings per share ("EPS") of at least 11.0 pence in the financial year ended 30 November 2012 ("FY2012"). 30% of the award vested if the Group achieved EPS of 7.4 pence in FY2012. 50% of the award vested if the Group achieved EPS of 8.0 pence in FY2012. A sliding scale operated if the EPS was between 8.0 pence and 11.0 pence. Accordingly, 92% of these options vested as a result of the EPS performance in FY2012. The remaining options lapsed.

2013 vesting
Options granted in 2011 under the 2008 Scheme were exercisable in full if the Group achieved EPS of at least 12.5 pence per share in the financial year ended 30 November 2013 ("FY2013"). 30% of the award vested if the Group achieved EPS of 8.0 pence in FY2013. 50% of the award vested if the Group achieved EPS of 9.5 pence in FY2013. A sliding scale operated if the EPS was between 8.0 pence and 9.5 pence and between 9.5 pence and 12.5 pence. 100% of these options vested as a result of the performance in the year.

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

The Company operates two discretionary share option plans:

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

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

The Company also periodically offers invitations to UK employees to join Save As You Earn ("SAYE") schemes. Currently there is a three year and five year scheme running following an invitation in October 2011.

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 2013 was 278 pence (2012: 152 pence).

The range of market prices during the year was 153 pence to 298 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. After exercising options in April 2013 each of the Executive Directors either met or exceeded this guideline from that date onwards.

The beneficial interests at 30 November 2013 and 30 November 2012 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.

		2013		2012
	Ordinary shares (number)	**Share options (number)**	Ordinary shares (number)	Share options (number)
Executive Directors				
B D W Stocks	**441,502**	**701,304**	130,199	1,196,604
C P Tyler	**252,450**	**499,186**	65,250	757,186
Non-Executive Directors				
P Dean	**5,000**	**–**	–	–
C L Matthews	**30,000**	**–**	30,000	–
A J Walker	**29,499**	**–**	29,454	–

Governance

Remuneration report continued

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 2012 (number)	Granted in the year (number)	Exercised in the year (number)	At 30 November 2013 (number)	Exercise price	Grant date	Exercisable from	Expiry date
B D W Stocks								
Vested								
2005 EMI	76,330	–	(76,330)	–	131.00p	27/01/2006	27/01/2009	27/01/2016
2005	123,670	–	(123,670)	–	131.00p	27/01/2006	27/01/2009	27/01/2016
2005	200,000	–	(200,000)	–	69.50p	30/01/2009	30/01/2012	30/01/2019
2008	276,900	–	(276,900)	–	2.00p	28/01/2010	28/01/2013	28/01/2020
2008	250,000	–	–	250,000	2.00p	27/01/2011	27/01/2014	27/01/2021
Unvested								
SAYE	9,704	–	–	9,704	93.00p	01/10/2011	01/10/2014	01/04/2015
2008	260,000	–	–	260,000	2.00p	02/02/2012	02/02/2015	02/02/2022
2008	–	181,600	–	181,600	2.00p	01/02/2013	01/02/2016	01/02/2023
	1,196,604	181,600	(676,900)	701,304				
C P Tyler								
Vested								
2005 EMI	76,330	–	(76,330)	–	131.00p	27/01/2006	27/01/2009	27/01/2016
2005	23,670	–	(23,670)	–	131.00p	27/01/2006	27/01/2009	27/01/2016
2005	100,000	–	(100,000)	–	69.50p	30/01/2009	30/01/2012	30/01/2019
2008	184,600	–	(184,600)	–	2.00p	28/01/2010	28/01/2013	28/01/2020
2008	175,000	–	–	175,000	2.00p	27/01/2011	27/01/2014	27/01/2021
Unvested								
SAYE	16,586	–	–	16,586	93.00p	01/10/2011	01/10/2016	01/04/2017
2008	181,000	–	–	181,000	2.00p	02/02/2012	02/02/2015	02/02/2022
2008	–	126,600	–	126,600	2.00p	01/02/2013	01/02/2016	01/02/2023
	757,186	126,600	(384,600)	499,186				

Scheme interests awarded during the financial year
The table below sets out the options granted during 2012 and 2013:

	Date of grant	Scheme	Number	Exercise price	Share price used to value grant	Face value of grant £000
B D W Stocks	2 February 2012	2008	260,000	2p	101.5p	264
	1 February 2013	2008	181,600	2p	152p	276
C P Tyler	2 February 2012	2008	181,000	2p	101.5p	184
	1 February 2013	2008	126,600	2p	152p	192

For performance over the three year period 2014-16, the Committee has decided that Ben Stocks will be awarded 110,700 2 pence options and Chris Tyler will be awarded 77,000 2 pence options under the 2008 Scheme.

The awards granted in 2012 and 2013 were calculated to equal approximately a year's salary based on the share price at the end of each financial year. The award to be granted after the publication of these results will be 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. The 2008 Scheme provides options issued at the nominal value of the Company's ordinary shares of 2 pence. The face value of the grant is determined by the year end share price in 2011 and 2012 and average share price over the final quarter of the financial year ended 30 November 2013 for the 2014 award.

Performance conditions of the unvested share options
Options granted in 2012 under the 2008 Scheme can only be exercised in full if the Committee is satisfied that in the financial year ending 30 November 2014 ("FY2014"), the Group has achieved EPS of at least 14 pence. 30% of the award will vest if the Group has achieved EPS of 9.0 pence in FY2014. 50% of the award will vest if the Group has achieved EPS of 11.0 pence in FY2014. A sliding scale operates if the EPS is between 9.0 pence and 11.0 pence and between 11.0 pence and 14 pence. No shares vest if the EPS for FY2014 is below 9.0 pence.

Options granted in 2013 under the 2008 Scheme can only be exercised in full if the Committee is satisfied that in the financial year ending 30 November 2015 ("FY2015"), the Group has achieved EPS of at least 15.5 pence. 30% of the award will vest if the Group has achieved EPS of 11.0 pence in FY2015. 50% of the award will vest if the Group has achieved EPS of 12.5 pence in FY2015. A sliding scale operates if the EPS is 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 is below 11.0 pence.

The Committee intends to grant options in 2014, 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 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 is 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 is below 13.5 pence.

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

The table below sets out the options exercised during 2013:

	Date of exercise	Scheme	Number	Exercise price	Share price on date of exercise
B D W Stocks	16 April 2013	2005 EMI	21,800	131p	228p
	16 April 2013	2005	100,000	69.5p	228p
	16 April 2013	2008	276,900	2p	228p
	25 June 2013	2005 EMI	54,530	131p	274p
	25 June 2013	2005	123,670	131p	274p
	25 June 2013	2005	100,000	69.5p	274p
			676,900		
C P Tyler	16 April 2013	2005 EMI	15,200	131p	228p
	16 April 2013	2005	100,000	69.5p	228p
	16 April 2013	2008	184,600	2p	228p
	25 June 2013	2005 EMI	61,130	131p	274p
	25 June 2013	2005	23,670	131p	274p
			384,600		

In 2013, options were exercised. The Executive Directors' total gain on the exercise of options was £2.0 million before deduction of income tax and national insurance. The Executive Directors sold only sufficient shares to fund the option acquisition costs and the related income tax and national insurance costs. The remaining shares were retained. As a result of these option exercises Ben Stocks and Chris Tyler's holdings in shares in the Company increased by 306,700 shares and 187,200 shares respectively. The Executive Directors did not exercise any share options in 2012.

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

2013	**Basic salary and fees £000**
P Dean	**31**
M R B Gatenby (resigned on 16 April 2013)	**12**
C L Matthews	**73**
A J Walker	**31**
	147

2012	Basic salary and fees £000
P Dean (appointed 2 August 2012)	10
M R B Gatenby	30
C L Matthews	72
A J Walker	30
	142

Payments to Directors leaving the Group
No payments (2012: £nil) were made during the year ended 30 November 2013 to any former director of the Company or any other Group company.

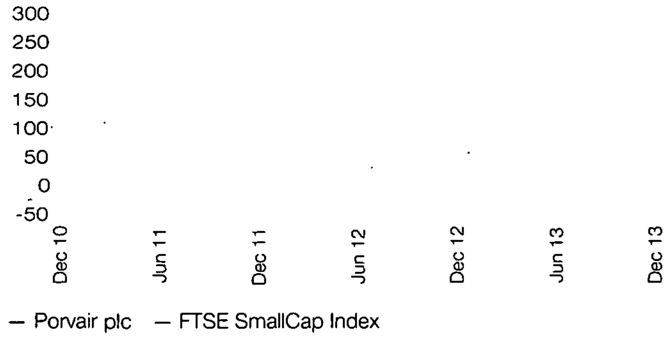
Governance

Remuneration report continued

Performance graph and table

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

3 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 five years.

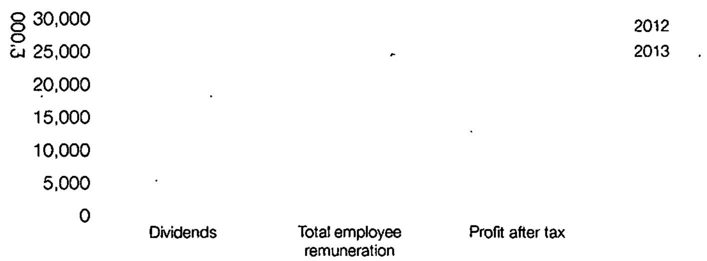
Year	CEO	Single figure total remuneration £000	Annual variable element % of max	Long term incentives % of max
2013	B D W Stocks	1,169	97%	100%
2012	B D W Stocks	927	93%	92%
2011	B D W Stocks	518	100%	100%
2010	B D W Stocks	432	95%	0%
2009	B D W Stocks	337	0%	0%

Ben Stocks received a basic salary increase of 2.0% (2012: 2.5%) on 1 December 2013. This salary rise was the same as the general salary rise awarded to all other UK 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



Statement of voting at the Annual General Meeting

A resolution to approve the report of the Remuneration Committee included in the 2012 Report and Accounts was passed by the shareholders at the AGM on 16 April 2013. 99.78% of votes were cast in favour of the resolution. 0.22% of votes were cast against the resolution and 16,806 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.

REMUNERATION POLICY

The Committee's remuneration policy will be subject to a vote at the Annual General Meeting. In this forward looking section on pages 43 to 46 we describe our remuneration policies and potential future outcomes for each Executive Director. We also describe our policy for rewarding Non-Executive Directors.

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.

In formulating its policy the Committee has given full consideration to the requirements of Section D of the UK Corporate Governance Code and the Remuneration Regulations.

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 and medium 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.

Governance
Remuneration report continued

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	• There are no maxima or minima. In recent years, base salary awards have been in line with UK staff averages.
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.	• 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 maximum bonus payable is 75% of salary. 60% is based on financial performance measures and 15% is based on delivery of strategic priorities. 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	N/A
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.	• 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.
Pensions	• To provide a competitive package for Executive Directors	• The Executive Directors are provided with a contribution to their retirement savings plans. • 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 contribution to his retirement savings plan.	None	N/A

The Remuneration Committee has set 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.

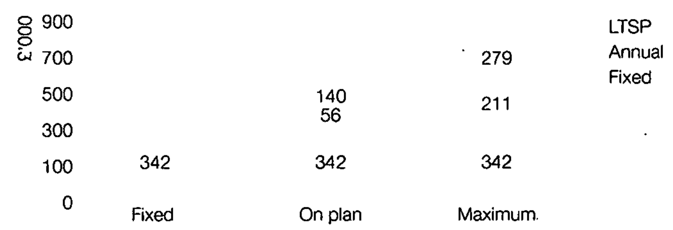
Estimate of the total future potential remuneration
The charts below set out estimates of the potential remuneration for each of the Executive Directors based on the current remuneration packages. The assumptions included in each scenario are described below:
- the Porvair share price is assumed to remain 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 2013
- Pensions are assumed to be in line with 2013

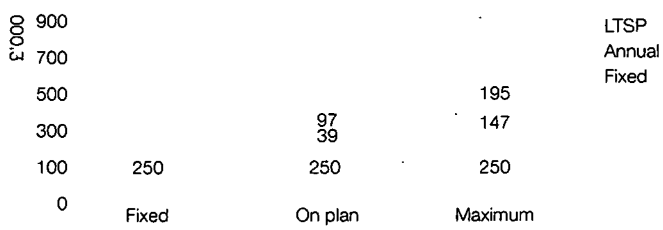
For performance in line with both the annual and three year operating plan
- Annual bonus of 20% of salary
- Long term share plan ("LTSP") award of 50% of maximum

For performance significantly above both the annual and three year operating plan, the maximum award is:
- Annual bonus of 75% of salary
- LTSP award of 100% of maximum

Ben Stocks



Chris Tyler



Policy on Non-Executive Directors
The Non-Executive Directors receive letters of appointment with six month notice terms and are subject to annual re-election, 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-Executive Directors' annual fees with effect from 1 June each year. They receive a fixed annual fee, 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	74
Other Non-Executive Directors	31

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 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.

There were no shareholder representations to the Company in 2013 in respect of Directors' remuneration.

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 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.

Governance
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 candidates' 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 would generally seek to align the remuneration package offered with the remuneration policy outlined in the tables on page 44.

In the first year of appointment, the Committee may offer additional remuneration arrangements that it considers appropriate and necessary to recruit and retain the individual. Such remuneration may be made in the form of cash or share based awards which may vest immediately or at a future point in time. Vesting may be subject to performance conditions selected by the Committee.

The Committee may make awards on appointing a director to "buy-out" remuneration arrangements forfeited on leaving a previous employer. In doing so 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. Generally buy-out awards will be made on a comparable basis to those forfeited.

In the event of recruitment, the Committee may also grant awards to a new director under Listing Rule 9.4.2 which allows for the granting of awards, specifically to facilitate, in unusual circumstances, the recruitment or retention of a director, without seeking prior shareholder approval.

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. The particular circumstances of the 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 UK employees to join Save As You Earn ("SAYE") schemes. Currently there is a three year and five year scheme running following an invitation in October 2011. The Executive Directors are eligible to join these schemes, the Non-Executive Directors are not. The 2003 SAYE Scheme has expired and a resolution will be put to shareholders at the Annual General Meeting to introduce a new scheme, the Porvair plc SAYE Share Option Scheme 2014, on substantially the same terms as the previous scheme.

Financial statements

Independent auditors' report to the members of Porvair plc

Report on the Group financial statements

Our opinion

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 November 2013 and of the Group's 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.

This opinion is to be read in the context of what we say below.

What we have audited

The Group financial statements, which are prepared by Porvair plc, comprise:

- the Consolidated balance sheet as at 30 November 2013;
- the Consolidated income statement and statement of comprehensive income for the year then ended;
- the Consolidated statement of changes in equity and statement of cash flows for the year then ended; and
- the notes to the Consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

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

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (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.

What an audit of financial statements involves

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Group 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.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £370,000, which represents, approximately, 5% of profit before tax.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £18,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group is structured along two business lines, being Microfiltration and Metals Filtration, and has a number of centralised functions. The Group financial statements are a consolidation of 14 reporting units, comprising the Group's operating businesses within these business lines and the centralised functions.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Accordingly, of the Group's 14 reporting units, we identified 7, which are based in the United Kingdom and United States of America and which, in our view, required an audit of their complete financial information due to their size. Specific audit procedures on certain balances and transactions were performed at the further 7 reporting units including operations in the United States of America, Germany and China. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused 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.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

Financial statements

Independent auditors' report to the members of Porvair plc continued

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 36.

Areas of focus	How the scope of our audit addressed the area of focus
Risk of fraud in revenue recognition Auditing standards require that we consider this. We focused on this area because of the potential for misstatement of revenue due to the inherent complexities of revenue recognition.	We performed year end sales cut off testing and we interrogated the accounting system to match revenue transactions with cash receipts to gain assurance over the occurrence of revenue transactions.
Long-term contracts We focused on this area because of the judgements required in accounting for the long term contracts. Our focus was on the judgements around the level of provisions for re-work costs and other contractual provisions and the forecast costs to complete the contracts. (Refer to note 16 to the financial statements.)	We tested the reasonableness of the level of provisions included in the forecast costs against provisions required in similar such contracts and we challenged management on the level of provisions. We tested the calculations of revenue recognised on these contracts based on the work performed to date, which we agreed to supporting documentation, and the forecast costs to complete. We agreed the forecast costs to complete to project plans and challenged management on the preparation of these plans.
Risk of management override of internal controls Auditing standards require that we consider this.	We tested manual journal entries. We considered whether there was evidence of bias by the directors in the significant accounting estimates and judgements relevant to the financial statements. We also assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions and discussed with senior management the possibilities for management override of controls.

Going Concern
Under the Listing Rules we are required to review the directors' statement, set out on page 30, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's financial statements using the going concern basis of accounting. 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.

Opinion on matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

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 if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate Governance Statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 32 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 36, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report 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 arising from this responsibility.

Other information in the Annual Report
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 Group 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
- is otherwise misleading.

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 Directors' Responsibilities Statement set out on pages 31 and 32, the directors are responsible for the preparation of the Group 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 Group 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 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.

Other matter
We have reported separately on the Parent Company financial statements of Porvair plc for the year ended 30 November 2013 and on the information in the Remuneration Report that is described as having been audited.

C Maw

Christopher Maw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge

24 January 2014

Financial statements
Consolidated income statement

For the year ended 30 November	Note	2013 £'000	2012 £'000
Continuing operations			
Revenue	2	**84,267**	76,455
Cost of sales		**(55,519)**	(51,231)
Gross profit		**28,748**	25,224
Distribution costs		**(968)**	(990)
Administrative expenses		**(19,139)**	(17,029)
Operating profit	2	**8,641**	7,205
Interest payable and similar charges	5	**(793)**	(906)
Profit before income tax	2,3	**7,848**	6,299
Income tax expense	6	**(2,367)**	(2,017)
Profit for the year attributable to shareholders	23	**5,481**	4,282
Earnings per share (basic)	7	**12.7p**	10.1p
Earnings per share (diluted)	7	**12.5p**	9.9p

Consolidated statement of comprehensive income

For the year ended 30 November	Note	2013 £'000	2012 £'000
Profit for the year		**5,481**	4,282
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Actuarial losses in defined benefit pension plans net of tax	23	**(3,079)**	(635)
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign subsidiaries	23	**(921)**	(271)
Changes in fair value of interest rate swaps held as a cash flow hedge	23	**79**	81
Changes in fair value of foreign exchange contracts held as a cash flow hedge	23	**932**	–
		90	(190)
Other comprehensive expense for the year, net of tax		**(2,989)**	(825)
Total comprehensive income for the year attributable to shareholders of Porvair plc		**2,492**	3,457

Financial statements

Consolidated balance sheet

Company registered number 01661935

As at 30 November	Note	2013 £'000	2012 £'000
Non-current assets			
Property, plant and equipment	9	**9,006**	8,641
Goodwill and other intangible assets	10	**42,535**	39,983
Deferred tax asset	18	**2,440**	1,996
Derivative financial instruments	11	**144**	–
		54,125	50,620
Current assets			
Inventories	12	**11,617**	10,258
Trade and other receivables	13	**13,978**	11,911
Derivative financial instruments	11	**1,027**	67
Cash and cash equivalents	14	**6,773**	7,275
		33,395	29,511
Current liabilities			
Trade and other payables	15	**(19,472)**	(14,228)
Current tax liabilities		**(995)**	(875)
Borrowings	17	**(983)**	(1,000)
Derivative financial instruments	11	**(20)**	(99)
		(21,470)	(16,202)
Net current assets		**11,925**	13,309
Non-current liabilities			
Borrowings	17	**(5,211)**	(10,145)
Retirement benefit obligations	19	**(11,875)**	(8,494)
Other payables	25	**(1,159)**	–
Provisions for other liabilities and charges	20	**(125)**	(116)
		(18,370)	(18,755)
Net assets		**47,680**	45,174
Capital and reserves			
Share capital	21	**875**	852
Share premium account	21	**35,147**	34,511
Cumulative translation reserve	23	**(309)**	612
Retained earnings	23	**11,967**	9,199
Total equity		**47,680**	45,174

The financial statements on pages 50 to 82 were approved by the Board of Directors on 24 January 2014 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	2013 £'000	2012 £'000
Cash flows from operating activities			
Cash generated from operations	24	**12,265**	9,163
Interest paid		**(417)**	(518)
Tax paid		**(2,104)**	(1,238)
Net cash generated from operating activities		**9,744**	7,407
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)	25	**(3,324)**	(3,329)
Purchase of property, plant and equipment	9	**(1,831)**	(1,780)
Purchase of intangible assets	10	**(193)**	(171)
Proceeds from sale of property, plant and equipment		**481**	23
Net cash used in investing activities		**(4,867)**	(5,257)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	21	**659**	41
(Repayment of)/increase in borrowings		**(4,850)**	1,071
Dividends paid to shareholders	8	**(1,175)**	(1,023)
Capital element of finance leases		**–**	(6)
Net cash (used in)/generated from financing activities		**(5,366)**	83
Net (decrease)/increase in cash and cash equivalents		**(489)**	2,233
Effects of exchange rate changes		**(13)**	(69)
		(502)	2,164
Cash and cash equivalents at 1 December		**7,275**	5,111
Cash and cash equivalents at 30 November	14	**6,773**	7,275

Reconciliation of net cash flow to movement in net cash/(debt)

	2013 £'000	2012 £'000
Net (decrease)/increase in cash and cash equivalents	**(489)**	2,233
Effects of exchange rate changes	**88**	53
Repayment of/(increase in) borrowings	**4,850**	(1,071)
Repayment of finance leases	**–**	6
Net debt at 1 December	**(3,870)**	(5,091)
Net cash/(debt) at 30 November	**579**	(3,870)

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 2011		851	34,471	883	5,886	42,091
Profit for the year		–	–	–	4,282	4,282
Other comprehensive (expense)/income:						
Exchange differences on translation of foreign subsidiaries	23	–	–	(271)	–	(271)
Changes in fair value of interest rate swaps held as a cash flow hedge	23	–	–	–	81	81
Actuarial losses in defined benefit pension plans net of tax		–	–	–	(635)	(635)
Total comprehensive (expense)/income for the year		–	–	(271)	3,728	3,457
Transactions with owners:						
Employee share options scheme						
– Value of employee services net of tax		–	–	–	608	608
Proceeds from shares issued	21	1	40	–	–	41
Dividends approved or paid	8	–	–	–	(1,023)	(1,023)
Balance at 30 November 2012		852	34,511	612	9,199	45,174
Balance at 1 December 2012		852	34,511	612	9,199	45,174
Profit for the year		–	–	–	5,481	5,481
Other comprehensive (expense)/income:						
Exchange differences on translation of foreign subsidiaries	23	–	–	(921)	–	(921)
Changes in fair value of interest rate swaps held as a cash flow hedge	23	–	–	–	79	79
Changes in fair value of foreign exchange contracts held as a cash flow hedge	23	–	–	–	932	932
Actuarial losses in defined benefit pension plans net of tax		–	–	–	(3,079)	(3,079)
Total comprehensive (expense)/income for the year		–	–	(921)	3,413	2,492
Transactions with owners:						
Employee share options scheme						
– Value of employee services net of tax		–	–	–	530	530
Proceeds from shares issued	21	23	636	–	–	659
Dividends approved or paid	8	–	–	–	(1,175)	(1,175)
Balance at 30 November 2013		**875**	**35,147**	**(309)**	**11,967**	**47,680**

Financial statements

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) as endorsed by the European Union, the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee (IFRIC)) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its entity accounts in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and these are presented on pages 85 to 91.

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.

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).

Goodwill

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

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

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

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

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

1 Summary of significant accounting policies continued

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

Interest income 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, 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
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Finance lease payments are allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The rental obligations, net of finance charges, are included in current and non-current liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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.

Financial statements

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

The retirement benefit obligation in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets.

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

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

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 off the cost of assets, 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

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.

1 Summary of significant accounting policies continued

Internally generated intangible assets – research and development expenditure
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's product development expenditure is recognised only if all of the following criteria are demonstrable:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use the intangible asset or to sell it;
- The way in which the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

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

Impairment of property, plant and equipment and intangible assets
The Group reviews annually the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

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

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

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

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

Cash and cash equivalents

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

Bank borrowings

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

Trade payables

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

Equity instruments

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement.

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 has applied the requirements of IFRS 2, "Share based payment". In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

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.

1 Summary of significant accounting policies continued

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

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

Exceptional items
The Group presents certain items as "exceptional". These are material items which derive from events or transactions that fall within the Group's ordinary activities and which by virtue of their size, nature or incidence need to be separately disclosed to enable an understanding of the Group's underlying financial performance. Examples of items include, but are not limited to, acquisition costs, disposals or restructuring of a significant part of an operating segment, impairment events and litigation claims by or against the Group.

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
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.

New standards, amendments and interpretations
(a) Standards, amendments and interpretations effective for the first time in the year ended 30 November 2013:

- Amendment to IAS 12, 'Income taxes', on deferred tax; and
- Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income.

None of these have had any impact on the reported results of the Group.

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

- Amendment to IAS 19, 'Employee benefits';
- Amendment to IFRS 1, 'First time adoption', on government loans;
- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting;
- Amendment to IFRSs 10, 11 and 12 on transition guidance;
- Annual improvements 2011;
- IFRS 10, 'Consolidated financial statements';
- IFRS 11, 'Joint arrangements';
- IFRS 12, 'Disclosures of interests in other entities';
- IFRS 13, 'Fair value measurement';
- IAS 27 (revised 2011), 'Separate financial statements';
- IAS 28 (revised 2011), 'Associates and joint ventures';
- IFRIC 20, 'Stripping costs in the production phase of a surface mine';
- Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting;
- Amendments to IFRSs 10 and 12 and IAS 27 on consolidation for investment entities;
- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures;
- Amendment to IAS 39, 'Financial Instruments: Recognition and Measurement', on novation of derivatives;
- IFRIC 21, 'Levies'; and
- IFRS 9, 'Financial instruments'.

The Directors 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, other than the adoption of IAS 19, 'Employee benefits'.

IAS 19, 'Employee benefits' was amended in June 2011 and is effective for periods beginning on or after 1 January 2013. The impact will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. The Group has calculated that if IAS 19 (revised 2011) had been adopted early for the year ended 30 November 2013 it would have resulted in an additional charge of £210,000.

Notes to the consolidated financial statements continued

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 2013, the Group is organised on a worldwide basis into two operating segments:

(1) Metals Filtration – serving the global aluminium, NAFTA iron foundry and super-alloys markets; and

(2) Microfiltration – serving the aviation, environmental laboratory, and energy and industrial markets.

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

The segment results for the year ended 30 November 2013 are as follows:

30 November 2013	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	**Group £'000**
Revenue		28,484	55,783	–	**84,267**
Operating profit/(loss)		2,391	8,632	(2,382)	**8,641**
Net finance costs		–	–	(793)	**(793)**
Profit/(loss) before income tax		2,391	8,632	(3,175)	**7,848**
Income tax expense		–	–	(2,367)	**(2,367)**
Profit/(loss) for the year		2,391	8,632	(5,542)	**5,481**

The segment results for the year ended 30 November 2012 are as follows:

30 November 2012	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	
Revenue		27,977	48,478	–	76,455
Operating profit/(loss)		2,383	6,688	(1,866)	7,205
Net finance costs		–	–	(906)	(906)
Profit/(loss) before income tax		2,383	6,688	(2,772)	6,299
Income tax expense		–	–	(2,017)	(2,017)
Profit/(loss) for the year		2,383	6,688	(4,789)	4,282

2 Segment information continued

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

30 November 2013	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	**Group £'000**
Depreciation and amortisation (property, plant and equipment, and intangible assets)	1	732	1,147	–	**1,879**

30 November 2012	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	
Depreciation and amortisation (property, plant and equipment, and intangible assets)	1	681	981	–	1,662

The segment assets and liabilities at 30 November 2013 are as follows:

30 November 2013	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	**Group £'000**
Segmental assets		24,623	51,606	4,518	**80,747**
Cash and cash equivalents	1	–	–	6,773	**6,773**
Total assets		24,623	51,606	11,291	**87,520**
Segmental liabilities		(3,360)	(15,459)	(2,952)	**(21,771)**
Retirement benefit obligations	1	–	–	(11,875)	**(11,875)**
Borrowings	1	–	–	(6,194)	**(6,194)**
Total liabilities		(3,360)	(15,459)	(21,021)	**(39,840)**

The segment assets and liabilities at 30 November 2012 are as follows:

30 November 2012	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	
Segmental assets		24,362	45,285	3,209	72,856
Cash and cash equivalents	1	–	–	7,275	7,275
Total assets		24,362	45,285	10,484	80,131
Segmental liabilities		(3,102)	(10,059)	(2,157)	(15,318)
Retirement benefit obligations	1	–	–	(8,494)	(8,494)
Borrowings	1	–	–	(11,145)	(11,145)
Total liabilities		(3,102)	(10,059)	(21,796)	(34,957)

Financial statements

Notes to the consolidated financial statements continued

2 Segment information continued

Geographical analysis

Revenue	2013 By destination £'000	2013 By origin £'000	2012 By destination £'000	2012 By origin £'000
United Kingdom	**17,772**	**36,943**	14,250	34,877
Continental Europe	**11,187**	**6,658**	11,506	6,749
United States of America	**33,324**	**39,214**	30,963	33,350
Other NAFTA	**3,479**	**–**	2,846	–
South America	**1,709**	**–**	1,904	–
Asia	**14,342**	**1,452**	12,440	1,479
Australasia	**1,141**	**–**	1,048	–
Africa	**1,313**	**–**	1,498	–
	84,267	**84,267**	76,455	76,455

Non-current assets	2013 £'000	2012 £'000
United Kingdom	**19,059**	19,389
Continental Europe	**3,389**	3,402
Americas	**28,466**	25,489
Asia	**771**	344
Unallocated deferred tax	**2,440**	1,996
	54,125	50,620

Capital expenditure (including intangibles)	2013 £'000	2012 £'000
United Kingdom	**695**	1,038
Continental Europe	**48**	98
Americas	**736**	677
Asia	**545**	138
	2,024	1,951

No single customer represents 10% or more of the Group's revenue in 2013 and 2012.

3 Profit before income tax

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

	2013 £'000	2012 £'000
Staff costs	**25,785**	23,257
Inventories – Cost of inventories recognised as an expense (included in cost of sales)	**30,901**	28,900
Net realised foreign exchange gains	**(251)**	(301)
Depreciation on property, plant and equipment – owned	**1,427**	1,329
Amortisation of intangible assets	**452**	333
Profit on sale of property, plant and equipment and intangible assets	**(66)**	(1)
Other operating lease rentals payable:		
– Plant and machinery	**246**	236
– Property	**1,154**	1,127
Repairs and maintenance on property, plant and equipment	**1,375**	1,589
Trade receivables impairment	**66**	189
Research and development expenditure	**3,178**	3,122

Services provided by the Group's auditors and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors and associates at costs as detailed below:

	2013 £'000	2012 £'000
Fees payable to Company's auditors and its associates for audit of parent company and consolidated financial statements	**51**	51
Fees payable to Company's auditors and its associates for other services:		
The audit of Company's subsidiaries	**79**	79
Audit-related assurance services	**17**	17
Tax services – compliance	**50**	64
Tax services – advisory	**18**	33
Other non-audit services	**2**	–
	217	244

	2013 £'000	2012 £'000
Fees in respect of The Porvair plc Pension and Death Benefit Plan Audit	**13**	13

4 Employee benefit expense

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

	2013 Average number	2012 Average number
Number		
Metals Filtration	**169**	160
Microfiltration	**435**	396
Head office	**7**	7
	611	563
North American employees included above	**212**	168

	2013 £'000	2012 £'000
Staff costs		
Wages and salaries	**20,785**	19,127
Social security costs	**3,431**	2,831
Other pension costs	**1,114**	919
Share based payments	**455**	380
	25,785	23,257

Detailed disclosures of Directors' emoluments and interests in share options are shown in the Remuneration Report on pages 37 to 46. The Directors comprise the key management and their remuneration is disclosed in note 29.

Financial statements

Notes to the consolidated financial statements continued

5 Finance income and costs

	Note	2013 £'000	2012 £'000
Interest payable on bank loans and overdrafts		**404**	496
Interest payable on finance leases		**–**	1
Unwinding of discount on provisions	2	**9**	9
Pension scheme finance expense	1	**380**	400
		793	906

6 Income tax expense

	Note	2013 £'000	2012 £'000
Current tax			
UK Corporation tax		**781**	731
Adjustment in respect of prior periods		**(131)**	169
Overseas tax		**1,587**	900
		2,237	1,800
Deferred tax			
Origination and reversal of temporary differences – UK		**(28)**	(261)
Origination and reversal of temporary differences – Overseas		**46**	473
Adjustment in respect of prior periods		**116**	–
Effect of change in deferred tax rates		**(4)**	5
	1	**130**	217
		2,367	2,017

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:

	2013 £'000	2012 £'000
Profit before tax	**7,848**	6,299
Tax at the UK Corporation tax rate of 23.33% (2012: 24.67%)	**1,831**	1,554
Current tax adjustments in respect of prior periods	**(131)**	169
Deferred tax adjustments in respect of previous periods	**116**	–
Deferred tax on share based payments within the income statement	**(105)**	(94)
Tax effect of expenses not deductible in determining taxable profit	**181**	(32)
Tax effect of utilisation of previously unrecognised tax losses	**(19)**	–
Effect of change in deferred tax rates	**(4)**	5
Effect of different tax rates of subsidiaries operating in other jurisdictions	**498**	415
Tax charge	**2,367**	2,017

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

	2013 £'000	2012 £'000
Deferred tax on share based payments (direct to equity)	**(75)**	(228)
Deferred tax on actuarial losses on the pension fund (direct to comprehensive income)	**(471)**	(565)
	(546)	(793)

The standard rate of Corporation Tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the theoretical effective tax rate applied to the Group's profits for this accounting period is 23.33%. The standard rate of Corporation Tax in the UK will fall in future periods and as a result the Group's theoretical future effective tax rate will be between 20% and 23%.

During the year, as a result of the change in UK Corporation Tax rates which were effective from 1 April 2013, deferred tax balances have been remeasured. Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2014 is measured at 23%, deferred tax relating to temporary differences expected to reverse after 1 April 2014 is measured at the tax rate of 21% and deferred tax relating to temporary differences expected to reverse after 1 April 2015 is measured at the tax rate of 20% as these are the enacted rates that will apply on reversal.

7 Earnings per share

	2013 Earnings £'000	2013 Weighted average number of shares	2013 Per share amount (pence)	2012 Earnings £'000	2012 Weighted average number of shares	2012 Per share amount (pence)
Basic EPS						
Earnings attributable to ordinary shareholders	**5,481**	**43,254,346**	**12.7**	4,282	42,601,240	10.1
Effect of dilutive securities						
Earnings attributable to ordinary shareholders	**5,481**	**–**	**12.7**	4,282	–	10.1
Dilutive impact of share options	**–**	**661,024**	**(0.2)**	–	777,195	(0.2)
Diluted EPS	**5,481**	**43,915,370**	**12.5**	4,282	43,378,435	9.9

8 Dividends per share

	2013 Per share (pence)	2013 £'000	2012 Per share (pence)	2012 £'000
Final dividend paid – in respect of prior year	**1.60**	**694**	1.40	597
Interim dividend paid – in respect of current year	**1.10**	**481**	1.00	426
	2.70	**1,175**	2.40	1,023

The Directors recommend a final dividend of 1.8 pence for the financial year ended 30 November 2013 to be paid on 6 June 2014.

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 2011	4,159	368	23,388	27,915
Reclassification	–	(639)	639	–
Additions	50	651	1,079	1,780
Acquisitions	–	13	78	91
Disposals	–	–	(555)	(555)
Exchange differences	(45)	(6)	(255)	(306)
At 30 November 2012	4,164	387	24,374	28,925
Accumulated depreciation				
At 1 December 2011	(1,761)	–	(17,941)	(19,702)
Charge for year	(78)	–	(1,251)	(1,329)
Disposals	–	–	534	534
Exchange differences	22	–	191	213
At 30 November 2012	(1,817)	–	(18,467)	(20,284)
Net book value at 30 November 2012	2,347	387	5,907	8,641

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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 2012	4,164	387	24,374	28,925
Reclassification	76	(488)	412	–
Additions	338	454	1,039	1,831
Acquisitions	100	–	393	493
Disposals	(584)	–	(264)	(848)
Exchange differences	(72)	(4)	(315)	(391)
At 30 November 2013	**4,022**	**349**	**25,639**	**30,010**
Accumulated depreciation				
At 1 December 2012	(1,817)	–	(18,467)	(20,284)
Charge for year	(210)	–	(1,217)	(1,427)
Disposals	224	–	209	433
Exchange differences	32	–	242	274
At 30 November 2013	**(1,771)**	**–**	**(19,233)**	**(21,004)**
Net book value at 30 November 2013	**2,251**	**349**	**6,406**	**9,006**

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 2011					
Cost	54,832	1,863	1,016	35	57,746
Accumulated amortisation and impairment	(18,537)	(1,250)	(865)	(24)	(20,676)
Net book amount	36,295	613	151	11	37,070
Year ended 30 November 2012					
Opening net book amount	36,295	613	151	11	37,070
Additions	–	–	91	80	171
Acquisitions	2,458	–	19	709	3,186
Disposals cost	–	–	(157)	–	(157)
Disposals amortisation	–	–	156	–	156
Amortisation charges	–	(124)	(117)	(92)	(333)
Exchange differences	(87)	(15)	(5)	(3)	(110)
Closing net book amount	38,666	474	138	705	39,983
At 30 November 2012					
Cost	57,203	1,829	962	820	60,814
Accumulated amortisation and impairment	(18,537)	(1,355)	(824)	(115)	(20,831)
Net book amount	38,666	474	138	705	39,983
Year ended 30 November 2013					
Opening net book amount	38,666	474	138	705	39,983
Additions	–	–	47	146	193
Acquisitions	3,654	–	–	127	3,781
Amortisation charges	–	(134)	(168)	(150)	(452)
Exchange differences	(947)	(11)	2	(14)	(970)
Closing net book amount	**41,373**	**329**	**19**	**814**	**42,535**
At 30 November 2013					
Cost	59,910	1,818	1,011	1,079	63,818
Accumulated amortisation and impairment	(18,537)	(1,489)	(992)	(265)	(21,283)
Net book amount	**41,373**	**329**	**19**	**814**	**42,535**

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 £452,000 (2012: £333,000) is included in 'cost of sales' in the income statement.

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

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

	2013			2012		
	Metals Filtration £'000	**Microfiltration £'000**	**Total £'000**	Metals Filtration £'000	Microfiltration £'000	Total £'000
	14,650	**26,723**	**41,373**	15,285	23,381	38,666

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	27%	35%	37%	35%
Growth rate used to extrapolate cash flows beyond the budget period	3%	3%	3%	3%
Weighted average cost of capital (pre-tax)	10.6%	10.6%	9.5%	9.6%

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

Based on the results of the current period impairment review, no impairment charges have been recognised by the Group in the year ended 30 November 2013. Having assessed the anticipated future cash flows, the Directors do not currently foresee any reasonable changes in assumptions that would lead to such an impairment charge in the year ended 30 November 2013.

11 Derivative financial instruments

	2013		2012	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Forward foreign exchange contracts – current	**239**	**–**	67	–
Forward foreign exchange contracts – cash flow hedge – current	**788**	**–**	–	–
Forward foreign exchange contracts – cash flow hedge – non-current	**144**	**–**	–	–
Interest rate swap agreements – cash flow hedge – current	**–**	**(20)**	–	(99)
	1,171	**(20)**	67	(99)

The gain recognised in the profit and loss account in the year for non-hedged derivatives amounted to £172,000 (2012: £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.

The notional principal amount of the outstanding US dollar forward foreign exchange contracts at 30 November 2013 is £15.1 million (2012: £6.8 million) which mature in December 2013, January 2014, February 2014, March 2014, April 2014, May 2014, June 2014, July 2014, September 2014 and January 2015.

The Group has contracted interest rate swap agreements for US$7.5 million (2012: US$7.5 million) of its US$ borrowings until December 2013. The Group has accounted for these swap agreements using hedge accounting with gains or losses being recognised in other comprehensive income.

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12 Inventories

	2013 £'000	2012 £'000
Raw materials	**3,549**	3,001
Work in progress	**4,169**	4,036
Finished goods	**3,899**	3,221
	11,617	10,258

The Group has recognised a provision of £50,000 (2012: £253,000) for the write-down of its inventories during the year ended 30 November 2013. The Group has utilised provisions of £256,000 (2012: £349,000) during the year ended 30 November 2013.

13 Trade and other receivables

	2013 £'000	2012 £'000
Trade receivables	**11,773**	11,159
Less: provision for impairment	**(205)**	(275)
Trade receivables – net	**11,568**	10,884
Other debtors	**119**	76
Prepayments	**2,291**	951
	13,978	11,911

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 £11,568,000 (2012: £10,884,000). 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) are good, with £2,473,000 (2012: £1,388,000) being past due but not impaired at the year end, of which £2,029,000 (2012: £1,070,000) are less than 30 days overdue.

	2013			2012		
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	**9,025**	**–**	**–**	9,278	–	–
0-3 months overdue	**–**	**2,473**	**169**	–	1,388	45
3-6 months overdue	**–**	**70**	**22**	–	213	158
>6 months overdue	**–**	**–**	**14**	–	5	72
Total	**9,025**	**2,543**	**205**	9,278	1,606	275

The Group has recognised a provision of £66,000 (2012: £189,000) within administrative expenses for the impairment of its trade receivables during the year ended 30 November 2013 on the grounds of recoverability. The Group has utilised provisions for impaired receivables of £136,000 (2012: £87,000) during the year ended 30 November 2013.

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

14 Cash and cash equivalents

	2013 £'000	2012 £'000
Cash at bank and in hand	**6,773**	5,863
Restricted cash	**–**	1,412
Cash and cash equivalents	**6,773**	7,275

The credit risk associated with cash and cash equivalents is mitigated by holding funds with banks with high credit ratings from AA- to A (2012: AA- to A) as assigned by international credit rating agencies.

Cash and cash equivalents includes a restricted balance of £nil (2012: £1,412,000, US$2,263,000, held as a guarantee by a UK bank against the advance payment bond in relation to a long-term contract).

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

	2013 £'000	2012 £'000
Pounds Sterling	**437**	246
US dollar	**3,935**	4,899
Euro	**1,836**	1,789
Other	**565**	341
	6,773	7,275

15 Trade and other payables

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Trade payables	**7,867**	6,723
Taxation and social security	**697**	560
Other payables	**733**	188
Accruals and deferred income	**10,175**	6,757
	19,472	14,228

16 Construction contracts

	2013 £'000	2012 £'000
Amounts due from contract customers included in trade receivables	**308**	589
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in other receivables	**102**	–
Amounts due to contract customers included in other payables	**(3,127)**	(946)
Net amounts due to contract customers	**(3,025)**	(946)
Contract costs incurred plus recognised profits less recognised losses to date	**10,105**	4,122
Less: progress billings	**(13,130)**	(5,068)
Contracts in progress at the balance sheet date	**(3,025)**	(946)

At 30 November 2013, retentions held by customers for contract work amounted to £nil (2012: £nil). Advances received from customers for contract work amounted to £148,000 (2012: £524,000).

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

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17 Borrowings

	2013 £'000	2012 £'000
Secured multi-currency revolving credit facility of US$20 million (2012: US$15 million) maturing in January 2018 with interest at 2.25% (2012: 2.7%) above US dollar LIBOR	**4,474**	8,395
Secured five year amortising debt facility of £1.75 million (2012: £2.75 million) expiring in June 2015 with interest at 2.0% (2012: 2.7%) above Sterling LIBOR	**1,720**	2,750
	6,194	11,145

Bank loans of the Group are repayable as follows:	2013 £'000	2012 £'000
Within one year	**983**	1,000
One to two years	**737**	10,145
Two to five years	**4,474**	–
	6,194	11,145

On 25 January 2013, the Group entered into new five year banking facilities sufficient for its foreseeable needs comprising a US$20 million revolving credit facility, a £2.5 million amortising term loan (reduced to £1.75 million at 30 November 2013) and a £2.5 million multi-currency overdraft facility.

The loans are shown net of issue costs of £134,000 (2012: £nil) which are being amortised over the life of the loan arrangements. The term and multi-currency revolving credit facilities expire in January 2018.

At 30 November 2013, the Group had £7.6 million (2012: £1.0 million) unused loan facility and an unutilised £2.5 million (2012: £2.5 million) overdraft facility.

The carrying values of 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 3.8% (2012: 3.0%).

The multi-currency facility and amortising debt facility are secured by fixed and floating charges against the Group's assets.

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

	2013 £'000	2012 £'000
Pounds Sterling	**1,720**	4,750
US dollar	**4,474**	6,395
	6,194	11,145

18 Deferred tax asset

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

	Note	2013 £'000	2012 £'000
At 1 December		**1,996**	1,400
Exchange differences		**28**	20
Income statement charge		**(130)**	(217)
Tax credited to comprehensive income in respect of pension liabilities		**471**	565
Tax credited to equity in respect of share options		**75**	228
At 30 November		**2,440**	1,996

18 Deferred tax asset continued

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 2011	(993)	651	(435)	422	1,755	1,400
(Charged)/credited to income statement	(292)	(188)	137	94	32	(217)
Credited to equity in respect of share options	–	–	–	228	–	228
Credited to comprehensive income in respect of pension liabilities	–	–	–	–	565	565
Exchange differences	19	(6)	7	–	–	20
At 30 November 2012	(1,266)	457	(291)	744	2,352	1,996
(Charged)/credited to income statement	(113)	(119)	34	105	(37)	(130)
Credited to equity in respect of share options	–	–	–	75	–	75
Credited to comprehensive income in respect of pension liabilities	–	–	–	–	471	471
Exchange differences	28	(6)	6	–	–	28
At 30 November 2013	**(1,351)**	**332**	**(251)**	**924**	**2,786**	**2,440**

There were no unprovided deferred tax amounts at 30 November 2013 (2012: £nil).

19 Retirement benefit obligations

	2013 £'000	2012 £'000
Defined benefit scheme deficit	**11,741**	8,351
Additional pension commitments	**134**	143
	11,875	8,494

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 2013, this amounted to £176,000 (2012: £153,000). In 2013, the Group also made payments of £172,000 (2012: £155,000) 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 £441,000 (2012: £266,000).

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.

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

The principal actuarial assumptions adopted in the 2012 valuation were:	2012 valuation assumptions %	2009 valuation assumptions %	2006 valuation assumptions %
Past service investment return:			
Pre-retirement	5.75	6.75	6.75
Post-retirement	3.75	5.00	4.75
Salary increases	3.50	3.25	4.00

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

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19 Retirement benefit obligations continued

The UK pension charge for the year was £240,000 (2012: £200,000); the funding via employer contributions was £780,000 (2012: £469,000).

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 2013.

Balance sheet

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

	2013	2012	2011
Valuation method	**Projected Unit**	Projected Unit	Projected Unit
Discount rate	**4.2%**	4.2%	4.8%
RPI inflation rate	**3.4%**	2.8%	3.0%
CPI inflation rate	**2.4%**	2.1%	2.0%
General salary increases	**3.4%**	2.8%	3.0%
Rate of increase of pensions in payment	**2.4%**	2.1%	2.0%
Rate of increase for deferred pensioners	**2.4%**	2.1%	2.0%

Pre and post retirement mortality:

The SAPS base mortality tables have been used, with a 110% multiplier allowing for future improvements of 1.25% per annum (2012: 1.0% per annum). The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is 21.5 (2012: 19.7) for men and 23.7 (2012: 22.3) for women. The average life expectancy in years of a member currently aged 50 on retirement on the balance sheet date is 22.8 (2012: 21.1) for men and 25.2 (2012: 23.7) for women.

The assets in the Plan with their expected rates of return are:

	Long term expected rate of return at 30 November 2013	**Value at 30 November 2013 £'000**	Long term expected rate of return at 30 November 2012	Value at 30 November 2012 £'000	Long term expected rate of return at 30 November 2011	Value at 30 November 2011 £'000	Long term expected rate of return at 30 November 2010	Value at 30 November 2010 £'000	Long term expected rate of return at 30 November 2009	Value at 30 November 2009 £'000
Equities	**7.5%**	**12,400**	6.9%	11,000	7.1%	10,100	8.2%	10,300	8.1%	9,800
Bonds	**4.2%**	**1,810**	4.2%	1,800	4.8%	8,300	5.4%	8,000	5.5%	7,500
Gilts	**3.5%**	**7,120**	2.9%	7,200	–	–	–	–	–	–
Other	**4.1%**	**49**	3.6%	149	3.8%	180	3.9%	52	4.0%	47
Fair value of Plan assets		**21,379**		20,149		18,580		18,352		17,347
Present value of unfunded obligations		**(33,120)**		(28,500)		(25,600)		(23,800)		(25,800)
Deficit in the Plan (excluding deferred tax)		**(11,741)**		(8,351)		(7,020)		(5,448)		(8,453)

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

	2013 £'000	2012 £'000	2011 £'000
Deficit at 1 December	**(8,351)**	(7,020)	(5,448)
Contributions paid	**780**	469	628
Current service cost	**(240)**	(200)	(200)
Other finance expense	**(380)**	(400)	(200)
Actuarial losses	**(3,550)**	(1,200)	(1,800)
Deficit at 30 November	**(11,741)**	(8,351)	(7,020)

The reconciliation of Plan assets during the year is as follows:

	2013 £'000	2012 £'000
Plan assets at the start of the year	**20,149**	18,580
Benefit payments	**(1,050)**	(1,200)
Company contributions	**780**	469
Member contributions	**110**	100
Expected return on assets	**790**	800
Actual return on assets in excess of expected return	**600**	1,400
Plan assets at 30 November	**21,379**	20,149

The actual return on Plan assets was £1,390,000 (2012: £2,200,000).

19 Retirement benefit obligations continued

The reconciliation of Plan liabilities during the year is as follows:

	2013 £'000	2012 £'000
Plan liabilities at the start of the year	**(28,500)**	(25,600)
Current service cost	**(240)**	(200)
Interest cost	**(1,170)**	(1,200)
Member contributions	**(110)**	(100)
Benefits paid	**1,050**	1,200
Losses on change in financial and demographic assumptions	**(4,150)**	(2,600)
Plan liabilities at 30 November	**(33,120)**	(28,500)

Income statement	2013 £'000	2012 £'000
Analysis of amounts chargeable to operating profit:		
Current service cost	**(240)**	(200)
Amount chargeable to operating profit	**(240)**	(200)
Analysis of amounts (charged)/credited to other finance income and costs:		
Interest on Plan liabilities	**(1,170)**	(1,200)
Expected return on assets in the Plan	**790**	800
Net amount charged to other finance income and costs	**(380)**	(400)
Total chargeable to the income statement before deduction of tax	**(620)**	(600)
Other items		
Analysis of amounts recognised in the consolidated statement of comprehensive income:		
Actual return on assets in excess of expected return	**600**	1,400
Losses on change in financial and demographic assumptions	**(4,150)**	(2,600)
Total actuarial loss recognised in the consolidated statement of comprehensive income	**(3,550)**	(1,200)
Cumulative actuarial loss recognised in the consolidated statement of comprehensive income	**(5,550)**	(2,000)

History of experience gains and losses	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Plan assets	**21,379**	20,149	18,580	18,352	17,347
Defined benefit obligation	**(33,120)**	(28,500)	(25,600)	(23,800)	(25,800)
Deficit	**(11,741)**	(8,351)	(7,020)	(5,448)	(8,453)
Experience losses on Plan liabilities	**(1,570)**	–	–	–	(1,700)
Experience gains on Plan assets	**600**	1,400	(500)	700	2,700

Financial statements

Notes to the consolidated financial statements continued

20 Provisions for other liabilities and charges

	2013 £'000	2012 £'000
At 1 December	**116**	107
Charged to consolidated income statement:		
– Unwinding of discount	**9**	9
At 30 November	**125**	116

The provisions arise from a discounted dilapidations provision for leased property which is expected to reverse in 2023.

Analysis of total provisions	2013 £'000	2012 £'000
Current	**–**	–
Non-current	**125**	116
	125	116

21 Share capital and share premium account

	Number of shares	Ordinary shares £'000	Share premium account £'000	Total £'000
At 1 December 2011	42,560,872	851	34,471	35,322
Issue of shares on exercise of share options	51,700	1	40	41
At 30 November 2012	42,612,572	852	34,511	35,363
At 1 December 2012	42,612,572	852	34,511	35,363
Issue of shares on exercise of share options	1,121,026	23	636	659
At 30 November 2013	**43,733,598**	**875**	**35,147**	**36,022**

In April 2013, 461,500 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 February 2013, April 2013, May 2013 and June 2013, 650,000 ordinary shares of 2 pence each were issued on the exercise of executive share options for cash consideration of £641,000. In June 2013, October 2013 and November 2013, 9,526 ordinary shares of 2 pence each were issued on the exercise of Save As You Earn share options for cash consideration of £9,000.

In December 2011, February 2012 and March 2012, 51,700 ordinary shares of 2 pence each were issued on the exercise of Save As You Earn share options for cash consideration of £41,000.

22 Share options and share based payment

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 37 to 46.

These equity settled, share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled, share based payments is expensed to the income statement on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The charge is then credited back to reserves.

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

Details of the share options are:

Scheme	Year of grant	Exercise period	Subscription price (pence)	**2013 Number of shares**	2012 Number of shares
2005 EMI (Revenue approved)	2006	2009 – 2016	151.00	**10,000**	10,000
2005 EMI (Revenue approved)	2006	2009 – 2016	131.00	–	162,660
2005 (Revenue unapproved)	2006	2009 – 2016	131.00	–	147,340
2005 (Revenue unapproved)	2009	2012 – 2019	69.50	**25,000**	350,000
2005 (Revenue unapproved)	2010	2013 – 2020	57.00	–	15,000
2008 Long term share plan	2010	2013 – 2020	2.00	–	461,500
2008 Long term share plan	2011	2014 – 2021	2.00	**425,000**	425,000
2011 3yr Save As You Earn Scheme	2011	2014 – 2015	93.00	**215,601**	239,858
2011 5yr Save As You Earn Scheme	2011	2016 – 2017	93.00	**188,743**	192,060
2008 Long term share plan	2012	2015 – 2022	2.00	**441,000**	441,000
2008 Long term share plan	2013	2016 – 2023	2.00	**308,200**	–
At 30 November				**1,613,544**	2,444,418

Movements in share options during the year were:

	2013 Weighted average exercise price (pence)	2012 Weighted average exercise price (pence)	**2013 Number of shares**	2012 Number of shares
At 1 December	**45.05**	55.93	**2,444,418**	2,293,013
Options granted	**2.00**	2.00	**308,200**	486,000
Options expired	–	98.00	–	(12,000)
Options forfeited	**93.00**	50.86	**(18,048)**	(270,895)
Options exercised	**58.75**	80.00	**(1,121,026)**	(51,700)
At 30 November	**26.77**	45.05	**1,613,544**	2,444,418
Options exercisable	**92.79**	99.17	**35,000**	670,000
Options not exercisable	**25.31**	24.62	**1,578,544**	1,774,418
At 30 November	**26.77**	45.05	**1,613,544**	2,444,418

	Year of Grant	Scheme	Exercise price (pence)	**2013 Number of shares**	2012 Number of shares
Options expiring during the year were:	2005	1997	98.00	–	12,000
Total				–	12,000
Options forfeited during the year were:					
	2008	SAYE	80.00	–	87,420
	2011	3yr SAYE	93.00	**14,731**	39,975
	2011	5yr SAYE	93.00	**3,317**	–
	2006	2005	131.00	–	10,000
	2006	2005	151.00	–	10,000
	2010	2008	2.00	–	38,500
	2011	2008	2.00	–	40,000
	2012	2008	2.00	–	45,000
Total				**18,048**	270,895

Notes to the consolidated financial statements continued

22 Share options and share based payment continued

	Year of Grant	Scheme	Exercise price (pence)	**2013 Number of shares**	2012 Number of shares
Options exercised during the year were:	2008	SAYE	80.00	**–**	51,700
	2006	2005	131.00	**162,660**	–
	2006	2005	131.00	**147,340**	–
	2009	2005	69.50	**325,000**	–
	2010	2005	57.00	**15,000**	–
	2010	2008	2.00	**461,500**	–
	2011	3yr SAYE	93.00	**9,526**	–
Total				**1,121,026**	51,700

For options exercised in the year, the weighted average share price at the date of exercise was 250 pence (2012: 108 pence).

30 November 2013

Grant date	27/01/06	07/03/06	30/01/09	28/01/10	28/01/10	27/01/11	01/10/11	01/10/11	02/02/12	01/02/13
Scheme	Porvair 2005 share option	Porvair 2005 share option	Porvair 2005 share option	Porvair 2005 share option	Porvair LTSP	Porvair LTSP	SAYE 2011 3 year	SAYE 2011 5 year	Porvair LTSP	Porvair LTSP
Share price at grant date	131.00p	151.00p	69.50p	57.00p	57.00p	123.50p	116.25p	116.25p	111.50p	177.50p
Exercise price	131.00p	151.00p	69.50p	57.00p	2.00p	2.00p	93.00p	93.00p	2.00p	2.00p
Shares under option	330,000	40,000	350,000	15,000	500,000	465,000	279,833	192,060	486,000	308,200
Vesting period (years)	3	3	3	3	3	3	3	5	3	3
Expected volatility	30%	30%	50%	30%	30%	30%	30%	30%	30%	30%
Expected life (years)	3	3	3	3	3	3	3	5	3	3
Risk free rate	4.50%	4.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Dividend yield	1.60%	1.39%	1.80%	3.95%	3.95%	1.86%	2.47%	2.47%	2.15%	1.46%
Fair value per option (£)	0.30066	0.35263	0.21209	0.08395	0.48660	1.14827	0.29606	0.31849	1.02565	1.67899

Share based payments	**2013 £'000**	2012 £'000
Charge for the year	**455**	380

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.

23 Other reserves

	2013		2012	
	Cumulative translation reserve £'000	**Retained earnings £'000**	Cumulative translation reserve £'000	Retained earnings £'000
At 1 December	**612**	**9,199**	883	5,886
Profit for the year attributable to shareholders	**–**	**5,481**	–	4,282
Dividends paid	**–**	**(1,175)**	–	(1,023)
Actuarial losses	**–**	**(3,550)**	–	(1,200)
Tax on actuarial losses	**–**	**471**	–	565
Share based payments	**–**	**455**	–	380
Tax on share based payments	**–**	**75**	–	228
Interest rate swap cash flow hedge	**–**	**79**	–	81
Foreign exchange contract cash flow hedge	**–**	**932**	–	–
Exchange differences	**(921)**	**–**	(271)	–
At 30 November	**(309)**	**11,967**	612	9,199

24 Cash generated from operations

	2013 £'000	2012 £'000
Operating profit	**8,641**	7,205
Adjustments for:		
– Difference between the non-cash pension charge and the pension contributions made in the year	**240**	200
– Share based payments	**455**	380
– Depreciation and amortisation	**1,879**	1,662
– Profit on disposal of property, plant and equipment and intangibles	**(66)**	(1)
Operating cash flows before movement in working capital	**11,149**	9,446
Changes in working capital (excluding the effects of exchange differences on consolidation):		
– Increase in inventories	**(920)**	(1,069)
– Increase in trade and other receivables	**(2,002)**	(486)
– Increase in payables	**4,038**	1,272
Decrease/(increase) in working capital	**1,116**	(283)
Cash generated from operations	**12,265**	9,163

25 Acquisitions

Acquisition of trade and assets from Eisenmann Metallurgical LLC

On 4 June 2013 the Group, through its subsidiary Porvair Filtration Group Inc., purchased the trade and assets of Eisenmann Metallurgical LLC. The trade is the manufacture of specialist filters and is based in the USA. The trade contributed external revenues of £1.3 million and a net profit of £0.1 million in the period 4 June 2013 to 30 November 2013. It is estimated that if the acquisition had occurred on 1 December 2012, the acquisition would have contributed external revenues of £2.6 million and a £0.4 million net profit for the year ended 30 November 2013. The total consideration is US$5,995,000 (£3,890,000); US$3,995,000 (£2,582,000) of this was paid at 30 November 2013, with further payments due up to 4 June 2015. The purchase is accounted for as an acquisition. Acquisition related costs of £48,000 have been charged to administrative expenses in the consolidated income statement in the year ended 30 November 2013.

	£'000
Purchase consideration:	
Cash paid	2,582
Deferred consideration	1,308
Total purchase consideration	3,890
Fair value of net assets acquired (see below)	(1,276)
Goodwill	**2,614**

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 expected to be deductible for income tax purposes.

	Fair value £'000	Acquiree's carrying value £'000
Property, plant and equipment	467	467
Non-compete agreement (included in intangible assets)	65	–
Inventory	410	598
Trade receivables	366	366
Other working capital (net)	(32)	(32)
Net assets acquired	**1,276**	**1,399**
Purchase consideration settled in cash	2,582	
Cash outflow on acquisition	**2,582**	

Notes to the consolidated financial statements continued

25 Acquisitions continued

Acquisition of trade and assets from Thomas Cain Inc.

On 20 September 2013 the Group, through its subsidiary Seal Analytical Inc., purchased the trade and assets of Thomas Cain Inc., a manufacturer of environmental laboratory equipment and consumables based in the USA. The trade contributed external revenues of £199,000 and net profit of £44,000 to the Group in the period from 20 September to 30 November 2013. It is estimated that if the acquisition had occurred on 1 December 2012, the acquisition would have contributed external revenues of £1.2 million and a net profit of £0.3 million for the period ended 30 November 2013. The total consideration is up to US$1,987,000 (£1,241,000) with a US$1,087,000 (£679,000) initial payment and the remaining US$900,000 (£562,000) contingent upon achievement of agreed profit performance in the year to 30 November 2014. The contingent consideration was estimated based on the current expectation of the division's future performance. The purchase is accounted for as an acquisition. Acquisition related costs of £17,000 have been charged to administrative expenses in the consolidated income statement in the year ended 30 November 2013.

	£'000
Purchase consideration:	
Cash paid	679
Contingent consideration	562
Total purchase consideration	1,241
Fair value of net assets acquired (see below)	(201)
Goodwill	**1,040**

The goodwill is attributable to the acquired non-contractual customer relationships, the process synergies and the potential for development expected to arise after the acquisition. The goodwill recognised is expected to be deductible for income tax purposes.

	Fair value £'000	Acquiree's carrying value £'000
Property, plant and equipment	26	26
Non-compete agreement (included in intangible assets)	62	–
Inventory	122	122
Other working capital (net)	(9)	(9)
Net assets acquired	**201**	**139**
Purchase consideration settled in cash	679	
Cash outflow on acquisition	**679**	

Summary of deferred and contingent consideration on acquisitions

	Pulse Instrumentation £'000	Pell Industries £'000	Eisenmann Metallurgical £'000	Thomas Cain £'000	Total £'000
At 1 December 2012	63	125	–	–	188
Purchase consideration additions in period	–	–	3,890	1,241	5,131
Cash paid in period	(63)	–	(2,582)	(679)	(3,324)
Exchange movement	–	(3)	(87)	(13)	(103)
At 30 November 2013	**–**	**122**	**1,221**	**549**	**1,892**

	2013 Total £'000	2012 Total £'000
Included within other payables:		
– Deferred and contingent consideration – current	**733**	188
– Deferred and contingent consideration – non-current	**1,159**	–
	1,892	188

26 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate cash flow risk), credit risk and liquidity risk. The Group's overall risk management programme is disclosed on page 21 to 24 of the Strategic Report and page 30 of the Directors' report. The Group uses derivative financial instruments to hedge certain risk exposures.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily in respect of the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(i) US dollar

The Group has investments in its US based subsidiaries denominated in US dollars. Currency exposure arising from the net assets of the Group's US operations is managed through borrowings denominated in US dollars.

The UK operations generate significant US dollar revenues 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:

	2013 $'000	2012 $'000
Outstanding forward contracts	**24,710**	10,960

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

	2013 $'000	2012 $'000
Trade receivables denominated in US dollars	**10,667**	9,278
Other receivables denominated in US dollars	**12,132**	8,185
Cash balances denominated in US dollars	**6,446**	7,852
Trade payables denominated in US dollars	**(4,539)**	(4,103)
Other payables denominated in US dollars	**(14,360)**	(7,823)
	10,346	13,389

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

	2013 £'000	2012 £'000
US dollar strengthens	**701**	928
US dollar weakens	**(574)**	(758)

(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:

	2013 €'000	2012 €'000
Trade receivables denominated in Euros	**1,770**	1,937
Other receivables denominated in Euros	**764**	1,113
Cash balances denominated in Euros	**2,209**	2,205
Trade payables denominated in Euros	**(1,837)**	(1,340)
Other payables denominated in Euros	**(721)**	(535)
	2,185	3,380

Notes to the consolidated financial statements continued

26 Financial risk management continued

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

	2013 £'000	2012 £'000
Euro strengthens	**202**	306
Euro weakens	**(165)**	(250)

Cash flow interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings in the years ended 30 November 2013 and 2012 carry interest at variable rates and are denominated in US dollars and Sterling. The Group has entered into interest rate swap agreements on 100% (2012: 73%) of the US denominated borrowings to reduce the impact of future changes in US interest rates. On 12 December 2013, interest rate swap agreements expired reducing the fixed proportion of US denominated borrowings to nil%.

The Group is exposed to cash flow risk in respect of loans not covered by the interest rate swap agreements.

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 £28,000 (2012: £31,000) 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. The amortising debt commits the Group to quarterly repayments of principal of £250,000 (2012: £250,000). 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.

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 their contractual maturities are essential for an understanding of the timing of cash flows. The amounts disclosed are the contractual undiscounted cash flows.

30 November 2013	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Borrowings	1,146	868	4,819
Derivatives (excluding foreign exchange)	20	–	–
Trade and other payables	14,324	1,159	–
	15,490	**2,027**	**4,819**

30 November 2012	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Borrowings	1,411	10,178	–
Derivatives (excluding foreign exchange)	96	3	–
Trade and other payables	13,668	–	–
	15,175	10,181	–

26 Financial risk management continued

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).

30 November 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss:				
– Trading derivatives	–	239	–	239
Foreign exchange contracts used for hedging	–	932	–	932
Derivatives used for hedging	–	(20)	–	(20)
	–	**1,151**	**–**	**1,151**

30 November 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial liabilities at fair value through profit or loss:				
– Trading derivatives	–	67	–	67
Derivatives used for hedging	–	(99)	–	(99)
	–	(32)	–	(32)

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.

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 2013 was not applicable because the Group had a net cash position (2012: 9%).

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 2013.

27 Contingent liabilities

The Group has entered into advanced payment bonds totalling $10,282,000 relating to monies received in advance on contracts. The bonds require the amount to be repaid in the event delivery is not made within certain parameters. The advanced payment bonds are released up to 6 months after the delivery of goods and in any event no later than February 2016. The Group has entered into a performance bond totalling $981,000. The bond is released after a warranty period and in any event no later than August 2016.

Notes to the consolidated financial statements continued

28 Commitments

Capital and other financial commitments

Contracts placed for future capital expenditure on property, plant and equipment not provided in the financial statements at 30 November 2013 were £642,000 (2012: £161,000).

Operating lease commitments – minimum lease payments

	2013 Land and buildings £'000	2013 Other £'000	2012 Land and buildings £'000	2012 Other £'000
Future aggregate minimum lease payments in respect of leases expiring in:				
No later than one year	**1,125**	**127**	1,078	176
Later than one year and no later than five years	**3,682**	**173**	3,500	140
Later than five years	**1,875**	**–**	2,286	–
	6,682	**300**	6,864	316

29 Key management compensation

The Board of Directors, including the Non-Executive Directors, are classified as key management. Their remuneration is shown in the Remuneration Report on pages 37 to 46. Their aggregate emoluments are disclosed in the table below.

	2013 £'000	2012 £'000
Salaries and other short term employee benefits	**1,009**	969
Post employment benefits	**62**	98
Share based payments	**416**	330
	1,487	1,397

30 Principal subsidiaries

The principal operating companies at 30 November 2013 are as follows:

Name	Country of incorporation and operation	% holding in ordinary shares
Selee Corporation (held indirectly)	USA	100%
Porvair Selee Advanced Materials (Wuhan) Co Limited	China	100%
Porvair Filtration Group Inc. (held indirectly)	USA	100%
Porvair Filtration Group Limited (held indirectly)	England	100%
Porvair Sciences Limited (held indirectly)	England	100%
Seal Analytical Limited	England	100%
Seal Analytical GmbH (held indirectly)	Germany	100%
Seal Analytical Inc. (held indirectly)	USA	100%
Seal Analytical Shanghai Company Limited	China	100%

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A full list of subsidiary undertakings, which are either dormant or non-trading at 30 November 2013, will be annexed to the Company's next annual return.

Financial statements

Independent auditors' report to the members of Porvair plc

Report on the Parent Company financial statements

Our opinion
In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Parent Company's affairs as at 30 November 2013 and of its cash flows for the year then ended;
- 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.

This opinion is to be read in the context of what we say below.

What we have audited
The Parent Company financial statements, which are prepared by Porvair plc, comprise:

- the Parent Company balance sheet as at 30 November 2013;
- the Parent Company reconciliation of movements in shareholders' funds; and
- the notes to the Parent Company financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework 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.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) ("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.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Parent Company 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.

Opinions on matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements; and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

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

Other information in the Annual Report
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 Parent Company 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
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Porvair plc continued

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Directors' Responsibilities Statement set out on pages 31 and 32, the directors are responsible for the preparation of the Parent Company 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 Parent Company 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 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.

Other Matter
We have reported separately on the Group financial statements of Porvair plc for the year ended 30 November 2013.

C Maw

Christopher Maw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge

24 January 2014

Financial statements
Porvair plc – Parent Company balance sheet (under UK GAAP)

Company registered number 01661935

As at 30 November	Note	2013 £'000	2012 £'000
Fixed assets			
Tangible assets		**7**	17
Investments		**59,338**	58,271
		59,345	58,288
Current assets			
Debtors: amounts falling due after more than one year		**355**	258
Debtors: amounts falling due within one year		**95**	116
		450	374
Cash at bank and in hand		**12**	1,412
		462	1,786
Creditors: amounts falling due within one year		**(13,510)**	(11,677)
Net current liabilities		**(13,048)**	(9,891)
Total assets less current liabilities		**46,297**	48,397
Creditors: amounts falling due after more than one year		**(5,345)**	(10,288)
Net assets		**40,952**	38,109
Capital and reserves			
Called up share capital	11	**875**	852
Share premium account	1	**35,147**	34,511
Exchange reserves	1	**(952)**	(839)
Profit and loss account	1	**5,882**	3,585
Total shareholders' funds		**40,952**	38,109

The financial statements on pages 85 to 91 were approved by the Board of Directors on 24 January 2014 and were signed on its behalf by:

B D W Stocks

C P Tyler

Financial statements
Company profit/(loss) for the financial year

As permitted by Section 408 of the Companies Act 2006, no profit and loss account is presented for the holding company. The profit for the financial year is £3,017,000 (2012: loss of £379,000).

Parent Company – reconciliation of movements in shareholders' funds

For the year ended 30 November	Note	2013 £'000	2012 £'000
Profit/(loss) for the financial year		**3,017**	(379)
Dividends		**(1,175)**	(1,023)
		1,842	(1,402)
Exchange differences	1	**(113)**	(31)
Net proceeds from issue of ordinary share capital		**659**	41
Share based payments	1	**455**	380
Net increase/(decrease) in shareholders' funds		**2,843**	(1,012)
Opening shareholders' funds		**38,109**	39,121
Closing shareholders' funds		**40,952**	38,109

Financial statements

Notes to the financial statements

1 Summary of significant accounting policies

These financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK accounting standards. A summary of the more important accounting policies is set out below, which have been applied on a consistent basis with the previous year, except where noted.

Tangible fixed assets
Tangible fixed assets are capitalised at cost and are depreciated by equal annual amounts over their estimated useful lives. Annual depreciation rates are 10% to 33.33% straight line for plant, machinery and equipment.

Fixed asset investments
Investments held as fixed assets are stated at cost less provision for impairment in value.

Impairment of assets
Assets are regularly reviewed to confirm their carrying values. Where the expected realisable value is lower than the book value, the excess of book value is charged to the profit and loss account during the period.

Patents and trademarks
All expenditure on the registration, renewal and maintenance of patents and trademarks is expensed as incurred.

Foreign exchange
Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial year.

Exchange differences arising on retranslation of non-monetary assets and liabilities are recognised directly to the exchange reserve. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Deferred taxation
The charge for tax is based on the profit for the year and takes into account tax deferred or accelerated because of timing differences between the treatment of certain items for accounting and tax purposes. Full provision is made for deferred tax resulting from timing differences between profits computed for tax purposes and profits stated in the financial statements to the extent that there is an obligation to pay more tax in the future as a result of the reversal of those timing differences. Deferred tax assets are recognised to the extent that they are expected to be recoverable, and are measured on a non-discounted basis based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

Pensions
Pension costs for defined benefit and defined contribution schemes are charged to the profit and loss account as incurred.

The Company participates in the Group's defined benefit pension scheme (which is closed to new members), The Porvair plc Pension and Death Benefit Plan. The Company includes only the cost of its contributions to the scheme in its profit and loss account for the year because the structure of the scheme is such that it does not enable any individual group company to identify its share of the assets and liabilities of the scheme.

Share based payments
The Company has applied the requirements of FRS 20, "Share based payments". In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

Where the parent company has granted rights over its equity instruments to the employees of subsidiary companies, there is a corresponding increase recognised in the investment in subsidiary undertakings in those years.

The Company issues equity settled, share based payments to certain employees. Equity settled, share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled, share based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The charge is then credited back to reserves.

At each balance sheet date, the Company revises its estimates of the number of share options that are expected to vest. It recognises the impact of the revisions to original estimates, if any, in the profit and loss account or, if relating to a subsidiary undertaking in investment in subsidiary undertakings, with a corresponding adjustment to equity.

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

Operating leases
Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the term of the relevant lease.

Borrowing costs
All borrowing costs are typically recognised in the profit and loss account in the period in which they are incurred. Borrowing costs incurred in the arrangement of new facilities are capitalised and subsequently recognised in the profit and loss account over the period of the borrowings.

Related party transactions
The Company has taken advantage of the exemption available to parent companies under FRS 8, 'Related Party Disclosures', not to disclose transactions and balances with wholly owned subsidiaries.

Financial statements
Notes to the financial statements continued

2 Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging:	**2013 £'000**	2012 £'000

Services provided by the Company's auditors and associates
During the year the Company obtained the following services from the Company's auditors at costs as detailed below:

Fees payable to Company's auditors for audit of parent company financial statements	**12**	12
Fees payable to Company's auditors and its associates for other services:		
Tax services – compliance	**–**	15
Tax services – advisory	**–**	13
	12	40

3 Directors' emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the Remuneration Report on pages 37 to 46 and in note 29 of the Group accounts.

4 Tangible assets

	Plant, machinery and equipment £'000
Cost	
At 1 December 2012	172
Additions	5
At 30 November 2013	**177**
Accumulated depreciation	
At 1 December 2012	(155)
Charge for year	(15)
At 30 November 2013	**(170)**
Net book value	
At 30 November 2013	**7**
At 30 November 2012	17

5 Fixed asset investments

	2013 Investment in subsidiary undertakings £'000	2013 Loans to subsidiary undertakings £'000	2013 Total £'000	2012 Investment in subsidiary undertakings £'000	2012 Loans to subsidiary undertakings £'000	2012 Total £'000
Cost						
At 1 December	**48,143**	**26,202**	**74,345**	48,104	29,664	77,768
Additions in the year	**1,120**	**–**	**1,120**	–	–	–
Advances/(repayments)	**–**	**126**	**126**	–	(3,309)	(3,309)
Capital contributions arising from FRS 20 share based payments charge	**35**	**–**	**35**	39	–	39
Exchange differences	**–**	**(214)**	**(214)**	–	(153)	(153)
At 30 November	**49,298**	**26,114**	**75,412**	48,143	26,202	74,345
Accumulated provisions						
At 1 December	**(2,598)**	**(13,476)**	**(16,074)**	(2,598)	(13,476)	(16,074)
At 30 November	**(2,598)**	**(13,476)**	**(16,074)**	(2,598)	(13,476)	(16,074)
Net book value						
At 30 November	**46,700**	**12,638**	**59,338**	45,545	12,726	58,271
At 1 December	**45,545**	**12,726**	**58,271**	45,506	16,188	61,694

The addition in 2013 relates to an investment in Porvair Selee Advanced Materials (Wuhan) Company Limited of £1,120,000.

The capital contributions arising from FRS 20 charge represents the Company granting rights over its equity instruments to the employees of subsidiary undertakings. This results in a corresponding increase in investments in subsidiary undertakings.

Details of the principal subsidiary undertakings are given in Note 30 of the Group financial statements.

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

6 Debtors

	Note	2013 £'000	2012 £'000
Amounts falling due within one year:			
Corporation tax recoverable		**64**	70
Prepayments		**31**	46
		95	116
Amounts falling due after more than one year:			
Deferred taxation	10	**355**	258
		355	258

7 Cash at bank and in hand

	2013 £'000	2012 £'000
Cash at bank and in hand	**12**	–
Restricted cash	**–**	1,412
	12	1,412

Cash at bank and in hand includes a restricted balance of £nil (2012: £1,412,000, US$2,263,000, held as a guarantee by a UK bank against the advance payment bond in relation to a long-term contract).

Financial statements
Notes to the financial statements continued

8 Creditors

	Note	2013 £'000	2012 £'000
Amounts falling due within one year:			
Borrowings		**11,826**	10,383
Trade creditors		**132**	122
Taxation and social security		**109**	35
Accruals and deferred income		**1,443**	1,137
		13,510	11,677
Amounts falling due after more than one year:			
Borrowings		**5,211**	10,145
Retirement obligations		**134**	143
		5,345	10,288

9 Borrowings

	2013 £'000	2012 £'000
Secured multi-currency revolving credit facility of US$20 million (2012: US$15 million) maturing in January 2018 with interest at 2.25% (2012: 2.70%) above US dollar LIBOR	**4,474**	8,395
Secured five year amortising debt facility of £1.75 million (2012: £2.75 million) expiring in June 2015 with interest at 2.00% (2012: 2.70%) above Sterling LIBOR	**1,720**	2,750
Bank overdraft offset against cash balances in other Group companies under a Group banking offset arrangement	**10,843**	9,383
	17,037	20,528

	2013 £'000	2012 £'000
Bank and other loans of the Company are repayable as follows:		
Within one year	**11,826**	10,383
One to two years	**737**	10,145
Two to five years	**4,474**	–
	17,037	20,528

On 25 January 2013, the Company signed a new five year banking facility agreement providing a US$20 million revolving credit facility, a £2.5 million amortising term loan and a £2.5 million overdraft.

The loans are shown net of issue costs of £134,000 (2012: £nil) which are being amortised over the life of the loan arrangements. The term and multi-currency revolving credit facilities expire in June 2015 and January 2018, respectively.

At 30 November 2013, the Company had £7.6 million (2012: £1.0 million) unused loan facility and an unutilised £2.5 million (2012: £2.5 million) overdraft facility.

The carrying values of bank borrowings approximate to their fair value.

The multi-currency facility and amortising debt facility are secured by fixed and floating charges against the assets of the Company and its subsidiaries.

10 Deferred tax asset

Under FRS 19 the Company provides for deferred tax on a full provision basis. Deferred tax assets in the accounts have been recognised as follows:

Assets	2013 £'000	2012 £'000
Accelerated capital allowances	**4**	4
Short term timing differences	**351**	254
	355	258

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

	2013 £'000	2012 £'000
At 1 December	**258**	173
Income statement credit	**–**	1
Tax credited to equity in respect of share options	**97**	84
At 30 November	**355**	258

There were no unrecognised deferred tax amounts at 30 November 2013 (2012: £nil).

During the year, as a result of the change in UK Corporation Tax rates which were effective from 1 April 2013, deferred tax balances have been remeasured. Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2014 is measured at 23%, deferred tax relating to temporary differences expected to reverse after 1 April 2014 is measured at the tax rate of 21% and deferred tax relating to temporary differences expected to reverse after 1 April 2015 is measured at the tax rate of 20% as these are the enacted rates that will apply on reversal.

The deferred tax asset in the table above has been included in debtors: amounts falling due after more than one year (note 6).

11 Called up share capital

	2013 £'000	2012 £'000
Allotted and fully paid:		
43,733,598 ordinary shares of 2 pence each (2012: 42,612,572)	**875**	852

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

12 Reserves

	Share premium account £'000	Exchange reserves £'000	Profit and loss account £'000
At 1 December 2012	34,511	(839)	3,585
Premium on shares issued	636	–	–
Retained profit for the year	–	–	1,842
Exchange differences	–	(113)	–
Share based payments	–	–	455
At 30 November 2013	**35,147**	**(952)**	**5,882**

The distributable reserves comprise the net amounts of the exchange reserve and the profit and loss account.

13 Contingent liabilities

The Company has no contingent liabilities at 30 November 2013.

14 Financial Commitments

At 30 November 2013, the Company had annual commitments under non-cancellable operating leases expiring as follows:

	2013		2012	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Commitments under non-cancellable operating leases expiring:				
Within one year	**12**	**1**	–	–
Later than one year and less than five years	**–**	**1**	48	–
	12	**2**	48	–

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 Asset Services can be contacted at:

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

www.capitaassetservices.com

Telephone: 0871 664 0300 (calls cost 10p a minute plus network extras, lines are open 9.00am-5.30pm Mon-Fri) (from outside the UK: +44 20 8639 3399) E-mail: shareholderenquiries@capita.co.uk.

In addition Capita offers a range of other services to shareholders including a share dealing service and a share portal to manage your holdings.

Share dealing service

A share dealing service is available to existing shareholders to buy or sell the Company's shares via Capita Share Dealing Services. Online and telephone dealing facilities provide an easy to access and simple to use service.

For further information on this service, or to buy or sell shares, please contact:

www.capitadeal.com – online dealing

0870 664 0364 – telephone dealing

email: info@capitadeal.com

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell their shares. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser authorised by the Financial Services and Markets Act 2000.

Financial calendar 2014

30 November 2013
Financial year end 2013

27 January 2014
Full year 2013 results

08 April 2014
AGM/Interim Management Statement

30 April 2014
Ex-dividend date

02 May 2014
Record date for dividend

31 May 2014
Half year 2014 period end

06 June 2014
Payment date for dividend

23 June 2014
Half year 2014 results announcement

30 July 2014
Ex-dividend date

01 August 2014
Record date for dividend

05 September 2014
Payment date for dividend

October 2014
Interim Management Statement

30 November 2014
Financial year end 2014

26 January 2015
Full year 2014 results

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porvair

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