porvair

Delivering:

Strong performance
Continued investment

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Overview

Inside this year's report

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A strong financial performance

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For more information
Links:
You will find links throughout this annual report to guide you to further reading or other relevant information.

Overview

Key performance highlights in 2014

The Group has continued to perform strongly in 2014

Financial highlights

Strong financial performance:

- Revenues up 23% to a record £104.0 million (2013: £84.3 million).
- Profit before tax up 10% to £8.4 million (2013: £7.6 million*).
- Basic earnings per share up 17% to 14.4 pence (2013: 12.3 pence*).
- Strong cash generation: net cash of £5.3 million at 30 November 2014 (2013: £0.6 million).
- £5.1 million (2013: £2.0 million) capital investment to expand production capacity.
  - New plants in UK and US.
- Final dividend of 2.0 pence per share (2013: 1.8 pence per share) recommended.

Operating highlights

Metals Filtration division:

- Revenue up 6% to a record £30.1 million (2013: £28.5 million).
  - 11% at constant currency.
- Market share gains in US and China.
- Further expansion in China planned.

Microfiltration division:

- Revenue up 33% to a record £73.9 million (2013: £55.8 million).
- 9% underlying revenue growth.
  - Excluding large contracts revenue of £19.5 million (2013: £6.0 million).
  - 11% at constant currency.
- New US$10 million gasification contract win.
- Seal Analytical revenue growth of 13%.

Outlook:

- Healthy order position going into 2015.
- Further capital investment planned to support organic growth.

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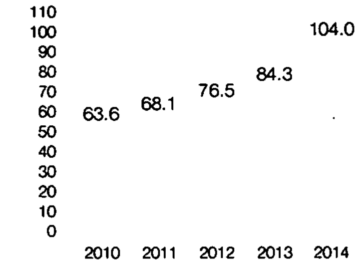
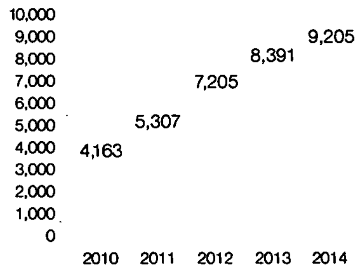
Turnover (£m)

£104.0m
+23%



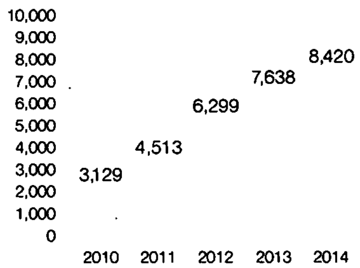
Operating profit (£'000)

£9.2m
+10%



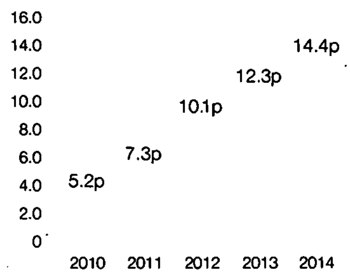
Profit before tax (£'000)

£8.4m
+10%



Basic earnings per share (pence)

14.4p
+17%



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

Overview

Porvair at a glance

We are a specialist filtration and environmental technology group

Who we are:

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

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, China and Germany and employs about 500 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:

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

2014 Annual sales and revenue growth

£73.9m	+33%	£8.7m
Annual sales	Revenue growth	Operating profit

Approximate share of Group sales

Aviation

15%
2013: 15%

Energy & Industrial Process

35%
2013: 30%

Environmental Laboratory Supplies

20%
2013: 20%

Divisional highlights 2014

- Revenue up 33% to a record £73.9 million (2013: £55.8 million).
- 9% underlying revenue growth.
  - Excluding large contracts revenue of £19.5 million (2013: £6.0 million).
  - 11% at constant currency.
- New US$10 million gasification contract win.
- Seal Analytical revenue growth of 13%.

Read more on pages: 14 and 15

Where we operate pages: 04 and 05

Market overview pages: 08 and 09

Metals Filtration division

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

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.

2014 Annual sales and revenue growth

£30.1m	+6%	£2.6m
Annual sales	Revenue growth	Operating profit

Approximate share of Group sales

Molten Metals

30%
2013: 35%

Divisional highlights 2014

- Revenue up 6% to a record £30.1 million (2013: £28.5 million).
  - 11% at constant currency.
- Market share gains in US and China.
- Further expansion in China planned.

Read more on pages: 12 and 13

Overview

Where we operate

Our geographic presence and expansion supports the markets we serve

Our Group operations:

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

Americas
40%
Revenue

Mequon, WI
Gilberts, IL

Caribou, ME

Ashland, VA

Hendersonville, NC
Metals Filtration principal plant

Microfiltration

Metals Filtration

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 invested in an extension of the plant in Caribou, ME, to create capacity for growth. The new plant will be operational in spring 2015.
- The Group expanded the manufacturing capability of the Seal Analytical plant in Mequon, WI. All discrete analysers and block digesters are manufactured at this plant.
- The Group is considering options to expand its Ashland, VA, plant in 2015.

Revenue by destination (%)

The Group's revenue into Asia has increased significantly in the year as a result of the progress made in two large gasification contracts.

11%

17%

40%

30%

Americas 40%
UK 17%
Asia 30%
Europe 11%
ROW 2%

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Fareham, UK
Microfiltration principal plant

Europe
11%
Revenue

UK

Germany

Asia
30%
Revenue

UK
17%
Revenue

Xiaogan, China

Shanghai, China

UK & Europe developments

Phased investments in the UK Microfiltration business will increase capacity:

- A new plant in New Milton was fitted out in the year. It will be fully operational by February 2015.
- New machining capacity in Fareham has increased aerospace capacity.

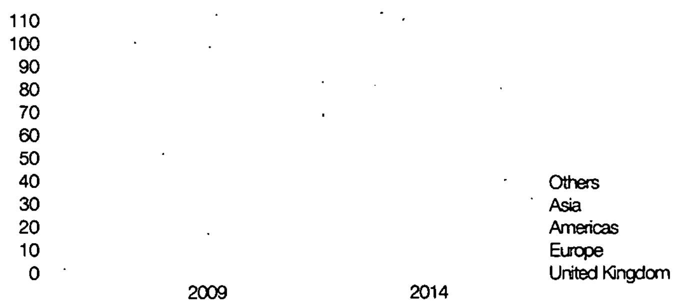
Asia developments

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

- The first phase of the plant was completed on time and to budget in 2013.
- The next phase of the Xiaogan expansion will begin in 2015.

Revenue growth coming from US & Asia (£m)

Revenue growth since 2009 has predominantly been in the US and Asia.



Strategic report

Chairman's statement

We continue to make progress against our financial and strategic objectives

Charles Matthews, Chairman

Summary

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

Profit before tax

+10%

Profit before tax up 10% to £8.4 million.

Earnings per share

14.4p

Earnings per share up 17% to 14.4 pence per share.

Progressive dividend

3.2p

Dividend increased by 10% to 3.2 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 2014 were £104.0 million (2013: £84.3 million) and operating profit rose by 10% to £9.2 million (2013: £8.4 million). These are record results for the Group. Basic earnings per share were 14.4 pence (2013: 12.3 pence), an increase of 17%.

Demand from key markets was good and several large projects contributed significantly to performance during the year. 2014 was a year of high capital investment in manufacturing capacity, capabilities and skills and further investments are planned in 2015.

After interest and tax, net cash generated from operating activities was £11.6 million (2013: £9.7 million). At 30 November 2014 the Group had net cash on hand of £5.3 million (2013: £0.6 million).

Dividends

The Board re-affirms its preference for a progressive dividend and recommends an improved final dividend of 2.0 pence per share (2013: 1.8 pence), making the full year dividend 3.2 pence per share (2013: 2.9 pence), an increase of 10%.

Governance

The Board sets high standards for its corporate governance and expects steady and continuous improvement in the Group's governance procedures. It has in place monitoring systems to ensure that standards are upheld throughout the Group. The Board complied with all aspects of the UK Corporate Governance code throughout the year ended 30 November 2014, with the exception of fixed terms of employment for Non-Executive Directors. However, all of the Directors offer themselves for re-election at each Annual General Meeting.

In 2014, the Group introduced its first Remuneration Policy, which was approved by the shareholders at the AGM in April 2014. The Group is proposing to introduce an Employee Benefit Trust in 2015 and as a consequence has decided to put the Remuneration Policy to a shareholder vote again in 2015. In addition to the introduction of the Employee Benefit Trust, the Group has taken the opportunity to improve its policy on the recruitment of new Executive Directors and to introduce clawback and deferral provisions to its incentive schemes.

Board composition

Andrew Walker retired from the Board at the 2014 AGM in April. He made a substantial contribution to the Group's direction and strategy during his time on the Board and was an active and popular Non-Executive Director. We thank him and wish him well. Following an external search process, Dr Krishnamurthy (Raj) Rajagopal joined the Board on 1 April 2014. Raj brings wide expertise in international and engineering businesses and we are pleased to welcome him to Porvair. Following the 2014 AGM, Paul Dean succeeded Andrew Walker as senior Non-Executive Director and Dr Krishnamurthy Rajagopal succeeded Andrew Walker as Chairman of the Remuneration Committee.

Staff

During a period of strong growth over the last five years, Porvair has increased its staff numbers by 40%. With new staff joining the Group, we have placed an increasing emphasis on development and training. We welcome all those who have joined us this year. 2014 was a successful year for the Group, substantially due to the hard work and commitment of our staff, to whom we offer our thanks.

Current trading and outlook

2014 finished well and order books going into 2015 are healthy with the fundamentals of the markets in which we operate looking satisfactory. All key initiatives are progressing well and new product development pipelines are promising. Capacity investments made in 2014 and planned for 2015 will allow for growth. The Group has a strong balance sheet, a positive start has been made to the year and the Board looks forward with confidence.

Charles Matthews OBE
Chairman
23 January 2015

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Chief Executive's report

A year of delivery and investment with opportunities for future growth

Ben Stocks
Group Chief Executive

Ben Stocks, Group Chief Executive

Summary performance

- Strong financial performance:
  – revenue up 23%.
  – profit before tax up 10%.
- Year of investment in 2014.
- Large projects boost 2014 revenue.

Cash generated from operations £m

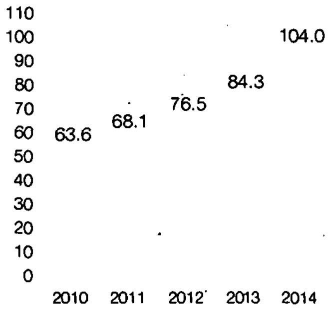
£14.1m

Cash generated from operations up 15% to £14.1 million.

Revenue growth £m

£104.0m

Revenue up 23% to £104.0 million.



Overview of 2014

Financial highlights 2014

	2014 £m	2013 £m	Growth %
Revenue	**104.0**	84.3	23%
Profit before tax	**8.4**	7.6	10%
Earnings per share	**14.4p**	12.3p	17%
Cash generated from operations	**14.1**	12.3	15%
Net cash	**5.3**	0.6	–

The Group achieved record results in 2014 with revenue growth of 23%. Profit before tax grew 10% and earnings per share grew 17%. Strong trading enabled the Group to invest £5.1 million in capacity expansion projects and finish the year with £5.3 million of net cash.

Demand from key markets was good. In Microfiltration, sales of industrial filters into the USA grew 18%. Aerospace sales rose 7%, with nuclear and bioscience also well ahead of the prior year. Seal Analytical revenues grew 13%. Metals Filtration had a good year with revenue growth of 11% at constant currency, 6% reported.

As previously announced, several large projects were substantially manufactured during the year. These generated unusually high revenue of £19.5 million (2013: £6.0 million) in 2014. Revenue in 2015 from these projects is expected to be closer to 2013 levels. Profits attributed to these projects are recognised as work is completed and performance milestones for each project, arising throughout the period from 2013 to 2017, are met. Details of the accounting treatment are given later in this statement. A further large project, with CNOOC in China, was won at the end of the year with revenue expected to exceed US$10 million spread throughout the period from 2016 to 2018.

2014 was a year of planned high capital investment as the Group laid the foundations for future growth. Expansions and upgrades to manufacturing capabilities and skills have been made and further investments are planned in 2015.

Looking ahead, the Group has a broad range of organic growth projects underway and order books at the start of 2015 are strong.

Investment and future development

2014 was a year of accelerated investment, continuing in 2015:

- We consolidated our UK Microfiltration division facilities at New Milton into a larger site that will increase capacity to meet aviation and industrial filtration growth. Aviation sales have grown almost 50% over the last five years. Investments were also made in machine capacity and automation. Further investments will be made in 2015.
- Following its acquisition in June 2013 we have expanded manufacturing capacity in Caribou, Maine, with investments in production equipment to follow in 2015. Industrial business growth in the US was 18% in 2014. We will also look at options to expand our Ashland, Virginia, facility during 2015.
- The design and building of gasification filter systems has been a major part of our work in 2014, and will continue to be so in 2015. A new US$10 million project in China is due for shipment in 2016 and commissioning through 2017 and 2018. As the various gasification projects enter their commissioning phases we expect demand for spares and services to grow. We are looking at options for locally based customer support.
- The Metals Filtration factory built in 2013 at Xiaogan, China, increased its output in 2014 and we will build a second plant there in 2015. We expect initial production from the new plant to start in the second half of 2015.
- The Metals Filtration plant at Hendersonville, North Carolina, has had a record year and has a full programme of quality and productivity initiatives underway. A lower oil price will assist the operation to improve margins.

Further to these investments, new product introductions continue to drive growth in the business. The bioscience segment has had an active year, and 2015 is expected to be similar. A suite of new products will be launched by Seal Analytical in the first half of 2015. The overall 2015 product development pipeline is looking promising.

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Strategy and business model pages: 10 and 11

Divisional performance pages: 12 to 15

Strategic report

Market overview

We continue to focus on four key end markets which have long term growth potential

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

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.

Key facts and figures

+5%

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

Source: Boeing

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 New Engine Option 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.

Key facts and figures

17 gasifiers

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

Market trends and growth drivers

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

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:

- Three 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 the inorganic contaminents in water. The Group also produces a broad range of laboratory microplates for storage and experimentation in the pharmaceutical and biotechnology markets.

Key facts and figures

+5-6%

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

Source: SDI Research

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 AQ 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.

Key facts and figures

6%

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

Source: Alcoa

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% per annum. US car and light truck production, a proxy for the rate of use of iron foundry filters, has been growing at 5% per annum. China's car production has grown rapidly and China is now the largest car producer in the world.

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 enables 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

We continue to implement a clear and consistent strategy to generate shareholder value

Our strategy

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

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

Over the last five years this strategy has delivered revenue growth of 88% (13% CAGR) and cash generated from operations of £52 million. Over the same period, the Group has invested £19 million in capital expenditure and acquisitions and turned a net debt of £14 million into a net cash position of over £5 million. In 2014, the Group's after tax operating profit return on operating capital was 47% (2013: 38%).

Business model outline

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

This leads us to:

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

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

Make new product development a core business activity.

Establish geographic presence where end-markets require.

Maintain a conservative balance sheet while re-investing in both organic and acquired growth.

Therefore:

- 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 and typically protect costly or complex downstream systems. As a result they are replaced regularly. A high proportion of our annual revenue is from repeat orders.
- We encourage new product development in order to generate growth rates in excess of the underlying market. Where possible we build robust intellectual property around our product developments. About 30% of our revenues are derived from patent protected products.
- Our geographic presence follows the markets we serve. 40% of revenues are in the Americas, where aviation and metals filtration are strong. 30% of revenues are in Asia, where sales into water analysis markets are growing and the demand for gasification plants is strongest.
- We aim to maintain a conservative balance sheet, meeting dividend and investment needs from free cash flow. Porvair is a cash generative business. In the last three years we have expanded manufacturing capacity in the UK, Germany, US 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 focuses on filtration of molten metals, principally aluminium.
- 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

Underpinning our objective of delivering long term sustainable growth

Key performance indicators pages: 19 and 20

Principal risks and uncertainties pages: 21 to 24

Delivering on our objectives

Capital investment to support growth

Investing for the future

Since 2009 Porvair has delivered 13% CAGR revenue growth. During that period:

- The Group's aviation revenue has grown strongly;
- New products have driven sales and margin growth;
- The Group's presence in Asia has increased to 30% of revenue; and
- Net debt has been eliminated.

In 2014, the Group invested in new facilities in New Milton, UK, and in extending its facilities in Caribou, ME, US. These building projects are approaching completion.

Our investment priorities for 2015 are:

- To commence operations at the Group's new plant in New Milton in order to free space for aviation and industrial filtration growth.
- To commence operations in the new manufacturing facilities in Caribou, ME.
- To extend the Group's plant at Xiaogan, China for Metals Filtration.
- To consider options for new premises in Ashland, VA, US to enable our US filtration operations to meet demand.

Cash generated from operations

£14.1m

Cash generated from operations amounted to £14.1 million.

Read more on pages: 07 and 12 to 18

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

Our priorities for 2015 include:

- Commercialisation of a new aluminium filter for high grade lithium alloys.
- Development of range extensions for Selee CSX™ and Selee IC™.
- Further development of a patented DNA filtration product and other bioscience applications.
- Exploitation of the design rights of the range of water analysers and other recently acquired laboratory products.
- Development of longer lasting industrial filtration media.

Patented products

30%

Around 30% of our revenue comes from patented products.

Read more on pages: 07 and 12 to 18

Divisional performance

Metals Filtration division

Leading metallurgical and ceramics expertise with differentiated and patent protected filters

IN FOCUS: MOLTEN METALS

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

Expanding in China

Around half of the world's aluminium is produced in China, including some of the world's most advanced smelters and China is now the largest car manufacturer in the world.

The Group is investing in its new facilities in China to enable it to serve the local market for aluminium and automotive production.

US$2.5m

In 2014 the Group delivered a US$2.5 million filtration system for a new smelter line in Nanshan, China, one of the country's largest aluminium smelters.

Performance

- Revenue up 6% to a record £30.1 million (2013: £28.5 million).
- – 11% at constant currency.
- Market share gains in US and China.

Strategic progress

- Growth in aluminium filtration in China.
- Further capacity investments in Xiaogan, China.

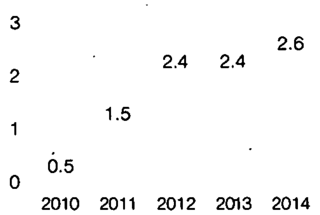
Opportunities

- Promising development pipeline.
- New high grade lithium aluminium alloy filter successfully trialled.
- Positive start to 2015.
- Incremental product improvements to patented products.

Operating profit £m

£2.6m

Operating profit growth



Divisional review – Metals Filtration

Financial highlights 2014

	2014 £m	2013 £m	Growth %
Revenue	**30.1**	28.5	6%
Operating profit	**2.6**	2.4	7%

Performance in 2014

The Metals Filtration division had a good year with record revenues of £30.1 million and record operating profits of £2.6 million. At constant currency rates revenue growth was 11% and operating profit growth was 13%. End markets were broadly stable through the year. Global aluminium pricing remained relatively low, but investment in new capacity in both China and the Middle East contributed to new demand for filters. NAFTA auto production grew steadily and the division made several important market share gains that generated growth.

This division has three principal products:

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

New product developments include a new filter for lithium aluminium alloys which has been successfully trialled in 2014. The highly reactive nature of lithium makes this a difficult technical challenge. Over time we expect this to develop into a higher margin niche application. Incremental product improvements to broaden the market appeal of both the Selee CSX and Selee IC products are steadily being introduced. Customer take-up of new structured filter products has been slower than originally anticipated, but several interesting projects are underway.

This division has been busy in China in 2014. We were pleased to be selected by Nanshan Aluminium to supply equipment to their technically advanced new cast houses in Longkuo, with most equipment shipped during the year. Following the growth of higher grade aluminium production in China we will expand our manufacturing capacity in Xiaogan in 2015 and start production of proprietary aluminium filters in the second half of the year.

Where we operate pages: 04 and 05

Market overview pages: 08 and 09

Divisional performance continued

Microfiltration division

Leading specialist in filtration components and assemblies for the aviation industry

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

Providing critical solutions for the Boeing 787-9 Dreamliner
The Boeing 787-9 Dreamliner is equipped with fuel filters, coolant filters and hydraulic filters and indicators from Porvair. The coolant filter assemblies form part of the cooling systems that are critical to the operation of the plane's avionics and passenger comfort.

450

At 30 November 2014 there were 450 unfilled orders for the Boeing 787-9 Dreamliner.

Performance

- Revenue up 33% to a record £73.9 million (2013: £55.8 million).
- 9% underlying revenue growth.
  - Excluding large contracts revenue of £19.5 million (2013: £6.0 million).
  - 11% at constant currency.
- Seal Analytical revenue growth of 13%.

Strategic progress

- New facility in New Milton fitted out.
- Expanded capacity in Caribou, ME.
- Considering options for new capacity in Ashland, VA.

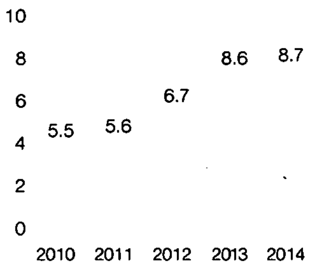
Opportunities

- Healthy order books going into 2015.
- New US$10 million gasification contract win.

Operating profit £m

£8.7m

Operating profit growth



Divisional review – Microfiltration

Financial highlights 2014

	2014 £m	2013 £m	Growth %
Revenue	**73.9**	55.8	33%
Operating profit	**8.7**	8.6	1%

Performance in 2014

The Microfiltration division also had a record year with revenues growing 33% to £73.9 million. Operating profits grew only modestly to £8.7 million due to several factors:

- the impact of the large contracts, explained below.
- a weaker US dollar for most of the year.
- one-off costs and redundancies associated with the consolidation of facilities in the UK.

The large contracts underway in this division are proceeding satisfactorily and their effect can be seen in the 2014 revenue. A new US$10 million contract, with CNOOC in China, was won at the end of the year. Production trials of POSCO's coal to substitute natural gas installation at Gwangyang, South Korea will now start in early 2015. A much larger contract for a similar project with Reliance Industries at Jamnagar, India is expected to begin start-up towards the end of 2015. The £11 million UK Government nuclear remediation contract was partially shipped in 2014 and will continue in 2015. As the gasification contracts move through their commissioning phase we expect the demand for local operational support to grow. This could involve day to day servicing or replacement parts. We are looking at options to meet this demand which may involve an expansion of our geographic presence in 2015.

The Group has adopted long term contract accounting for these contracts. As a consequence the Group's published results may fluctuate more than has generally been the case. In practice:

- Most revenue is recognised throughout the manufacturing and shipping phase of each project. Significant manufacturing took place in 2014 leading to an unusually high contribution to revenue of £19.5 million (2013: £6.0 million). Revenue in 2015 from these projects is expected to be closer to 2013 levels.
- Allowance is made for potential future costs arising during the assembly, commissioning and warranty stages of each project. Profits are therefore recognised over several years, likely to be 2013 to 2017 for the current projects.

Stripping out large contracts, underlying revenue grew by 9% in this division; 11% at constant currency. This is more in line with the Group's five year average. Order books going into 2015 are healthy.

Orders in aviation and nuclear filtration grew again in 2014. New machining capacity and automation was brought into use and a larger manufacturing facility, built during the year in New Milton, is already occupied.

The US industrial business grew 18% in 2014 with a first full year contribution from our acquisition in Caribou, Maine, showing 16% growth. Expansion at Caribou is well underway, and additional manufacturing capability will be added in early 2015.

Bioscience filtration had a good year with sales growth of over 60%, although both of the key projects have developed more slowly than originally expected. Nonetheless our patented DNA filtration product under development with the University of Swansea remains promising, and our work with Thermo Fisher Scientific's SOLA brand has expanded in scope. Both remain intriguing prospects for the Group.

Seal Analytical's revenue grew 13% in the year delivering record revenue and profits. Seal is a market leading supplier of equipment and consumables for the detection of inorganic contamination in water, a well defined niche market that is expected to continue to grow as water quality standards improve across the world. Building on its recent small acquisitions, Seal has consolidated some of its US operations to improve margins, and expanded its technical team to improve customer service. Two new products will be introduced in 2015 to broaden the product range.

Ben Stocks Group Chief Executive
23 January 2015

Where we operate pages: 04 and 05

Market overview pages: 08 and 09

Strategic report

Finance Director's review

We have delivered another set of good results and strong financial performance

Chris Tyler, Group Finance Director

Summary performance

- £5.1 million invested in capital expenditure.
- Net cash increased to £5.3 million.
- IAS 19 Revised adopted in 2014. 2013 restated.
- Return on capital employed increased to 15% (2013: 12%).
- Return on operating capital employed increased to 47% (2013: 38%).

Profit before tax

+10%

Profit before tax increased by 10% to £8.4 million.

ROCE

15%

Return on capital employed increased to 15%.

Financial highlights 2014

	2014 £m	2013 £m	Growth %
Revenue	**104.0**	84.3	23%
Operating profit	**9.2**	8.4	10%
Profit before tax	**8.4**	7.6	10%

Group operating performance

Revenues grew 23% in the year. Underlying revenues, excluding £19.5 million (2013: £6.0 million) large contract revenue, grew 8% (11% at constant currencies). Operating profit and profit before tax grew 10%. Operating profit margins were 8.9% (2013: 10.0%) with the reduction resulting from the phasing of large contract profits, as explained in detail in the Divisional Performance Review and Construction contract section of this statement. Underlying operating margins remained broadly unchanged.

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 fell to £2.1 million (2013: £2.6 million), which mainly comprises Group corporate costs such as new business development costs and general financial costs.

The operating profit includes amortisation charges on intangible assets arising on acquisition of £0.2 million (2013: £0.2 million), a credit of £0.3 million (2013: £nil) arising on the reassessment of acquisition consideration, acquisition expenses written-off of £nil (2013: £0.1 million) and share based payment charges of £0.5 million (2013: £0.5 million).

Prior year adjustment in relation to the adoption of IAS 19 Revised

The Group has adopted IAS 19 Revised in its accounts for the year ended 30 November 2014. The new standard amends the basis for calculating the charge arising on the operation of the defined benefit pension scheme. In summary, it requires an interest charge to be calculated on the net liabilities of the scheme rather than, as previously, separate income/charges being based on different expected performances of the pension fund's gross assets and gross liabilities.

To ensure that the comparative information for the year ended 30 November 2013 is shown on the same basis, the prior year results have been restated. The impact of the restatement is shown in the following table:

	2013 Previously disclosed £m	Prior year adjustment £m	2013 Restated £m
Operating profit	8,641	(250)	8,391
Interest payable	(793)	40	(753)
Profit before tax	7,848	(210)	7,638
Income tax expense	(2,367)	49	(2,318)
Profit for the year	5,481	(161)	5,320
Earnings per share	12.7p	(0.4)p	12.3p

The impact on the results for the year ended 30 November 2014 of adopting IAS 19 Revised has been to increase the pension cost of the Group and reduce profit before tax by £360,000 (2013: £210,000).

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$1.65:£1 (2013: US$1.57:£1) and the Group's Euro denominated operations were translated at €1.24:£1 (2013: €1.18:£1). The weaker dollar and Euro rates held back revenue growth by 2% and operating profit growth by 2% on translating the Group's foreign subsidiaries compared with the prior year.

The Group sold its UK business' 2014 US dollar receipts during the financial year and achieved an average rate of US$1.57:£1 (2013: US$1.53:£1). Had the rates achieved in 2013 applied to 2014, the operating profit would have been around 3% higher.

At 30 November 2014 the Group has US$7 million of outstanding forward foreign exchange contracts taken out to translate the future revenue on the Group's large contracts. The Group has applied hedge accounting to US$3 million of these transactions. The reduction in the value of the hedge in the year of £0.9 million is shown in the consolidated statement of comprehensive income.

Finance costs

Net interest payable remained at £0.8 million (2013: £0.8 million). Included within interest payable are finance costs in relation to the defined benefit pension scheme, which were £0.5 million (2013: £0.3 million restated) in the year. Other net interest payable reduced as a result of lower borrowings in the year. The Group suffers non-utilisation fees on its unused borrowing facilities at a rate of half the margin on the facility. Consequently, the interest payments have not fallen in line with the reduction in gross borrowings.

Key performance indicators pages: 19 and 20

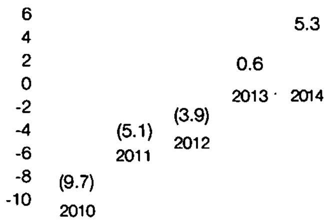
Principal risks and uncertainties pages: 21 to 24

Remuneration report pages: 39 to 50

Net cash/(debt) (£m)

£5.3m

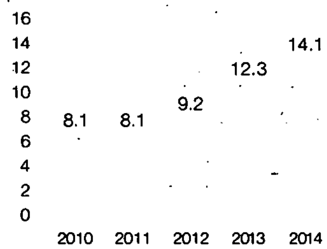
Net cash increased to £5.3 million.



Cash generation (£m)

£14.1m

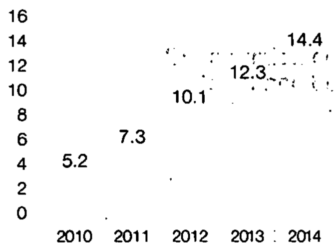
Cash generated from operations.



EPS growth trend (pence)

14.4p

Earnings per share.



2012 and prior not restated for IAS 19 R

The Group has a policy of maintaining between 40% and 60% of its borrowings on fixed interest terms, by taking out interest rate swaps to fix the interest rates on certain of its borrowings. During periods of high borrowing, these provided some protection for the Group in the event of interest rate rises. For the time being, while the Group's gross borrowings are low, the Board concluded that further interest rate swaps need not be taken out and the Group's borrowings have been at floating rates since 13 December 2013.

Interest cover was 12 times (2013: 11 times); excluding the impact of the pension finance charge the interest cover is 30 times (2013: 20 times).

Tax

The Group tax charge was £2.1 million (2013: £2.3 million). This is an effective rate of 25% (2013: 30%), which is higher than the UK standard corporation tax rate of 21.7% (2013: 23.3%). Tax in the UK was reduced by the benefit of tax relief on the exercise of share options but the rates of tax are higher on profits made in Germany and the US. The tax charge comprises current tax of £2.1 million (2013: £2.2 million) and a deferred tax charge of £nil (2013: £0.1 million).

The Group carries a deferred tax asset of £3.2 million (2013: £3.7 million) and a deferred tax liability of £1.5 million (2013: £1.3 million). The deferred tax asset relates principally to the deficit on the pension fund and share based payments. The deferred tax liability relates to accelerated capital allowances, capitalised development costs and other timing differences, arising in the US.

Total equity

Total equity at 30 November 2014 was £52.1 million (2013: £47.7 million), an increase of 9% over the prior year. Increases in total equity arose from profit after tax of £6.4 million (2013: £5.8 million restated), after adding back the charge for employee share option schemes; £0.2 million (2013: £0.7 million) in relation to share issues on option exercises; and exchange gains on translation of £1.1 million (2013: loss of £0.9 million). Dividends paid of £1.3 million (2013: £1.2 million); a reduction of £0.9 million (2013: gain of £1.0 million) in the value of hedge accounting instruments; and an actuarial loss of £1.1 million net of tax (2013: £2.9 million restated) reduced total equity.

Return on capital employed

The increase in the profits of the Group compared with lower capital employed led to an increase in the return on capital employed to 15% (2013: 12%). Excluding the impact of goodwill and the net pension liability, the return on operating capital employed increased to 47% (2013: 38%).

Cash flow

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

	2014 £m	2013 £m
Operating cash flow before working capital	**11.9**	10.7
Working capital movement	**2.2**	1.6
Cash generated from operating activities	**14.1**	12.3
Interest	**(0.3)**	(0.4)
Tax	**(2.2)**	(2.1)
Capital expenditure net of disposals	**(5.1)**	(1.5)
	6.5	8.3
Acquisitions	**(0.7)**	(3.3)
Dividends	**(1.3)**	(1.2)
Share issue proceeds	**0.2**	0.7
Net cash increase in the year	**4.7**	4.5
Net cash/(debt) at 1 December	**0.6**	(3.9)
Net cash at 30 November	**5.3**	0.6

Net working capital reduced by £2.2 million. Working capital was reduced by £3.3 million as a result of cash received from large contracts being in excess of the revenues recognised in the year ended 30 November 2014. An increase in working capital in the rest of the business is principally explained by an increase in trade debtors as a result of a strong final two months of trading.

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

Tax payments are now closely in line with the Group's tax charge.

£0.7 million was paid in deferred consideration for acquisitions completed in 2012 and 2013. A further £0.9 million is payable in 2015.

Construction contracts and performance bonds

The income statement impact of the large contracts is described in the Divisional review on page 15. At 30 November 2014, the Group had amounts due from contract customers of £2.6 million and amounts due to contract customers of £8.6 million. The net of these two amounts, £6.0 million, is the amount by which cash received at 30 November 2014 exceeds revenue recognised to date on these large contracts.

The contract customers generally provide advance payments to fund the initial stages of the contracts and the Group provides advance payment bonds to the customer as security.

Finance Director's review continued

The bonds are cancellable after up to six months following the shipment of goods. At 30 November 2014 the Group held US$248,000 of advanced payments against future shipments and there were US$5.6 million (£3.6 million) of advance payment bonds outstanding.

The contract customers also generally require performance bonds to cover risks arising during the contract warranty periods. At 30 November 2014 the Group had US$5.7 million (£3.6 million) of performance bonds outstanding.

Capital expenditure
Capital expenditure was £5.1 million (2013: £1.5 million net of £0.5 million disposals). The principal investments in 2014 were a new plant in New Milton, UK, which will be fully operational by the end of January 2015 and an extension to the plant in Caribou, ME, which will be completed in the spring of 2015. In addition, further machining capacity was acquired, principally to deliver growth in the aerospace business.

Looking forward to 2015 the Board is planning further investments in facilities in US and China. Capital expenditure, however, is unlikely to be as high in 2015 as it was in 2014.

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. As described above, the Group adopted IAS 19 Revised in the year ended 30 November 2014 and has accordingly restated the prior year comparatives.

The Group total pension cost was £2.2 million (2013: £1.7 million); £1.7 million (2013: £1.4 million) was recorded as an operating cost. The increase over the prior period principally relates to the introduction of auto enrolment for the Group's UK staff. £0.5 million (2013: £0.3 million) was recorded as a finance charge.

The Group's net retirement benefit obligation was £12.8 million (2013: £11.9 million). The contributions paid were £0.9 million (2013: £0.8 million). The service cost, administrative expenses and finance cost were £1.0 million (2013: £0.8 million) and the actuarial loss in the year was £0.9 million (2013: £3.3 million). The discount rate used reduced to 3.6% (2013: 4.2%); all other assumptions adopted were broadly in line with the previous year.

The scheme had 53 (2013: 53) active members, 281 (2013: 289) deferred members and 271 (2013: 265) pensioners at 30 November 2014. The life expectancy of members of the scheme at age 65 is assumed to be 21.6 years (2013: 21.5 years) for men and 23.8 years (2013: 23.7 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 making 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 £5.3 million (2013: net cash of £0.6 million) comprising cash balances of £7.9 million (2013: £6.8 million) offset by gross borrowings of £2.6 million (2013: £6.2 million). Borrowings of £2.0 million (US$3.1 million) (2013: £4.6 million (US$7.5 million)) are held in US dollars.

The Group signed a new five year borrowing facility agreement on 25 January 2013 comprising a five year US$20 million revolving credit facility, a £2.5 million term loan (reduced to £0.75 million at 30 November 2014) and a £2.5 million overdraft facility. These facilities have margins over LIBOR ranging between 1.95% and 2.25%. These facilities provide adequate operating headroom until January 2018.

At 30 November 2014, the Group had £10.8 million (2013: £7.6 million) of unused loan facilities, an unutilised overdraft facility of £2.5 million (2013: £2.5 million) and cash balances of £7.9 million (2013: £6.8 million).

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

At the year end, the Group had US$3.1 million (2013: US$7.5 million) of US dollar borrowings exposure which partially hedged underlying US net assets on the balance sheet of US$46.2 million (2013: US$39.9 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
23 January 2015

Key performance indicators

We use the following Key Performance Indicators (KPIs) to measure the performance of our business and progress against our strategic objectives. In 2014 we have made good progress against our KPIs, delivering excellent operating profit growth and a strong cash performance.

KPI description

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

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

Performance in 2014
The performance of the Group, which was broadly in line with management's expectations, and that of each division is explained in full in the Chief Executive's report.

Revenue growth in the Microfiltration division includes the benefit of unusually high revenue from large contracts. Excluding the large contracts, the underlying revenue growth was 9% (11% in constant currency) in 2014.

Revenue growth in Metals Filtration was 11% in constant currency.

Revenue growth

23%

2012	12%
2013	10%
2014	23%

Revenue growth at constant currency

27%

2012	12%
2013	9%
2014	27%

Revenue growth – Metals Filtration

6%

2012	8%
2013	2%
2014	6%

Revenue growth – Microfiltration

33%

2012	15%
2013	15%
2014	33%

KPI description

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

Performance in 2014
Operating margin in Metals Filtration improved to 9% as a result of higher revenues. In Microfiltration the operating margin fell. However, if the impact of the large projects is removed, then the underlying margin remained in line with the prior year. The details of the revenue and profit profile of the large projects are explained in the Chief Executive's report.

Operating margin – Group

9%

2012	9%
2013	10%
2014	9%

Operating margin – Metals Filtration

9%

2012	9%
2013	8%
2014	9%

Operating margin – Microfiltration

12%

2012	14%
2013	15%
2014	12%

Key and links to strategy:

- Focus on end-markets where we see long term growth potential.
- Look for applications where product use is mandated and replacement demand is therefore regular.
- Make new product development a core business activity.
- Establish geographic presence where end-markets require.
- Maintain a conservative balance sheet while re-investing in both organic and acquired growth.

Strategic report

Key performance indicators continued

Key and links to strategy:

- Focus on end-markets where we see long term growth potential.
- Look for applications where product use is mandated and replacement demand is therefore regular.
- Make new product development a core business activity.
- Establish geographic presence where end-markets require.
- Maintain a conservative balance sheet while re-investing in both organic and acquired growth.

KPI description

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

Performance in 2014
The performance is described in full in the Chief Executive's report and the Finance Director's review.

Profit before tax growth

10%

2012	40%
2013	25%
2014	10%

KPI description

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

Performance in 2014
Earnings per share growth is higher than the profit before tax growth as a result of a lower tax rate in 2014.

Earnings per share growth

17%

2012	38%
2013	26%
2014	17%

KPI description

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

Performance in 2014
Cash generated from operations less interest was high in 2013 and 2014 as a result of the good performance of the Group, and the cash received on the large projects being in excess of the revenues recognised on these projects.

Cash generated from operations less interest

£13.8m

2012	£8.6m
2013	£11.8m
2014	£13.8m

KPI description

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

Performance in 2014
Interest cover is high as result of the Group having relatively low gross borrowings and a manageable pension deficit.

Interest cover

12 times

2012	8
2013	11
2014	12

KPI description

Post tax return on capital employed gives a measure of financial return from all of the invested capital in the business. A return higher than the Group's weighted average cost of capital is satisfactory.

Performance in 2014
The Group's return on capital employed improved in 2014 as a result of higher profits and a lower capital employed arising from an increase in the Group's net cash position. It exceeded the Group's weighted average cost of capital of 10%.

Post tax return on capital employed

15%

2012	10%
2013	12%
2014	15%

KPI description

The post tax return on operating capital employed gives a measure of the Group's ability to make financial returns from the fixed assets and working capital employed in its operations. It ignores the goodwill arising on acquisitions and the impact of the pension deficit.

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

Performance in 2014
The Group's return on operating capital employed improved in 2014 as a result of higher profits and a lower capital employed arising from an increase in the Group's net cash position.

Post tax return on operating capital employed

47%

2012	30%
2013	38%
2014	47%

Principal risks and uncertainties

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

Key and links to strategy:

- Focus on end-markets where we see long term growth potential.
- Look for applications where product use is mandated and replacement demand is therefore regular.
- Make new product development a core business activity.
- Establish geographic presence where end-markets require.
- Maintain a conservative balance sheet while re-investing in both organic and acquired growth.

No change to risk   Risk exposure reduced   Risk exposure increased

Our approach to risk management

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

The Group's risk management systems are reviewed regularly at Board meetings and risk management is taken into account in business planning.

Risk management processes are embedded throughout the Group and form an integral part of the 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.

REVENUE RISKS

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, the Group's four main markets are 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 contribute more than 10% of the Group's revenue and the Group would be exposed to a significant decline in any of these markets.	Many of the Group's products are consumable and are essential to the safe operation of their respective systems and processes, so whilst volumes are impacted by changes in economic circumstances, significant fluctuations for other reasons are rare. The aviation market has traditionally been a very steady business as the product cycles are very long and the Group offers a broad range of products split evenly between after-market and new build. The outlook for the aviation market is for steady growth and the Group has a good pipeline of new programmes coming on stream and there is unlikely to be such a rapid decline in the aerospace market that the Group could not manage the consequences over time. The energy and industrial process products serve a range of customers who use filters as an integral part of processes in their plants. Sales are both for new build and after market spares. The after market spares business should ensure that there is a regular revenue stream from the installations that the Group serves. Environmental laboratory supplies are chiefly sold to laboratories engaged in meeting the regulatory requirements for clean water. It is expected that the regulated nature of this market will mitigate cyclical changes. The market is expected to grow as water regulations tighten throughout the world and demand for clean water in the developing world increases. The Group is steadily increasing its consumable revenue into this market and reducing its reliance on original equipment sales. The Group's revenue is affected by the levels of aluminium production. However the Group now has a stronger market position having successfully converted its customers to a new improved 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.	

Strategy and business model pages: 10 and 11

Corporate governance pages: 34 to 36

Principal risks and uncertainties continued

REVENUE RISKS continued

Risk description and impact

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 as part of the potential solutions or that the legislation or regulation will not develop in the way that the Group anticipates.

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 has improved the adoption rate of the Group's designs. The Group has brought a number of these products to market recently and is now much less exposed to the risks of new products. The Group 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

Large contracts risk
The Group has a number of large contracts for the installation of filtration systems. The Group's future results will be affected by the outcome of these contracts and the potential future revenue from the installations. Significant delays or engineering challenges with these contracts could impact the Group's expected performance.

Mitigation

Change

These contracts have direct senior management involvement on a day to day basis and are reported to the Board at each meeting. The Group makes every effort to ensure that its commitments are met on time and in full. Detailed engineering and financial work plans, risk assessments and forecasts are maintained for each of these projects. The financial impact of reasonably foreseeable risks are included in these plans. Reports are produced every month which detail project progress and changes to planned schedules and assessment of risk.

Risk description and impact

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 them 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, intellectual property, or technological advantage that enables it to compete successfully.

MANUFACTURING AND OPERATIONAL RISKS

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 material 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.

Key and links to strategy:

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

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

Make new product development a core business activity.

Establish geographic presence where end-markets require.

Maintain a conservative balance sheet while re-investing in both organic and acquired growth.

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

MANUFACTURING AND OPERATIONAL RISKS continued

Risk description and impact

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 very long lifecycles. 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.

FINANCE AND MANAGEMENT RISKS

Risk description and impact

Acquisitions risk

The Group is actively involved in searching for complementary acquisitions. A poorly executed acquisition could severely constrain 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. In the case of each completed acquisition it develops and implements an integration plan.

Risk description and impact

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 Board regularly reviews the performance of the scheme with a focus on reducing the risk to the Group. The Group has a deficit recovery plan in place that is affordable for the Group and expected to reduce the current deficit. The deficit contribution is reviewed every three years as part of the triennial valuation.

Risk description and impact

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 this risk through limitations of liability in its contracts and carries insurance cover in the event that claims are made.

Risk description and impact

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 and cash flow 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.

Strategic report

Principal risks and uncertainties continued

FINANCE AND MANAGEMENT RISKS continued

Risk description and impact

Financial risk management
The Group's operations expose it to a variety of financial risks that include the effects of:

- price risk;
- foreign exchange risk;
- credit risk;
- liquidity risk; and
- interest rate cash flow risk.

Mitigation

Change

The Group has in place financial risk management procedures that seek to limit the adverse effects on the financial performance of financial risks. The principal procedures are described below:

Price risk
The Group is exposed to commodity price risk as a result of its operations. The Group buys certain raw materials and energy on long term contracts to minimise its exposure to fluctuation in commodity prices. In all cases these contracts result in the ultimate delivery and use by the Group of the commodity. The Group has no exposure to equity securities price risk as it holds no listed or other equity investments.

Foreign exchange risk
The Group seeks to manage its exposure to the impact of exchange rate movements on its net investments by maintaining some borrowings in US dollars. Previously it sought to maintain borrowings in US dollars equivalent to around 60% of the carrying value of its US dollar net tangible assets in its US operations. However, as the Group's overall borrowings have reduced, so the US dollar borrowings have reduced, to around 5% 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 operation's 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's policy is to maintain between 40% and 60% of its borrowings at a fixed interest rate, typically through fixed rate swap agreements.

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 have been at a floating rate from 13 December 2013.

Corporate and social responsibility report

We strive to improve the way we perform, manage and report on CSR matters across our business

Our CSR commitments

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

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	194	436	630
Total at 30 Nov 2014	**194**	**457**	**651**

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 counselling staff at certain operations. The Group's regular reporting procedures include a review by the Board of accidents in the workplace.

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

Health and safety progress in the year has included:

- An IOSH (Institution of Occupational Safety and Health) accredited training programme, which develops knowledge of modern health and safety management techniques. The training, which is mandatory, has been rolled out to all our UK managers 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.

Corporate and social responsibility report continued

- In the Metals Filtration business, our new plant in Xiaogan has improved the environment for the employees at the plant. Compared with the former plant, the new plant has:
  - Improved dust extraction providing a cleaner and safer working environment;
  - Better lay out of equipment and materials, reducing safety hazards;
  - Provided the Group with the opportunity to introduce better employee working practices; and
  - Provided the employees with kitchen, social room and dormitory facilities.

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

- Seal water analysis equipment, which is used, inter alia, to ensure drinking water is fit for consumption, and to analyse sea and river water for signs of pollution or changes to normal mineral composition;
- The patented Selee CSX™ aluminium filter, which is manufactured without phosphates or ceramic fibres, has improved filtration and manual handling benefits over competitor products;
- The 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; and
- 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. Its Metals Filtration division manages the emissions from its kiln firing operations within agreed regulatory parameters.

The environment – our operations

Recent environmental changes we have made include:

Microfiltration
- The Group acquired a facility in New Milton in January 2014 to rehouse its existing New Milton operations and to provide additional space for growth. It has been extensively refurbished. It has been re-roofed and the external walls re-clad with high insulation cladding. New thermally efficient double glazing has been installed throughout. Thermally efficient boilers have been installed to heat the facility. The building has environmentally friendly lighting: LED lighting has been installed in lower ceiling office areas with an expected life of 60,000 hours and induction lighting has been installed in the high bay which has an expected life of 100,000 hours. These improvements provide a high quality work space for the employees, reduce energy consumption and will lower the heating and lighting costs. The Group is currently building an extension on the plant in Caribou and similar insulation and lighting standards are being introduced there.
- The Group is gradually upgrading and replacing its machining capability. In 2014 the Group acquired two new machines which are more efficient than the older machines, making cycle times shorter. This not only reduces standard costs but also reduces electricity consumption.
- The Group has reduced waste by changing the packaging of component parts in its Segensworth plant. This has replaced plastic and foil packaging with a re-usable foam moulded box. Removing the disposable packing has reduced waste and has also reduced time taken to pack and unpack parts as they move between work centres. It is better designed and more robust, which has helped to reduce scrap caused from parts damaged in transit. The same plant has acquired a waste disposal licence which has brought control of waste disposal in house and reduced its cost.
- The Group's Wrexham plant has begun to recycle porus plastic offcuts, cardboard and metal drums which had previously been disposed of in landfill. It has begun cleaning the cooling water discharged to the drain, reducing its cost of disposal. The plant has

Reducing energy consumption

60,000 hrs

In our New Milton facility, LED lighting has been installed in lower ceiling office areas with an expected life of 60,000 hours.

Measuring greenhouse gas emissions

0.153 kCO_2/£

Our intensity ratio is falling.

also removed solvents from its processes where possible. Trichloroethylene is no longer used on site and methylated spirit bubble point testing has been replaced with a non-harmful surfactant.

- Our UK operations offer the cycle to work scheme and in some cases car sharing initiatives.

Metals Filtration

- Metals Filtration has started to reuse wash down water. Up until recently it used rotary filter presses to remove 99% of the solid particulate in waste slurry streams. The water from this process is monitored for boron and acid content, and clarity before sending to the sewer system. The waste solids are sent to landfill. In order to reduce materials going to landfill, the division has started to reuse wash down water. This will eliminate the use of the rotary filter presses and save material. The division is also working with a local composter who has shown interest in using the waste solids as part of his composting process.

Greenhouse gas emissions

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

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

2010 is used as a base year and 'kilogrammes of CO_2 emission per pound sterling of revenue' as a measure of intensity. The Group aims to reduce its total intensity ratio over time.

Greenhouse gas (GHG) emissions	Year ended 30 November 2014 tCO_2	Year ended 30 November 2013 tCO_2	Year ended 30 November 2010 tCO_2
Scope 1 - Direct GHG Emissions			
Gas	9,311	8,470	8,571
Owned vehicles	366	349	368
Total scope 1 gross emissions	9,677	8,819	8,939
Scope 2 - Indirect GHG Emissions			
Electricity	6,352	5,611	5,204
Total scope 2 gross emissions	6,352	5,611	5,204
Total gross emissions	**16,029**	**14,430**	**14,143**
	kCO_2/£	kCO_2/£	kCO_2/£
Scope 1 intensity ratio	0.092	0.105	0.142
Scope 2 intensity ratio	0.061	0.067	0.082
Total intensity ratio	**0.153**	**0.172**	**0.224**

Corporate and social responsibility report continued

Geographical breakdown (tonnes of CO_2)

	Year ended 30 November 2014			Year ended 30 November 2013			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	400	2,066	**2,466**	425	1,883	2,308	479	1,497	1,976
US	9,044	4,173	**13,217**	8,173	3,636	11,809	8,350	3,639	11,989
ROW	233	113	**346**	221	92	313	110	68	178
Total	**9,677**	**6,352**	**16,029**	**8,819**	**5,611**	**14,430**	**8,939**	**5,204**	**14,143**

Relationships with customers

The Group's products are generally bespoke for specific customers and generally have a very long product lifecycle. This naturally requires the Group to build close relationships with its customers. A high percentage of the Group's annual revenue comes from repeat business from existing customers.

Most new product introductions are developed with existing customers and when new customers are gained it is often after a long development period over which a close relationship has developed and a long term relationship is expected.

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

Relationships with suppliers

The Group has an extensive network of suppliers and sub contractors, many of whom are critical to the manufacture of specific parts. The Group has a stable supplier base. It seeks to increase its supplier base by extending the number of suppliers only where there are perceived to be risks of under capacity or resilience in its existing supply chain. Suppliers are generally only removed from the approved list for persistent quality or delivery failures.

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

Anti-bribery and corruption policy

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

Porvair and the local community

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

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

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

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

In the UK the Microfiltration division has run family fun days for employees in the Segensworth plant and has supported cancer charities through employee donations.

Human rights

The Group is aware of its requirements to respect human rights in all jurisdictions in which it operates. However, there has 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
23 January 2015

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. Charles was previously Non-Executive Director of FKI plc, Chief Executive of Cosworth, Managing Director of Rolls Royce and Bentley Motor Cars and a member of the Vickers Group plc Executive Board.

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

Ben Stocks
Group Chief Executive

Experience and external appointments:
Appointed to the Board 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.

Paul Dean
Non-Executive Director

Experience and external appointments:
Appointed to the Board in August 2012. He is a Non-Executive Director of Polypipe plc and Focusrite plc. 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, Paul 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.

Dr Krishnamurthy Rajagopal
Non-Executive Director

Experience and external appointments:
Appointed to the Board in April 2014. He is a Non-Executive Director of WS Atkins plc, Bodycote plc, e2v technologies plc and Spirax-Sarco Engineering plc. He is Chairman of UMI3 Ltd and HHV Pumps Ltd. He was an executive director of the BOC Group plc from 2000 until November 2006. He is a chartered mechanical engineer.

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

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.

Audit Committee report pages: 37 and 38

Remuneration report pages: 39 to 50

Directors' report

The Directors are pleased to present their Annual Report and the audited accounts of the Group for the year ended 30 November 2014.

The Company

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

Business review

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

Dividends

An interim dividend of 1.2 pence per share (2013: 1.1 pence per share) was paid on 5 September 2014. The Directors recommend the payment of a final dividend of 2.0 pence per share (2013: 1.8 pence per share) on 5 June 2015 to shareholders on the register on 1 May 2015; the ex-dividend date is 30 April 2015. This makes a total dividend for the year of 3.2 pence per share (2013: 2.9 pence per share).

Directors and their interests

The names and biographical details of the Directors are set out on page 29. Paul Dean, Charles Matthews, Ben Stocks and Chris Tyler served throughout the year. Andrew Walker retired from the Board at the Annual General Meeting on 8 April 2014. Dr Krishnamurthy Rajagopal was appointed to the Board on 1 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 34.

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 39 to 50. None of the Directors had a material interest in any contract of significance in relation to the Company or its subsidiaries during the year.

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

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

Research and development

The Group continues to undertake a research and development programme with the objective of identifying and developing new materials and products which have the potential to contribute to the growth of the Group. The cost to the Group in the year under review was £3.2 million (2013: £3.2 million), which was written off to the income statement and no development expenditure was capitalised in the year or the preceding year. The expenditure is of a development nature and is largely undertaken in-house rather than by third parties.

Greenhouse gas emissions

The disclosure of the Group's greenhouse gas emissions is given in the Corporate and social responsibility report on pages 27 and 28, 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 629,733 shares to satisfy the exercise of share options.

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

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

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

Contracts

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

Substantial shareholders

As at 23 January 2015, the Company has been notified of the following substantial shareholdings comprising 3% or more of the issued share capital of the Company.

	Ordinary shares (number)	Percentage (%)
GGG Spa	7,341,427	16.6
M&G Group Limited	6,080,987	13.7
Alliance Trust plc	3,929,155	8.9
Old Mutual Asset Managers	2,178,005	4.9
Impax Environmental plc	1,935,140	4.4
AXA Investment Managers	1,524,782	3.4

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 34 to 36, 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 2015, 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 14 April 2015. 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 2014.

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.

After the introduction of the policy in 2014 a revised policy is presented to reflect the proposed introduction of an Employee Benefit Trust in 2015 (see Resolution 15). The Remuneration Committee has taken the opportunity to revise the policy on recruitment of Executive Directors and to introduce deferral and clawback provisions on the Group's incentive schemes.

Resolution 4 – To approve the final dividend of 2.0 pence per share.

Resolutions 5 to 9 – All of the Directors offer themselves for re-election.
Brief biographies of the Directors are set out on page 29 of the Annual Report.

Resolution 10 – Re-appointment of PricewaterhouseCoopers LLP as auditors.

Resolutions 11 and 12 – Directors' authority to allot shares (ordinary resolution) and disapply pre-emption rights (special resolution).
Resolution 11 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 £295,755, being an amount equal to one third of the Company's issued share capital as at 23 January 2015.
As at 23 January 2015, the Company did not hold any treasury shares.

The authorities granted under Resolution 11 shall expire at the next Annual General Meeting of the Company. Resolution 11 replaces a similar resolution passed at the Annual General Meeting of the Company held on 8 April 2014.

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 12, 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 12 asks shareholders to grant the Directors authority to allot equity securities or sell treasury shares for cash up to an aggregate nominal value of £44,363 (being 5% of the Company's issued ordinary share capital as at 23 January 2015), without first offering the securities to existing shareholders.

Directors' report continued

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

Resolution 13 – Purchases of own shares by the Company (special resolution).
Resolution 13 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 23 January 2015. 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 8 April 2014. 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 1,479,427 ordinary shares have been granted and are outstanding as at 23 January 2015 (being the latest practicable date prior to publication of this document) which if issued would represent 3.23% 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 23 January 2015 would represent 3.57% of the ordinary share capital (excluding shares held in treasury) in issue following such exercise.

Resolution 14 – Calling of general meetings (special resolution).
Resolution 14 to be proposed at the Annual General Meeting seeks authority from shareholders to hold general meetings (other than Annual General Meetings) on 14 days' clear notice. This is permissible under the Articles and the Companies Act 2006. However, pursuant to the EU Shareholders' Rights Directive, the Company must offer the facility, accessible to all shareholders, to vote by electronic means and must obtain specific shareholder approval on an annual basis to retain this ability. The Directors believe that there may be circumstances in which it will be in the interests of the Company to be able to convene meetings at such short notice. The shorter notice period would not be used as a matter of course, but only where it is merited by the business of the meeting and is thought to be to the advantage of the shareholders as a whole. Accordingly, the Directors believe that it is important for the Company to retain this flexibility. Resolution 13 renews a similar resolution passed at the Annual General Meeting of the Company held on 8 April 2014.

Resolution 15 – To establish an Employee Benefit Trust ("EBT"). Resolution 15 seeks shareholder approval for the adoption of the Porvair Employee Benefit Trust (the EBT). The principal purpose of the EBT is to encourage the holding of shares in the Company by employees, former employees and certain family members, to facilitate the recruitment, retention and motivation of employees of the Company and its subsidiaries. The EBT will be used to provide shares in the Company to settle awards made under the Company's existing employees' share schemes.

Any shares issued to the EBT in order to satisfy awards granted under employee share plans operated by the Company from time to time will be treated as counting towards the dilution limits that apply to those plans. For the avoidance of doubt, any shares acquired by the EBT in the market in order to satisfy awards will not count towards those limits. Unless directed otherwise, the Trustee will waive any dividends paid on the shares settled in the EBT.

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Each of the Directors, whose names and functions are listed on page 29 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 Strategic report and the Directors' report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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

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

C.P. Tyler

By order of the Board

Chris Tyler
Company Secretary
23 January 2015

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:

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

Reasons for its non-compliance are set out below.

Role of the Board

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

The Board has a 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, except that Charles Matthews was unavailable for one meeting.

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

Board of Directors

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

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

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

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

The Company maintains Directors' and Officers' liability insurance.

Board Committees

Audit Committee

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

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

The Report of the Audit Committee on page 37 includes details of the Audit Committee's remit, scope of work in the year and related judgements.

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

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

Remuneration Committee

The Remuneration Committee determines and recommends to the Board the framework or broad policy for the remuneration and long term incentive arrangements of the Company's Executive Directors. The Remuneration Committee comprises all of the independent Non-Executive Directors of the Company. Andrew Walker was the Chairman of the Committee until his resignation on 8 April 2014; he was replaced by Dr Krishnamurthy Rajagopal. 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 39 to 50 includes details on remuneration policy, practices and the remuneration of the Directors.

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

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

Nomination Committee

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

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

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

The Nomination Committee met once during the year to consider the appointment of a new Non-Executive Director. Charles Matthews and Paul Dean were present. In this case an independent search agency was engaged to find a shortlist of candidates. Initial interviews were carried out by the Chairman and Chief Executive. The final shortlist of three candidates were interviewed by each of the Group's Directors. 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 30.

Internal control

The Turnbull Report 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 Report.

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

Corporate governance continued

operating business reports to the Group Chief Executive, and clearly defined lines of responsibility have been established within this organisational structure. The senior finance executive in each operation has a dual responsibility to report within their operation to the Managing Director and to the Group Finance Director. The Executive Directors visit all operations regularly to perform detailed reviews.

Risk management – operating business management have a clear responsibility for the identification of risks facing each operation, and for establishing procedures to investigate and monitor such risks. The Board reviews a group register of risks and mitigation on a regular basis as part of its normal Board reporting. The Board also commissions independent reviews of the key risks facing the Group as appropriate.

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

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

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

The Group has a formal 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 2013 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
23 January 2015

Report of the Audit Committee

Statement by the Chairman of the Audit Committee

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

The Committee has had a particular focus in the year on the Group's policies and procedures, its internal auditing reviews and the assessment of the Group's internal controls and the control and reporting of the larger projects. The Committee has been pleased to see a steady improvement in all of these areas.

Paul Dean
Chairman of the Audit Committee
23 January 2015

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 three times in the year.

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

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

Accounting for large contracts

The Group has three large long term contracts in the Microfiltration division, which contributed to the results in 2014. There are two gasification contracts, one for POSCO in South Korea and one for Reliance in India, and a UK government nuclear remediation contract. These contracts account for £19.5 million revenue in the year, which is significant in the context of the revenue for the Group.

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

The Board receives monthly updates on the progress of these contracts, which highlight the technical, performance and delivery challenges arising on each project. In addition, the Committee has reviewed reports from management detailing the future potential risks in these contracts and the estimates that have been made for the resulting future costs provided. The Committee considers that the future costs provided represent a reasonable assessment of the potential costs to be incurred.

Defined benefit pension plan liability

The Group has a defined benefit pension plan net liability of £12.7 million and incurs costs of £1.0 million per annum in funding the plan, which is significant in the context of the results of the Group.

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

Carrying value of goodwill

The carrying value of goodwill in the consolidated financial statements at the year end is £42.2 million. Of this, £14.4 million is attributable to the Metals Filtration division and £27.8 million to the Microfiltration division.

The goodwill is supported by a valuation of the future cash flows of each operation discounted at the weighted average cost of capital of each operation. The key assumptions in determining whether the goodwill is impaired are the assumed future growth rates of each operation and an estimate of each operation's weighted average costs of capital.

The Committee has reviewed the assumptions used by management in deriving the valuations. Particular focus was placed on the Metals Filtration division where the headroom between the discounted cash flow valuation and the value of the goodwill carried has, in previous years, been lowest. The Committee considers that the assumptions selected are reasonable and the headroom sufficient to support the current carrying value of the goodwill.

The Committee also reported to the Board that it considered that, taken as a whole, the 2014 Annual Report was fair, balanced and understandable and included the necessary information to assess the performance, business model and strategy of the Group.

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

- 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 in line with the procedures set out on page 36;

Report of the Audit Committee continued

- reviewed the scope of the internal audit work done in assessing the operating companies' internal controls and procedures. The internal audit work is undertaken through a system of peer reviews by the Group's finance function. The Committee considers the Group to be too small to justify a dedicated internal audit function;
- made recommendations to the Board in relation to the appointment of the external auditor and agreed the remuneration and terms of engagement of the external auditor;
- monitored the external auditor's effectiveness, independence and objectivity. The Committee, in conjunction with management, considered the robustness of the audit process; the quality and timeliness of its delivery; the quality of the auditor's staff and reporting; and its value for money;
- reviewed arrangements by which staff of the 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 and approved by the Committee. The fees paid to the auditor for audit services, audit related services and other non-audit services are set out in note 3 of the consolidated financial statements. The audit has always been conducted by PricewaterhouseCoopers LLP or its predecessor firms and has not been the subject of a competitive tender. The Audit Committee do, however, carefully consider the reappointment of the auditors each year, and whether a tendering process is appropriate prior to making their recommendation to the shareholders. It is recognised that the new EU rules will require the Group to change its auditors before 2020. The Audit Committee has considered this requirement and expects to implement the change well in advance of the deadline placed on the Group by the regulations. The auditors are also engaged to provide a review of the Group's interim results and are auditors to the Group's pension scheme. The auditors do not provide the Group's tax services and there are no other significant services provided by the Group's auditors.

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

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

Remuneration report

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

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

- A statement by the Chairman of the Committee;
- An annual report on remuneration – that discloses how the current remuneration policy has been implemented during the year ended 30 November 2014; and
- A policy report – that describes and explains the components of the Company's proposed remuneration policy.

We will seek your support for the annual report on remuneration, in the form of an advisory vote at the AGM in April 2015. The remuneration policy which was approved at the 2014 AGM has been amended to accommodate the introduction of an Employee Benefits Trust and therefore will be subject to shareholder approval and a resolution will be proposed at the Company's 2015 AGM to approve the policy again.

We would like to thank shareholders for their support of the 2013 Remuneration report. At the AGM on 8 April 2014, the advisory vote on the 2013 Directors' remuneration report received 99% of the votes in favour and the binding vote on the 2013 Remuneration Policy received 83% of the votes in favour.

We have continued to seek and take into account the views of shareholders when reviewing Executive Director remuneration and both the Policy and Report for 2014 reflect this. In particular we have amended the Policy in the section covering recruitment of new directors and also introduced maxima for elements of remuneration.

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

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

In the past two years the cash generation performance of the Group has been exceptional. £13.8 million of operating cash (less interest) was generated in the year, exceeding the budget by £3.1 million. This resulted in the financial component of the annual bonus being awarded in full (60% of base salary). Agreed strategic objectives were achieved in the year, resulting in the non-financial component of the annual bonus (15% of base salary) being awarded in full.

Earnings per share have grown by almost 100% over the last three years such that the maximum requirement for 100% vesting of the long term incentive award that matures in February 2015 was exceeded.

During the year the Committee sought to:

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

The principal changes to Director Remuneration in the year are:

- Amendments to the Directors' pension benefits to take account of recently introduced HMRC limits on the maximum value of individual pension assets that can be held tax efficiently; and
- The proposed introduction of an Employee Benefit Trust, which will in future reduce the dilution of existing shareholders when option and incentive share awards are settled by making market purchases to settle option awards.

Dr Krishnamurthy Rajagopal
Chairman of the Remuneration Committee
23 January 2015

Remuneration report continued

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 reporting regulations (The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013) (the "Remuneration Regulations"). It sets out the Group's remuneration policy and details of Directors' remuneration. A resolution to approve this report will be proposed at the Annual General Meeting in April 2015.

The Committee

The members of the Remuneration Committee are drawn solely from the independent Non-Executive Directors. To be quorate the Committee is required to comprise at least two members. During the year, the Committee comprised Paul Dean, Charles Matthews, Andrew Walker (until his resignation on 8 April 2014) and Dr Krishnamurthy Rajagopal (from his appointment on 1 April 2014). Andrew Walker was the Chairman of the Committee until his resignation of 8 April 2014, thereafter Dr Krishnamurthy Rajagopal has been the Chairman.

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

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

INFORMATION REQUIRED TO BE AUDITED

Summary of Executive Directors' remuneration packages

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

Executive Directors' remuneration

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

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

	Basic 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

In 2014 the Executive Directors incurred PAYE tax and national insurance contributions amounting to £789,000 (2013: £1,200,000) including amounts payable on the exercise of 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 £142,200 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 52 on 30 November 2014. In the event that he retires early he may, at the discretion of the Trustees of the Plan, apply to draw a reduced pension. There is no actuarial benefit to the individual to retiring early.

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

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

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

Annual bonus

Bonus payments to Executive Directors are made at the discretion of the Committee for achievement of Group financial performance targets and strategic objectives. In 2013 and 2014, 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 2014:

Target	Target at operating plan level	Target for maximum payout	% salary awarded for operating plan achievement	% salary awarded for maximum achievement	Achieved	% of salary awarded
Adjusted operating cash flow less interest	£10.7m	£12.7m	20%	60%	£13.8m	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	15%

In 2014 the Committee noted that the operating cash flow target for the maximum award had been exceeded. The aerospace delivery performance target was achieved and the Committee considered that the Executive performance in the context of the opportunities for securing large contracts was commendable. Consequently the Committee awarded the full 15% of salary for the achievement of strategic objectives.

Vesting of long term share plan

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 were 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 reported in 2013.

2014 vesting

Options granted in 2012 under the 2008 Scheme were exercisable in full if the Group achieved EPS of at least 14.0 pence per share in the financial year ended 30 November 2014 ('FY2014'). 30% of the award vested if the Group achieved EPS of 9.0 pence in FY2014. 50% of the award vested if the Group achieved EPS of 11.0 pence in FY2014. A sliding scale operated if the EPS were between 9.0 pence and 11.0 pence and between 11.0 pence and 14.0 pence. 100% of these options will vest 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 all UK permanent employees to join Save As You Earn ('SAYE') schemes. Currently there are three year and five year schemes running following invitations in October 2011 and October 2014.

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

The market price of the Company's ordinary shares at 30 November 2014 was 254 pence (2013: 278 pence).

The range of market prices during the year was 241 pence to 342 pence.

Remuneration report continued

Directors' holdings in shares and share options

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

The beneficial interests at 30 November 2014 and 30 November 2013 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.

	2014 Ordinary shares (number)	2014 Share options (number)	2013 Ordinary shares (number)	2013 Share options (number)
Executive Directors				
B D W Stocks	**503,427**	**559,500**	441,502	701,304
C P Tyler	**342,450**	**407,498**	252,450	499,186
Non-Executive Directors				
P Dean	**5,000**	**–**	5,000	–
C L Matthews	**30,000**	**–**	30,000	–
K Rajagopal	**–**	**–**	N/A	N/A
A J Walker	**N/A**	**N/A**	29,499	–

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 2013 (number)	Granted in the year (number)	Exercised in the year (number)	At 30 November 2014 (number)	Exercise price	Grant date	Exercisable from	Expiry date
B D W Stocks								
Vested								
2008	250,000	–	(250,000)	–	2p	27/01/2011	27/01/2014	27/01/2021
2008	260,000	–	–	260,000	2p	02/02/2012	02/02/2015	02/02/2022
SAYE	9,704	–	(9,704)	–	93p	01/10/2011	01/10/2014	01/04/2015
Unvested								
2008	181,600	–	–	181,600	2p	01/02/2013	01/02/2016	01/02/2023
2008	–	110,400	–	110,400	2p	30/01/2014	30/01/2017	30/01/2024
SAYE	–	7,500	–	7,500	240p	01/10/2014	01/10/2017	01/04/2018
	701,304	117,900	(259,704)	559,500				
C P Tyler								
Vested								
2008	175,000	–	(175,000)	–	2p	27/01/2011	27/01/2014	27/01/2021
2008	181,000	–	–	181,000	2p	02/02/2012	02/02/2015	02/02/2022
Unvested								
SAYE	16,586	–	–	16,586	93p	01/10/2011	01/10/2016	01/04/2017
SAYE	–	6,312	–	6,312	240p	01/10/2014	01/10/2019	01/04/2020
2008	126,600	–	–	126,600	2p	01/02/2013	01/02/2016	01/02/2023
2008	–	77,000	–	77,000	2p	30/01/2014	30/01/2017	30/01/2024
	499,186	83,312	(175,000)	407,498				

Scheme interests awarded during the financial year
The table below sets out the options granted during 2013 and 2014:

	Date of grant	Scheme	Number	Exercise price	Share price used to value grant	Face value of grant £'000
B D W Stocks	1 February 2013	2008	181,600	2p	152p	276
	30 January 2014	2008	110,400	2p	255p	282
	1 October 2014	SAYE	7,500	240p	240p	18
C P Tyler	1 February 2013	2008	126,600	2p	152p	192
	30 January 2014	2008	77,000	2p	255p	196
	1 October 2014	SAYE	6,312	240p	240p	15

For performance over the three year period 2015-17, the Committee has decided that Ben Stocks will be awarded 102,000 2 pence options and Chris Tyler will be awarded 71,000 2 pence options under the 2008 scheme immediately after the announcement of the Group's results.

The Long Term Share Plan Shares granted in 2013 were calculated to equal approximately a year's salary based on the share price at the end of the financial year. The 2014 award was 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. Future awards will be calculated on the same basis as 2014. The Long Term Share Plan Shares are options issued at the nominal value of the Company's ordinary shares of 2 pence. The face value of the grant in 2013 is determined by the year end share price at 30 November 2012 and face value of the grants in 2014 and 2015 are determined from average share price over the final quarter of the financial years ended 30 November 2013 and 2014, respectively.

Performance conditions of the unvested share options
Options granted in 2012 under the 2008 scheme can only be exercised in full if the Committee is satisfied that in the financial year ended 30 November 2014 ('FY2014'), the Group has achieved EPS of at least 14.0 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 are between 9.0 pence and 11.0 pence and between 11.0 pence and 14.0 pence. No shares vest if the EPS for FY2014 are 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 are between 11.0 pence and 12.5 pence and between 12.5 pence and 15.5 pence. No shares vest if the EPS in FY2015 are below 11.0 pence.

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

The Committee intends to grant options in 2015, 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 2017 ('FY2017'), the Group has achieved EPS of at least 20.0 pence. 30% of the award will vest if the Group has achieved EPS of 17.0 pence in FY2017. 50% of the award will vest if the Group has achieved EPS of 18.0 pence in FY2017. A sliding scale will operate if the EPS are between 17.0 pence and 18.0 pence and between 18.0 pence and 20.0 pence. No shares vest if the EPS in FY2017 are below 17.0 pence.

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

Remuneration report continued

The table below sets out the options exercised during 2014:

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

The 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		

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

The Executive Directors' total gain on the exercise of options in 2013 was £2.0 million before deduction of income tax and national insurance. On exercise, the Executive Directors sold some shares principally to fund the option acquisition costs and the related PAYE and national insurance costs. The remaining shares were retained. As a result of these option exercises Ben Stocks and Chris Tyler's holdings in shares in the Company increased by 306,700 shares and 187,200 shares, respectively.

Non-Executive Directors

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

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

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

Payments to Directors leaving the Group

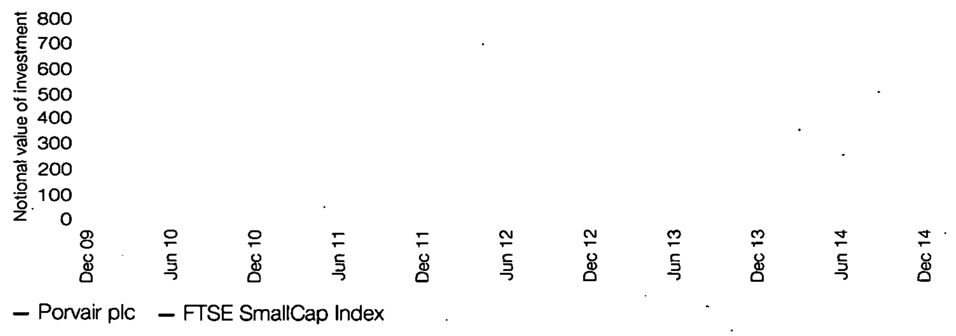
No payments (2013: £Nil) were made during the year ended 30 November 2014 to any former director of the Company or any other Group company.

INFORMATION NOT REQUIRED TO BE AUDITED

Performance graph and table

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

5 year total shareholder return



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

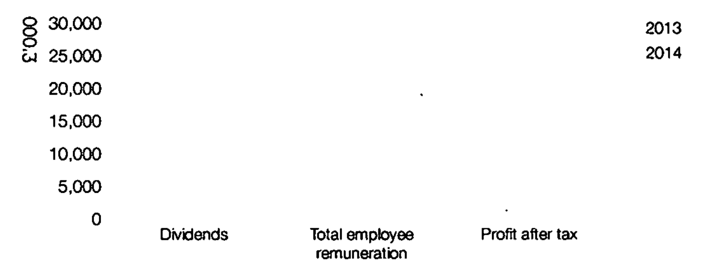
Year	CEO	Single figure total remuneration £'000	Annual variable element % of max	Long term incentives % of max
2014	Ben Stocks	1,298	100%	100%
2013	Ben Stocks	1,169	97%	100%
2012	Ben Stocks	927	93%	92%
2011	Ben Stocks	518	100%	100%
2010	Ben Stocks	432	95%	0%
2009	Ben Stocks	337	0%	0%

Ben Stocks received a basic salary increase of 1.75% (2013: 2.0%) on 1 December 2014. This salary rise was in line with 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



Remuneration report continued

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

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

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

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

The Committee is responsible for determining:

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

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

The Committee aims to provide remuneration packages that:

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

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

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

Governance

Remuneration report continued

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

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

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

Estimate of the total future potential remuneration

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

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

Fixed

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

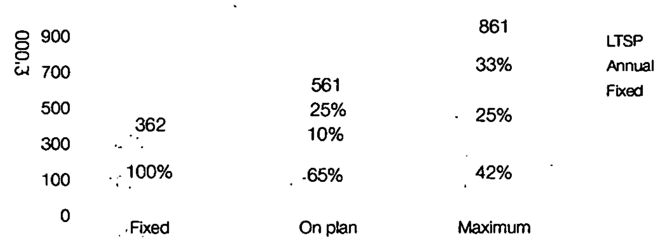
For performance in line with both the annual and three year operating plan

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

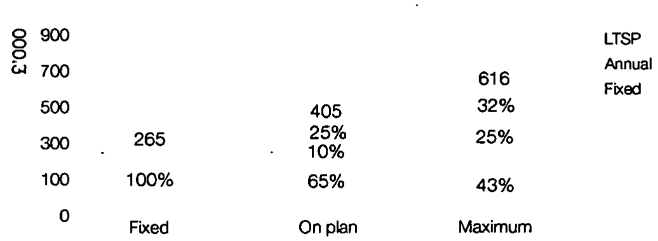
For performance significantly above both the annual and three year operating plan, the maximum award is:

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

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-Executives' annual fees with effect from 1 June each year. They receive a fixed annual fee plus expenses reimbursement, which reflects their time commitment to the business and comparatives from similar sized quoted companies. They do not participate in any share option scheme, bonus or pension arrangements.

The current scale of remuneration is:

	£'000
Chairman	78
Other Non-Executive Directors	33

Engagement with shareholders

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

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

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

Remuneration report continued

Relationship with employees' pay

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

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

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

Recruitment of Directors

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

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

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

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

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

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

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

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

All employee share plans

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

On behalf of the Board

Dr Krishnamurthy Rajagopal
Chairman of the Remuneration Committee
23 January 2015

Independent auditors' report to the members of Porvair plc

Report on the Group financial statements

Our opinion

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

- give a true and fair view of the state of the Group's affairs as at 30 November 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

Porvair plc's financial statements comprise:

- the consolidated balance sheet as at 30 November 2014;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report 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.

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

Our audit approach

Overview

Materiality	• Overall Group materiality: £431,000 which represents 5% of profit before tax.
Audit scope	• We conducted work on 10 reporting units, out of a total 14 reporting units, accounting for of Group profit before tax.
Areas of focus	• Accounting for special projects. • Defined benefit pension plan net liability. • Carrying value of goodwill.

The scope of our audit and our areas of focus

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

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

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table on page 52 together with an explanation of how we tailored our audit to address these specific areas. This is not a complete list of all risks identified by our audit.

Independent auditors' report to the members of Porvair plc continued

Area of focus	How our audit addressed the area of focus
Accounting for large contracts *Refer to page 37 (Report of the Audit Committee), note 1 (Significant accounting policies) and note 16 (Construction contracts).* The Group has three large (long term) contracts in the Microfiltration division; two gasification contracts, one in South Korea and one in India, and a UK Government contract. These account for £19.5 million revenue in the year which is significant in the context of the revenue for the Group. The recognition of revenue under these contracts is dependent on the costs incurred in the period as a proportion of the total estimated costs of the contract such that a constant profit margin is recognised as work is performed. A significant element of the total estimated contract cost is the level of estimated future costs that the Directors have assumed to cover principally re-work, warranty risks and late delivery risks, the estimation of which is inherently subject to judgement. Consequently, the focus of our audit was on the judgements around the level of provisions for re-work, warranty and late delivery costs. Two of the contracts are US dollar denominated contracts. Given the movement in the US dollar:£ Sterling exchange rate in the year and the complexity in this area, our audit also focussed on the appropriate conversion to £ Sterling.	As revenue recognised is based on the costs incurred as a proportion of the total costs forecast on the contracts, we agreed the work performed to date under the contracts to supporting invoices and payroll information. We agreed the future material costs to purchase orders. We tested the mathematical accuracy of the recognition of revenue based on the work performed to date under the contracts. We tested the reasonableness of the level of provisions included in the forecast costs against costs previously experienced on similar contracts and to the terms of the contract, considering also the progress to date on each of the contracts and any issues encountered. We recalculated the conversion of US dollar denominated revenues to £ Sterling in order to ensure the appropriate recognition of revenue in the year.
Defined benefit pension plan liability *Refer to page 37 (Report of the Audit Committee), note 1 (Significant accounting policies) and note 19 (Retirement benefit obligations).* The Group has a defined benefit pension plan net liability of £12.7 million, which is significant in the context of the Group balance sheet. The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Unfavourable changes in a number of key assumptions (including salary increases, inflation, discount rates, expected rates of return on plan assets and mortality rates) can have a material impact on the calculation of the liability.	We agreed the discount and inflation rates, together with the expected rates of return on plan assets used in the valuation of the pension liability by the external actuary to our internally developed benchmarks. We obtained an understanding through discussion with the external actuary of the methodology used to derive the discount rate. We compared the assumptions around salary increases and mortality to national and industry averages.
Carrying value of goodwill *Refer to page 37 (Report of the Audit Committee), note 1 (Significant accounting policies) and note 10 (Goodwill and other intangible assets).* The carrying value of goodwill in the consolidated financial statements at the year end is £42.2 million (US: £20.8 million; UK: £15.8 million; and Germany: £5.6 million) which represents 45% of the Group's gross assets. Of this goodwill, £14.4 million is attributable to the Metals Filtration division and £27.8 million is attributable to the Microfiltration division. The Directors have concluded that an impairment charge against the carrying value of goodwill is not required, based on their assessment of recoverable value. The risk that we focussed on in the audit is that the recoverable value may be overstated and could be less than the carrying value. Unfavourable changes in a number of key assumptions (including long term growth rates and the weighted average cost of capital) can have a material impact on the assessment as to whether an impairment charge is required. In particular, we focussed on the goodwill arising on the US Metals Filtration business as this has had the lowest headroom in previous years and the results are more susceptible to changes in the macro-economic environment.	The key assumptions in the assessment as to whether the £14.4 million goodwill in respect of the US Metals Filtration business was impaired were the use of a long term growth rate of 3% and a weighted average cost of capital of 9.9%. We evaluated the Directors' future cash flow forecasts by comparing the expected future cash flows against historical cash flows, and tested the underlying net present value calculations. We compared the Directors' forecast to the latest Board approved three year plans. We also challenged: • The assumed long term growth rate by comparing this to economic and industry forecasts; and • The assumed discount rate by reference to the cost of capital for the US Metals Filtration business and comparable organisations. We performed sensitivity analysis around the key assumptions above to ascertain the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired.

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

The Group comprises two divisions, 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 divisions and the centralised functions.

The Group's accounting process is structured around a local finance function in five of the reporting units, with the Head Office team responsible for the accounting process in the remaining nine reporting units. These functions maintain their own accounting records and controls and report to the Head Office finance team in King's Lynn through the submission of reporting packs for consolidation by the Head Office finance team. In our view, due to their significance and/or risk characteristics, six of these reporting units (based in the United Kingdom and United States of America) required an audit of their complete financial information. We used auditors from the United States of America firm of PwC who are familiar with the local laws and regulations to perform the audit work of the reporting units in the United States of America, under the supervision of the Group engagement team, through direct review of their work and through regular discussion via conference calls, such that we were able to conclude that sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The Group consolidation, financial statement disclosures and a number of specific items are audited by the Group engagement team. These include the provisions on the long term contracts, carrying value of goodwill, derivative financial instruments, tax, net pension liability, banking covenants and share based payments.

Specific audit procedures on certain balances and transactions were performed at a further four reporting units including operations in the United Kingdom and United States of America.

Taken together, the reporting units where we performed our audit work accounted for 91% of Group revenues and 84% of Group profit before tax.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures 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 financial statements as a whole as follows:

Overall Group materiality	£431,000 (2013: £370,000).
How we determined it	Approximately 5% of profit before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £21,500 (2013: £18,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 31, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the 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.

Independent auditors' report to the members of Porvair plc continued

Other required reporting

Consistency of other information

Companies Act 2006 opinion
In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

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

• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the Directors on page 33, in accordance with provision C.1.1 of the UK Corporate Governance Code ('the Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on page 37, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

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

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' responsibilities set out on pages 32 and 33, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

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

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

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

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

Other matter
We have reported separately on the parent company financial statements of Porvair plc for the year ended 30 November 2014 and on the information in the Directors' Remuneration report that is described as having been audited.

Christopher Maw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
23 January 2015

Consolidated income statement

For the year ended 30 November	Note	2014 £'000	Restated 2013 £'000
Continuing operations			
Revenue	2	**104,004**	84,267
Cost of sales		**(74,157)**	(55,519)
Gross profit		**29,847**	28,748
Distribution costs		**(1,227)**	(968)
Administrative expenses		**(19,415)**	(19,389)
Operating profit	2	**9,205**	8,391
Interest payable and similar charges	5	**(785)**	(753)
Profit before income tax	2,3	**8,420**	7,638
Income tax expense	6	**(2,087)**	(2,318)
Profit for the year attributable to shareholders	23	**6,333**	5,320
Earnings per share (basic)	7	**14.4p**	12.3p
Earnings per share (diluted)	7	**14.2p**	12.1p

Consolidated statement of comprehensive income

For the year ended 30 November	Note	2014 £'000	Restated 2013 £'000
Profit for the year		**6,333**	5,320
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
Actuarial losses in defined benefit pension plans net of tax	23	**(1,066)**	(2,918)
Items that may be subsequently reclassified to profit or loss			
Exchange gains/(losses) on translation of foreign subsidiaries	23	**1,125**	(921)
Changes in fair value of interest rate swaps held as a cash flow hedge	23	**20**	79
Changes in fair value of foreign exchange contracts held as a cash flow hedge	23	**(866)**	932
		279	90
Other comprehensive expense for the year, net of tax		**(787)**	(2,828)
Total comprehensive income for the year attributable to the owners of Porvair plc		**5,546**	2,492

Financial statements

Consolidated balance sheet

Company registered number 01661935

As at 30 November	Note	2014 £'000	2013 £'000
Non-current assets			
Property, plant and equipment	9	**12,336**	9,006
Goodwill and other intangible assets	10	**43,209**	42,535
Deferred tax asset	18	**3,240**	3,691
Derivative financial instruments	11	**–**	144
		58,785	55,376
Current assets			
Inventories	12	**11,363**	11,617
Trade and other receivables	13	**17,067**	13,978
Derivative financial instruments	11	**66**	1,027
Cash and cash equivalents	14	**7,891**	6,773
		36,387	33,395
Current liabilities			
Trade and other payables	15	**(24,910)**	(19,472)
Current tax liabilities		**(919)**	(995)
Borrowings	17	**(727)**	(983)
Derivative financial instruments	11	**(118)**	(20)
		(26,674)	(21,470)
Net current assets		**9,713**	11,925
Non-current liabilities			
Borrowings	17	**(1,900)**	(5,211)
Deferred tax liability	18	**(1,494)**	(1,251)
Retirement benefit obligations	19	**(12,833)**	(11,875)
Other payables	25	**–**	(1,159)
Provisions for other liabilities and charges	20	**(138)**	(125)
		(16,365)	(19,621)
Net assets		**52,133**	47,680
Capital and reserves			
Share capital	21	**887**	875
Share premium account	21	**35,334**	35,147
Cumulative translation reserve	23	**816**	(309)
Retained earnings	23	**15,096**	11,967
Total equity		**52,133**	47,680

The financial statements on pages 55 to 88 were approved by the Board of Directors on 23 January 2015 and were signed on its behalf by:

B D W Stocks

C P Tyler

Consolidated cash flow statement

For the year ended 30 November	Note	2014 £'000	2013 £'000
Cash flows from operating activities			
Cash generated from operations	24	**14,156**	12,265
Interest paid		**(328)**	(417)
Tax paid		**(2,205)**	(2,104)
Net cash generated from operating activities		**11,623**	9,744
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)	25	**(707)**	(3,324)
Purchase of property, plant and equipment	9	**(4,930)**	(1,831)
Purchase of intangible assets	10	**(167)**	(193)
Proceeds from sale of property, plant and equipment		**1**	481
Net cash used in investing activities		**(5,803)**	(4,867)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	21	**199**	659
Repayment of borrowings		**(3,654)**	(4,850)
Dividends paid to shareholders	8	**(1,325)**	(1,175)
Net cash used in financing activities		**(4,780)**	(5,366)
Net increase/(decrease) in cash and cash equivalents		**1,040**	(489)
Exchange gains/(losses) on cash and cash equivalents		**78**	(13)
		1,118	(502)
Cash and cash equivalents at 1 December		**6,773**	7,275
Cash and cash equivalents at 30 November	14	**7,891**	6,773

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

	2014 £'000	2013 £'000
Net increase/(decrease) in cash and cash equivalents	**1,040**	(489)
Effects of exchange rate changes	**(9)**	88
Repayment of borrowings	**3,654**	4,850
Net cash/(debt) at 1 December	**579**	(3,870)
Net cash at 30 November	**5,264**	579

Financial statements

Consolidated statement of changes in equity

	Note	Share capital £'000	Share premium account £'000	Cumulative translation reserve £'000	Restated Retained earnings £'000	Restated Total equity £'000
Balance at 1 December 2012		852	34,511	612	9,199	45,174
Profit for the year		–	–	–	5,320	5,320
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		–	–	–	(2,918)	(2,918)
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)
Total transactions with owners recognised directly in equity		23	636	–	(645)	14
Balance at 30 November 2013		875	35,147	(309)	11,967	47,680
Balance at 1 December 2013		875	35,147	(309)	11,967	47,680
Profit for the year		–	–	–	6,333	6,333
Other comprehensive (expense)/income:						
Exchange differences on translation of foreign subsidiaries	23	–	–	1,125	–	1,125
Changes in fair value of interest rate swaps held as a cash flow hedge	23	–	–	–	20	20
Changes in fair value of foreign exchange contracts held as a cash flow hedge	23	–	–	–	(866)	(866)
Actuarial losses in defined benefit pension plans net of tax		–	–	–	(1,066)	(1,066)
Total comprehensive (expense)/income for the year		–	–	1,125	4,421	5,546
Transactions with owners:						
Employee share options scheme						
– Value of employee services net of tax		–	–	–	33	33
Proceeds from shares issued	21	12	187	–	–	199
Dividends approved or paid	8	–	–	–	(1,325)	(1,325)
Total transactions with owners recognised directly in equity		12	187	–	(1,292)	(1,093)
Balance at 30 November 2014		**887**	**35,334**	**816**	**15,096**	**52,133**

Notes to the consolidated financial statements

1 Summary of significant accounting policies

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

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the IFRS interpretations committee, as endorsed by the European Union, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its entity accounts in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and these are presented on pages 91 to 97.

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.

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

Revenue recognition (excluding construction contracts)

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

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

Construction contracts

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

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

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

Leasing

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.

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.

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

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

1 Summary of significant accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

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

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

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 2014:

- Amendment to IAS 19, 'Employee benefits';
- IAS 27 (revised), 'Separate financial statements';
- IAS 28 (revised), 'Associates and joint ventures';
- IFRS 10, 'Consolidated financial statements';
- IFRS 11, 'Joint arrangements';
- IFRS 12, 'Disclosure of interests in other entities'; and
- Amendment to IFRSs 10, 11 and 12 on transition guidance.

IAS 19, 'Employee benefits' was revised in June 2011. The changes on the Group's accounting policies have been 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. See note 31 for the impact on the financial statements.

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

- Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting;
- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures;
- Amendment to IAS 39, 'Financial Instruments: Recognition and Measurement', on novation of derivatives;
- Amendments to IAS 19, 'Employee benefits' on defined benefit contribution plans;
- Amendment to IFRS 2, 'Share based payment';
- Amendment to IFRS 3, 'Business combinations';
- Amendment to IFRS 8, 'Operating segments';
- Amendment to IAS 16, 'Property, plant and equipment', and IAS 38, 'Intangible assets';
- Amendment to IAS 24, 'Related party disclosures';
- Amendment to IFRS 13, 'Fair value measurement';
- Amendment to IFRS 9, 'Financial instruments' on hedge accounting;
- IAS 40, 'Investment property';
- IFRS 14, 'Regulatory deferral accounts';
- IFRS 15, 'Revenue from contracts with customers'; and
- IFRIC 21, 'Levies'.

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

2 Segment information

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

At 30 November 2014, 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 benefit obligations, tax assets and liabilities, cash and borrowings.

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

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

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

30 November 2013	Note	Metals Filtration £'000	Microfiltration £'000	Restated Other unallocated £'000	Restated Group £'000
Revenue		28,484	55,783	–	84,267
Operating profit/(loss)		2,391	8,632	(2,632)	8,391
Net finance costs	5	–	–	(753)	(753)
Profit/(loss) before income tax		2,391	8,632	(3,385)	7,638
Income tax expense		–	–	(2,318)	(2,318)
Profit/(loss) for the year		2,391	8,632	(5,703)	5,320

Notes to the consolidated financial statements continued

2 Segment information continued

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

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

30 November 2013	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Depreciation, impairment and amortisation (property, plant and equipment and intangible assets)	9,10	732	1,147	–	1,879

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

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

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	5,769	81,998
Cash and cash equivalents	14	–	–	6,773	6,773
Total assets		24,623	51,606	12,542	88,771
Segmental liabilities		(3,360)	(15,459)	(4,203)	(23,022)
Retirement benefit obligations	19	–	–	(11,875)	(11,875)
Borrowings	17	–	–	(6,194)	(6,194)
Total liabilities		(3,360)	(15,459)	(22,272)	(41,091)

2 Segment information continued

Geographical analysis

Revenue	2014 By destination £'000	2014 By origin £'000	2013 By destination £'000	2013 By origin £'000
United Kingdom	**17,730**	**52,380**	17,772	36,943
Continental Europe	**11,630**	**7,623**	11,187	6,658
United States of America	**33,372**	**42,671**	33,324	39,214
Other NAFTA	**6,195**	**–**	3,479	–
South America	**1,661**	**–**	1,709	–
Asia	**31,643**	**1,330**	15,483	1,452
Africa	**1,773**	**–**	1,313	–
	104,004	**104,004**	84,267	84,267

Non-current assets	2014 £'000	2013 £'000
United Kingdom	**19,614**	19,059
Continental Europe	**3,337**	3,389
Americas	**31,868**	28,466
Asia	**726**	771
Unallocated deferred tax asset	**3,240**	3,691
	58,785	55,376

Capital expenditure (including intangibles)	2014 £'000	2013 £'000
United Kingdom	**3,800**	695
Continental Europe	**76**	48
Americas	**1,204**	736
Asia	**17**	545
	5,097	2,024

For the year ended 30 November 2014, one customer represented 16% of the Group's revenue (2013: 4%). No other single customer represented 10% or more of the Group's revenue in 2014 and 2013.

Notes to the consolidated financial statements continued

3 Profit before income tax

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

	2014 £'000	2013 £'000
Staff costs	**28,046**	25,785
Inventories – Cost of inventories recognised as an expense (included in cost of sales)	**46,476**	30,901
Net realised foreign exchange gains	**(716)**	(251)
Depreciation on property, plant and equipment – owned	**1,688**	1,427
Impairment charge on property, plant and equipment – owned	**170**	–
Amortisation of intangible assets	**377**	452
Profit on sale of property, plant and equipment and intangible assets	**(1)**	(66)
Other operating lease rentals payable:		
– Plant and machinery	**237**	246
– Property	**1,184**	1,154
Repairs and maintenance on property, plant and equipment	**1,474**	1,375
Trade receivables impairment	**161**	66
Research and development expenditure	**3,172**	3,178

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

	2014 £'000	2013 £'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	**20**	17
– Tax services – compliance	**–**	50
– Tax services – advisory	**–**	18
– Other non-audit services	**2**	2
	152	217

In addition to the remuneration above, fees were paid in respect of The Porvair plc Pension and Death Benefit Plan audit of £13,000 (2013: £13,000).

4 Employee benefit expense

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

	2014 Average number	2013 Average number
Number		
Metals Filtration	**182**	169
Microfiltration	**462**	435
Head office	**7**	7
	651	611
North American employees included above	**234**	212

	2014 £'000	2013 £'000
Staff costs		
Wages and salaries	**22,623**	20,785
Social security costs	**3,500**	3,431
Other pension costs	**1,420**	1,114
Share based payments	**503**	455
	28,046	25,785

Detailed disclosures of Directors' emoluments and interests in share options are shown in the Remuneration report on pages 39 to 50. The Directors comprise the key management and their remuneration is disclosed in note 29.

5 Finance costs

	Note	2014 £'000	Restated 2013 £'000
Interest payable on bank loans and overdrafts		**292**	404
Unwinding of discount on provisions	20	**13**	9
Pension scheme finance expense	19	**480**	340
		785	753

6 Income tax expense

	Note	2014 £'000	Restated 2013 £'000
Current tax			
UK Corporation tax		**580**	781
Adjustment in respect of prior periods		**(565)**	(131)
Overseas tax		**2,079**	1,587
		2,094	2,237
Deferred tax			
Origination and reversal of temporary differences – UK		**(183)**	(28)
Origination and reversal of temporary differences – Overseas		**178**	46
Adjustment in respect of prior periods		**(2)**	67
Effect of change in deferred tax rates		**–**	(4)
	18	**(7)**	81
		2,087	2,318

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:

	2014 £'000	Restated 2013 £'000
Profit before tax	**8,420**	7,638
Tax at the UK Corporation tax rate of 21.67% (2013: 23.33%)	**1,824**	1,782
Current tax adjustments in respect of prior periods	**(565)**	(131)
Deferred tax adjustments in respect of prior periods	**(2)**	116
Deferred tax on share based payments within the income statement	**(100)**	(105)
Tax effect of expenses not deductible in determining taxable profit	**112**	181
Tax effect of utilisation of previously unrecognised tax losses	**–**	(19)
Effect of change in deferred tax rates	**–**	(4)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**818**	498
Tax charge	**2,087**	2,318

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

	2014 £'000	Restated 2013 £'000
Deferred tax on share based payments (direct to equity)	**470**	(75)
Deferred tax on actuarial losses on the pension fund (direct to comprehensive income)	**166**	(422)
	636	(497)

The standard rate of Corporation Tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the theoretical effective tax rate applied to the Group's profits for this accounting period is 21.67%. The standard rate of Corporation Tax in the UK will fall to 20%. The Group's theoretical effective tax rate for the year ended 30 November 2015 will be 20.33%.

Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2015 is measured at 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.

Notes to the consolidated financial statements continued

7 Earnings per share

	2014 Earnings £'000	2014 Weighted average number of shares	2014 Per share amount (pence)	2013 Restated Earnings £'000	2013 Weighted average number of shares	2013 Restated Per share amount (pence)
Basic EPS						
Earnings attributable to ordinary shareholders	**6,333**	**44,121,412**	**14.4**	5,320	43,254,346	12.3
Effect of dilutive securities						
Earnings attributable to ordinary shareholders	**6,333**	**–**	**14.4**	5,320	–	12.3
Dilutive impact of share options	**–**	**587,422**	**(0.2)**	–	661,024	(0.2)
Diluted EPS	**6,333**	**44,708,834**	**14.2**	5,320	43,915,370	12.1

8 Dividends per share

	2014 Per share (pence)	2014 £'000	2013 Per share (pence)	2013 £'000
Final dividend paid – in respect of prior year	**1.80**	**795**	1.60	694
Interim dividend paid – in respect of current year	**1.20**	**530**	1.10	481
	3.00	**1,325**	2.70	1,175

The Directors recommend a final dividend of 2.0 pence for the financial year ended 30 November 2014 to be paid on 5 June 2015.

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 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

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

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 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	1,799	1,009	1,078	63,796
Accumulated amortisation and impairment	(18,537)	(1,470)	(990)	(264)	(21,261)
Net book amount	41,373	329	19	814	42,535
Year ended 30 November 2014					
Opening net book amount	41,373	329	19	814	42,535
Additions	–	–	42	125	167
Amortisation charges	–	(127)	(46)	(204)	(377)
Exchange differences	834	21	(2)	31	884
Closing net book amount	**42,207**	**223**	**13**	**766**	**43,209**
At 30 November 2014					
Cost	60,744	1,820	1,049	1,234	64,847
Accumulated amortisation and impairment	(18,537)	(1,597)	(1,036)	(468)	(21,638)
Net book amount	**42,207**	**223**	**13**	**766**	**43,209**

Notes to the consolidated financial statements continued

10 Goodwill and other intangible assets continued

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

Amortisation of £377,000 (2013: £452,000) is included in 'cost of sales' in the income statement.

Impairment tests for goodwill

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

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

	2014 Metals Filtration £'000	2014 Microfiltration £'000	2014 Total £'000	2013 Metals Filtration £'000	2013 Microfiltration £'000	2013 Total £'000
	14,457	**27,750**	**42,207**	14,650	26,723	41,373

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 US	Microfiltration US	Microfiltration UK	Microfiltration Germany
Budgeted gross margin	24%	34%	30%	32%
Growth rate used to extrapolate cash flows beyond the budget period	3%	3%	3%	3%
Weighted average cost of capital (pre-tax)	9.9%	9.9%	8.6%	9.4%

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 its markets. The average growth rates used are consistent with past experience and market expectations. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Based on the results of the current period impairment review, no impairment charges have been recognised by the Group in the year ended 30 November 2014. 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 2014.

11 Derivative financial instruments

	2014 Assets £'000	2014 Liabilities £'000	2013 Assets £'000	2013 Liabilities £'000
Forward foreign exchange contracts – current	**–**	**(118)**	239	–
Forward foreign exchange contracts – cash flow hedge – current	**66**	**–**	788	–
Forward foreign exchange contracts – cash flow hedge – non-current	**–**	**–**	144	–
Interest rate swap agreements – cash flow hedge – current	**–**	**–**	–	(20)
	66	**(118)**	1,171	(20)

The loss recognised in the profit and loss account in the year for non-hedged derivatives amounted to £126,000 (2013: gain £172,000).

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

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

The notional principal amount of the outstanding US dollar forward foreign exchange contracts at 30 November 2014 is £4.5 million (2013: £15.1 million) which mature in January 2015.

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

12 Inventories

	2014 £'000	2013 £'000
Raw materials	**5,056**	3,549
Work in progress	**2,722**	4,169
Finished goods	**3,585**	3,899
	11,363	11,617

The Group has recognised a provision in the income statement of £771,000 (2013: £50,000) for the write-down of its inventories during the year ended 30 November 2014. The Group has utilised provisions of £153,000 (2013: £256,000) during the year ended 30 November 2014.

13 Trade and other receivables

	2014 £'000	2013 £'000
Trade receivables	**15,947**	11,773
Less: provision for impairment	**(355)**	(205)
Trade receivables – net	**15,592**	11,568
Other debtors	**100**	119
Prepayments	**1,375**	2,291
	17,067	13,978

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 £15,592,000 (2013: £11,568,000). 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 £4,069,000 (2013: £2,473,000) being past due but not impaired at the year end, of which £2,875,000 (2013: £2,029,000) are less than 30 days overdue.

			2014			2013
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	**11,464**	**–**	**–**	9,025	–	–
0-3 months overdue	**–**	**4,069**	**310**	–	2,473	169
3-6 months overdue	**–**	**59**	**22**	–	70	22
>6 months overdue	**–**	**–**	**23**	–	–	14
Total	**11,464**	**4,128**	**355**	9,025	2,543	205

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

	2014 £'000	2013 £'000
At 1 December	**205**	275
Provision for receivables impairment	**161**	66
Receivables written off during the year as uncollectable	**(21)**	(136)
Exchange differences	**10**	–
At 30 November	**355**	205

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

Notes to the consolidated financial statements continued

14 Cash and cash equivalents

	2014 £'000	2013 £'000
Cash at bank and in hand	**7,891**	6,773
Cash and cash equivalents	**7,891**	6,773

The credit risk associated with cash and cash equivalents is mitigated by holding funds with banks with high credit ratings from AA- to A (2013: AA- to A) as assigned by international credit rating agencies.

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

	2014 £'000	2013 £'000
Pounds Sterling	**2,497**	437
US dollar	**3,158**	3,935
Euro	**1,838**	1,836
Other	**398**	565
	7,891	6,773

15 Trade and other payables

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Trade payables	**6,977**	7,867
Taxation and social security	**1,020**	697
Other payables	**924**	733
Accruals and deferred income	**15,989**	10,175
	24,910	19,472

16 Construction contracts

	2014 £'000	2013 £'000
Amounts due from contract customers included in trade receivables	**2,564**	308
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 accruals and deferred income	**(8,586)**	(3,127)
Net amounts due to contract customers	**(8,586)**	(3,025)
Contract costs incurred plus recognised profits less recognised losses to date	**29,611**	10,105
Less: progress billings	**(38,197)**	(13,130)
Contracts in progress at the balance sheet date	**(8,586)**	(3,025)

At 30 November 2014, retentions held by customers for contract work amounted to £nil (2013: £nil). Advances received from customers for contract work amounted to £158,000 (2013: £148,000).

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

17 Borrowings

	2014 £'000	2013 £'000
Secured multi-currency revolving credit facility of US$20 million (2013: US$20 million) maturing in January 2018 with interest at 2.25% (2013: 2.25%) above US dollar LIBOR	**1,900**	4,474
Secured five year amortising debt facility of £0.75 million (2013: £1.75 million) expiring in June 2015 with interest at 2.0% (2013: 2.0%) above Sterling LIBOR	**727**	1,720
	2,627	6,194

Bank loans of the Group are repayable as follows:	2014 £'000	2013 £'000
Within one year	**727**	983
One to two years	**–**	737
Two to five years	**1,900**	4,474
	2,627	6,194

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 £0.75 million at 30 November 2014) and a £2.5 million multi-currency overdraft facility.

The loans are shown net of issue costs of £102,000 (2013: £134,000) which are being amortised over the life of the loan arrangements. The multi-currency revolving credit facility expires in January 2018.

At 30 November 2014, the Group had £10.8 million (2013: £7.6 million) unused loan facility and an unutilised £2.5 million (2013: £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 2.4% (2013: 3.8%).

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:

	2014 £'000	2013 £'000
Pounds Sterling	**727**	1,720
US dollar	**1,900**	4,474
	2,627	6,194

18 Deferred tax asset

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

	Note	2014 £'000	Restated 2013 £'000
At 1 December		**2,440**	1,996
Exchange (loss)/gain		**(65)**	28
Income statement credit/(charge)	6	**7**	(81)
Tax (charged)/credited to comprehensive income in respect of pension liabilities		**(166)**	422
Tax (charged)/credited to equity in respect of share options		**(470)**	75
At 30 November		**1,746**	2,440

Notes to the consolidated financial statements continued

18 Deferred tax asset continued

The movement of net 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	Restated Retirement obligations £'000	Total £'000
At 1 December 2012	(1,266)	457	(291)	744	2,352	1,996
(Charged)/credited to income statement	(113)	(119)	34	105	12	(81)
Credited to equity in respect of share options	–	–	–	75	–	75
Credited to comprehensive income in respect of pension liabilities	–	–	–	–	422	422
Exchange differences	28	(6)	6	–	–	28
At 30 November 2013	(1,351)	332	(251)	924	2,786	2,440
(Charged)/credited to income statement	(413)	238	67	100	15	7
Charged to equity in respect of share options	–	–	–	(470)	–	(470)
Charged to comprehensive income in respect of pension liabilities	–	–	–	–	(166)	(166)
Exchange differences	(76)	19	(8)	–	–	(65)
At 30 November 2014	**(1,840)**	**589**	**(192)**	**554**	**2,635**	**1,746**

There were no unprovided deferred tax amounts at 30 November 2014 (2013: £nil).

Included within the net deferred tax asset balance of £1,746,000 (2013: £2,440,000) are deferred tax liabilities of £1,494,000 (2013: £1,251,000), which relate to Group entities based in the USA.

19 Retirement benefit obligations

	2014 £'000	2013 £'000
Defined benefit scheme deficit	**12,708**	11,741
Additional pension commitments	**125**	134
	12,833	11,875

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 2014, this amounted to £258,000 (2013: £176,000). In 2014, the Group also made payments of £274,000 (2013: £172,000) to designated US 401k schemes on behalf of its employees. Other US Group pension related costs amounted to £nil (2013: £115,000). 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 £632,000 (2013: £441,000).

b) Defined benefit plan

The Group operates a defined benefit pension scheme, The Porvair plc Pension and Death Benefit Plan (the 'Plan'), covering a number of employees in the UK. The pension scheme is financed through a separate trust fund administered by Trustees with an independent Chairman. The Plan was closed to new entrants in October 2001. The defined benefit scheme exposes the Group to actuarial risks, such as longevity risk, inflation risk, interest rate risk and market (investment) risk. The Group is not exposed to any unusual, entity specific or scheme specific risks. The Group has adopted IAS 19 (revised 2011) 'Employee benefits' in the year and has calculated that as a result of this there has been an additional pre-tax charge of £360,000 in the income statement for the year ended 30 November 2014.

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

The principal actuarial assumptions adopted in the 2012 valuation were:	2012 valuation assumptions %
Past service investment return:	
Pre-retirement discount rate	5.75
Post-retirement discount rate	3.75
Salary increases	3.50

19 Retirement benefit obligations continued

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

The pension charge for the year was £530,000 (2013 restated: £490,000); and the funding via employer contributions was £943,000 (2013: £780,000). The Group expects to make contributions of £981,000 to the Plan in the next financial period.

The valuation of the deficit in the balance sheet is based on the most recent actuarial valuation of the Plan as updated by a qualified actuary to take account of the market value of the assets and the present value of the liabilities of the Plan at 30 November 2014.

Balance sheet

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

	2014	2013
Valuation method	**Projected Unit**	Projected Unit
Discount rate	**3.6%**	4.2%
RPI inflation rate	**3.2%**	3.4%
CPI inflation rate	**2.2%**	2.4%
General salary increases	**3.2%**	3.4%
Rate of increase of pensions in payment	**2.2%**	2.4%
Rate of increase for deferred pensioners	**2.2%**	2.4%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the industry. The SAPS base mortality tables have been used, with a 110% multiplier allowing for future improvements of 1.25% per annum (2013: 1.25% per annum). These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2014 Years	2013 Years
Retiring at the end of the reporting period:		
– Male	**21.6**	21.5
– Female	**23.8**	23.7
Retiring 15 years after the end of the reporting period:		
– Male	**22.9**	22.8
– Female	**25.3**	25.2

Sensitivities have been calculated by valuing the Plan's defined benefit obligation at 30 November 2014 using the same methodology, with relevant changes to the assumptions. The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.1%	Decrease of 1.6%	Increase of 1.7%
Inflation rate	0.1%	Increase of 1.4%	Decrease of 1.3%
Life expectancy	1 year	Increase of 3.1%	Decrease of 3.2%

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19 Retirement benefit obligations continued

The assets in the Plan, all of which are quoted, with their expected rates of return are:

	Value at 30 November 2014 £'000	Value at 30 November 2013 £'000
Equities	**12,923**	12,400
Bonds	**2,080**	1,810
Gilts	**8,450**	7,120
Other quoted	**209**	49
Fair value of Plan assets	**23,662**	21,379
Present value of unfunded obligations	**(36,370)**	(33,120)
Deficit in the Plan (excluding deferred tax)	**(12,708)**	(11,741)

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

	2014 £'000	Restated 2013 £'000
Deficit at 1 December	**(11,741)**	(8,351)
Contributions paid	**943**	780
Current service cost	**(300)**	(250)
Administration expense	**(230)**	(240)
Other finance expense	**(480)**	(340)
Actuarial losses	**(900)**	(3,340)
Deficit at 30 November	**(12,708)**	(11,741)

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

	2014 £'000	2013 £'000
Plan assets at the start of the year	**21,379**	20,149
Benefit payments	**(1,170)**	(1,050)
Company contributions	**943**	780
Administration expense	**(230)**	(240)
Member contributions	**120**	110
Interest income on plan assets	**890**	820
Return on Plan assets (excluding interest income)	**1,730**	810
Plan assets at 30 November	**23,662**	21,379

The actual return on Plan assets was £2,620,000 (2013 restated: £1,630,000)

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

	2014 £'000	Restated 2013 £'000
Plan liabilities at the start of the year	**(33,120)**	(28,500)
Current service cost	**(300)**	(250)
Interest cost	**(1,370)**	(1,160)
Member contributions	**(120)**	(110)
Benefits paid	**1,170**	1,050
Losses on change in financial and demographic assumptions	**(2,630)**	(4,150)
Plan liabilities at 30 November	**(36,370)**	(33,120)

The Plan liabilities by participant member status are as follows:

	2014 £'000	2013 £'000
Active	**(8,130)**	(6,470)
Deferred	**(15,940)**	(14,200)
Pensioner	**(12,300)**	(12,450)
Plan liabilities at 30 November	**(36,370)**	(33,120)

The weighted average duration of the Plan scheme liabilities at the end of the reporting period is 18 years (2013: 18 years).

19 Retirement benefit obligations continued

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

Income statement	2014 £'000	Restated 2013 £'000
Analysis of amounts chargeable to operating profit:		
Current service cost	**(300)**	(250)
Administration expense	**(230)**	(240)
Amount chargeable to operating profit	**(530)**	(490)
Analysis of amounts (charged)/credited to other finance income and costs:		
Interest on Plan liabilities	**(1,370)**	(1,160)
Expected return on assets in the Plan	**890**	820
Net amount charged to other finance income and costs	**(480)**	(340)
Total chargeable to the income statement before deduction of tax	**(1,010)**	(830)
Other items		
Analysis of amounts recognised in the consolidated statement of comprehensive income:		
Actual return on assets in excess of expected return	**1,730**	810
Losses on change in financial and demographic assumptions	**(2,630)**	(4,150)
Total actuarial loss recognised in the consolidated statement of comprehensive income	**(900)**	(3,340)
Cumulative actuarial loss recognised in the consolidated statement of comprehensive income	**(6,240)**	(5,340)

20 Provisions for other liabilities and charges

	2014 £'000	2013 £'000
At 1 December	**125**	116
Charged to the consolidated income statement:		
– Unwinding of discount	**13**	9
At 30 November	**138**	125

The provisions, all of which are non-current, arise from a discounted dilapidations provision for leased property which is expected to reverse in 2023.

Notes to the consolidated financial statements continued

21 Share capital and share premium account

	Number of shares	Ordinary shares £'000	Share premium account £'000	Total £'000
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
At 1 December 2013	43,733,598	875	35,147	36,022
Issue of shares on exercise of share options	629,733	12	187	199
At 30 November 2014	**44,363,331**	**887**	**35,334**	**36,221**

In January 2014, 425,000 ordinary shares of 2 pence each were issued on the exercise of Long Term Share Plan share options for cash consideration of £9,000. In May 2014, September 2014, October 2014 and November 2014, 204,733 ordinary shares of 2 pence each were issued on the exercise of Save As You Earn share options for cash consideration of £190,000.

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.

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 39 to 50.

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)	2014 Number of shares	2013 Number of shares
2005 EMI (Revenue approved)	2006	2009 – 2016	151.00	**10,000**	10,000
2005 (Revenue unapproved)	2009	2012 – 2019	69.50	**25,000**	25,000
2008 Long term share plan	2011	2014 – 2021	2.00	**–**	425,000
2011 3yr Save As You Earn Scheme	2011	2014 – 2015	93.00	**7,763**	215,601
2011 5yr Save As You Earn Scheme	2011	2016 – 2017	93.00	**186,753**	188,743
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**	308,200
2008 Long Term Share Plan	2014	2017 – 2024	2.00	**187,700**	–
2014 3yr Save As You Earn Scheme	2014	2017 – 2018	240.00	**196,365**	–
2014 5yr Save As You Earn Scheme	2014	2019 – 2020	240.00	**116,646**	–
At 30 November				**1,479,427**	1,613,544

22 Share options and share based payment continued

Movements in share options during the year were:

	2014 Weighted average exercise price (pence)	2013 Weighted average exercise price (pence)	2014 Number of shares	2013 Number of shares
At 1 December	**26.77**	45.05	**1,613,544**	2,444,418
Options granted	**151.74**	2.00	**506,136**	308,200
Options forfeited	**168.81**	93.00	**(10,520)**	(18,048)
Options exercised	**31.59**	58.75	**(629,733)**	(1,121,026)
At 30 November	**66.47**	26.77	**1,479,427**	1,613,544
Options exercisable at 30 November	**92.82**	92.79	**42,763**	35,000
Options not exercisable at 30 November	**65.68**	25.31	**1,436,664**	1,578,544
At 30 November	**66.47**	26.77	**1,479,427**	1,613,544

	Year of Grant	Scheme	Exercise price (pence)	2014 Number of shares	2013 Number of shares
Options granted during the year were:	2013	2008	2.00	–	308,200
	2014	2008	2.00	**187,700**	–
	2014	3yr SAYE	240.00	**196,740**	–
	2014	5yr SAYE	240.00	**121,696**	–
Total				**506,136**	308,200

	Year of Grant	Scheme	Exercise price (pence)	2014 Number of shares	2013 Number of shares
Options forfeited during the year were:	2011	3yr SAYE	93.00	**3,105**	14,731
	2011	5yr SAYE	93.00	**1,990**	3,317
	2014	3yr SAYE	240.00	**375**	–
	2014	5yr SAYE	240.00	**5,050**	–
Total				**10,520**	18,048

	Year of Grant	Scheme	Exercise price (pence)	2014 Number of shares	2013 Number of shares
Options exercised during the year were:	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	**204,733**	9,526
	2011	2008	2.00	**425,000**	–
Total				**629,733**	1,121,026

For options exercised in the year, the weighted average share price at the date of exercise was 288 pence (2013: 250 pence).

Notes to the consolidated financial statements continued

22 Share options and share based payment continued

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

Grant date	07/03/06 Porviar 2005 share option	30/01/09 Porvair 2005 share option	01/10/11 SAYE 2011 3 year	01/10/11 SAYE 2011 5 year	02/02/12 Porvair LTSP	01/02/13 Porvair LTSP	01/02/13 Porvair LTSP	01/10/14 SAYE 2014 3 year	01/10/14 SAYE 2014 5 year
Share price at grant date	151.00p	69.50p	116.25p	116.25p	111.50p	177.50p	285.75p	300.00p	300.00p
Exercise price	151.00p	69.50p	93.00p	93.00p	2.00p	2.00p	2.00p	240.00p	240.00p
Shares under option	40,000	350,000	279,833	192,060	486,000	308,200	187,700	196,740	121,696
Vesting period (years)	3	3	3	5	3	3	3	3	5
Expected volatility	30%	50%	30%	30%	30%	30%	30%	30%	30%
Expected life (years)	3	3	3	5	3	3	3	3	5
Risk free rate	4.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Dividend yield	1.39%	1.80%	2.47%	2.47%	2.15%	1.46%	1.01%	0.97%	0.97%
Fair value per option (£)	0.35263	0.21209	0.29606	0.31849	1.02565	1.67899	2.75211	0.85809	0.97057

Share based payments	**2014 £'000**	2013 £'000
Charge for the year	**503**	455

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

	2014 Cumulative translation reserve £'000	**2014 Retained earnings £'000**	2013 Cumulative translation reserve £'000	2013 Restated Retained earnings £'000
At 1 December	**(309)**	**11,967**	612	9,199
Profit for the year attributable to shareholders	**–**	**6,333**	–	5,320
Dividends paid	**–**	**(1,325)**	–	(1,175)
Actuarial losses	**–**	**(900)**	–	(3,340)
Tax on actuarial losses	**–**	**(166)**	–	422
Share based payments	**–**	**503**	–	455
Tax on share based payments	**–**	**(470)**	–	75
Interest rate swap cash flow-hedge	**–**	**20**	–	79
Foreign exchange contract cash flow hedge	**–**	**(866)**	–	932
Exchange differences	**1,125**	**–**	(921)	–
At 30 November	**816**	**15,096**	(309)	11,967

24 Cash generated from operations

	2014 £'000	Restated 2013 £'000
Operating profit	**9,205**	8,391
Adjustments for:		
– Post-employment benefits	**26**	32
– Share based payments	**503**	455
– Depreciation, amortisation and impairment	**2,235**	1,879
– Profit on disposal of property, plant and equipment and intangibles	**(1)**	(66)
Operating cash flows before movement in working capital	**11,968**	10,691
Changes in working capital (excluding the effects of exchange differences on consolidation):		
– Decrease/(increase) in inventories	**415**	(920)
– Increase in trade and other receivables	**(2,440)**	(2,002)
– Increase in payables	**4,213**	4,496
Decrease in working capital	**2,188**	1,574
Cash generated from operations	**14,156**	12,265

25 Summary of deferred and contingent consideration on acquisitions

	Pell Industries £'000	Eisenmann Metallurgical £'000	Thomas Cain £'000	Total £'000
At 1 December 2013	122	1,221	549	1,892
Cash paid in period	(110)	(597)	–	(707)
Recognised in the income statement	(12)	–	(285)	(297)
Exchange movement	–	15	21	36
At 30 November 2014	**–**	**639**	**285**	**924**

	2014 Total £'000	2013 Total £'000
Included within other payables:		
– Deferred and contingent consideration – current	**924**	733
– Deferred and contingent consideration – non-current	**–**	1,159
At 30 November	**924**	1,892

26 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate cash flow risk), credit risk and liquidity risk. The Group's overall risk management programme is disclosed on pages 21 to 24 of the Strategic report and page 31 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:

	2014 $'000	2013 $'000
Outstanding forward contracts	**7,000**	24,710

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

	2014 $'000	2013 $'000
Trade receivables	**15,581**	10,667
Cash balances	**4,946**	6,446
Other current assets	**9,049**	12,132
Trade payables	**(4,800)**	(4,539)
Other current liabilities	**(19,121)**	(14,360)
	5,655	10,346

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

	2014 £'000	2013 £'000
US dollar strengthens	**401**	701
US dollar weakens	**(328)**	(574)

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Notes to the consolidated financial statements continued

26 Financial risk management continued

(ii) Euro

The Group has investments in its European based subsidiaries denominated in Euros. Currency exposure arising from the net assets of the Group's European operations is managed through net purchases from suppliers as a partial natural hedge.

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

	2014 €'000	2013 €'000
Trade receivables	**1,784**	1,770
Cash balances	**2,310**	2,209
Other current assets	**1,437**	764
Trade payables	**(1,098)**	(1,837)
Other current liabilities	**(801)**	(721)
	3,632	2,185

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

	2014 £'000	2013 £'000
Euro strengthens	**322**	202
Euro weakens	**(263)**	(165)

Cash flow interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings in the years ended 30 November 2014 and 2013 carry interest at variable rates and are denominated in US dollars and Sterling. On 12 December 2013, interest rate swap agreements expired reducing the fixed proportion of US denominated borrowings to nil%. The Group had no interest rate swap agreements at the year end (2013: 100%) on its US denominated borrowings to reduce the impact of future changes in US interest rates.

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 £40,000 (2013: £28,000) 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 (2013: £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. Cash and cash equivalents held in the UK is subject to a Composite Account System, which is a banking offset arrangement that allows the set-off of overdraft balances with retained cash.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis to the extent that their contractual maturities are essential for an understanding of the timing of cash flows. The amounts disclosed are the contractual undiscounted cash flows.

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Borrowings	805	49	2,035
Derivatives (excluding foreign exchange)	–	–	–
Trade and other payables	15,100	–	–
At 30 November 2014	**15,905**	**49**	**2,035**

26 Financial risk management continued

	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	–
At 30 November 2013	15,490	2,027	4,819

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined below:

- Quoted prices in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial liabilities at fair value through profit or loss:				
– Trading derivatives	–	(118)	–	(118)
Deferred and contingent consideration	–	–	(924)	(924)
Foreign exchange contracts used for hedging	–	66	–	66
At 30 November 2014	**–**	**(52)**	**(924)**	**(976)**

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial liabilities at fair value through profit or loss:				
– Trading derivatives	–	239	–	239
Deferred and contingent consideration	–	–	(1,892)	(1,892)
Foreign exchange contracts used for hedging	–	932	–	932
Interest rate contracts used for hedging	–	(20)	–	(20)
At 30 November 2013	–	1,151	(1,892)	(741)

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.

The tables below analyse financial instruments by category:

	2014				2013			
	Loans and receivables £'000	**Assets at fair value through profit and loss £'000**	**Derivatives used for hedging £'000**	**Total £'000**	Loans and receivables £'000	Assets at fair value through profit and loss £'000	Derivatives used for hedging £'000	Total £'000
Assets as per the balance sheet								
Foreign exchange contracts	**–**	**–**	**66**	**66**	–	239	932	1,171
Trade and other receivables excluding prepayments	**15,692**	**–**	**–**	**15,692**	11,687	–	–	11,687
Cash and cash equivalents	**7,891**	**–**	**–**	**7,891**	6,773	–	–	6,773
At 30 November	**23,583**	**–**	**66**	**23,649**	18,460	239	932	19,631

Notes to the consolidated financial statements continued

26 Financial risk management continued

	2014 Other financial liabilities at amortised cost £'000	2014 Liabilities at fair value through profit and loss £'000	2014 Derivatives used for hedging £'000	2014 Total £'000	2013 Other financial liabilities at amortised cost £'000	2013 Liabilities at fair value through profit and loss £'000	2013 Derivatives used for hedging £'000	2013 Total £'000
Liabilities as per the balance sheet								
Borrowings	–	–	–	–	(2,627)	–	–	(2,627)
Foreign exchange contracts	–	(118)	–	(118)	–	–	–	–
Interest rate contracts	–	–	–	–	–	–	(20)	(20)
Trade and other payables excluding non-financial liabilities	(18,132)	–	–	(18,132)	(13,708)	–	–	(13,708)
At 30 November	**(18,132)**	**(118)**	**–**	**(18,250)**	(16,335)	–	(20)	(16,355)

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 2014 was not applicable because the Group had a net cash position (2013: not applicable).

The Group's borrowings are subject to certain covenant restrictions imposed by the bank. These covenants have been fully complied with during the year ended 30 November 2014.

27 Contingent liabilities

At 30 November 2014 the Group has advanced payment bonds totalling US$5,565,000 (2013: US$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 performance bonds totalling US$5,704,000 (2013: US$981,000). The bonds are released after a warranty period and in any event no later than June 2018. The Group also has a bid guarantee of US$300,000 (2013: US$nil) which expires in February 2015.

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 2014 were £1,036,000 (2013: £642,000).

Operating lease commitments – minimum lease payments

	2014 Land and buildings £'000	2014 Other £'000	2013 Land and buildings £'000	2013 Other £'000
Future aggregate minimum lease payments in respect of leases expiring in:				
No later than one year	**1,134**	**108**	1,125	127
Later than one year and no later than five years	**3,298**	**232**	3,682	173
Later than five years	**1,516**	**44**	1,875	–
At 30 November	**5,948**	**384**	6,682	300

29 Key management compensation

The Board of Directors, including the Non-Executive Directors, are classified as key management. Their remuneration is shown in the Remuneration report. Their aggregate emoluments are disclosed in the table below.

	2014 £'000	2013 £'000
Salaries and other short term employee benefits	**1,030**	1,009
Post employment benefits	**84**	62
Share based payments	**468**	416
	1,582	1,487

30 Principal subsidiaries

The principal operating companies at 30 November 2014 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 2014, will be annexed to the Company's next annual return.

31 Changes in accounting policies

The Group adopted IAS 19 (revised 2011), 'Employee benefits' on 1 December 2013. The revised employee benefit standard introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. The standard also requires net interest expense to be calculated as the product of the net defined benefit liability and the discount rate as determined at the beginning of the year. The effect of this is to remove the previous concept of recognising an expected return on plan assets. The effects of the changes of the accounting policies are shown in the tables below:

Impact of change in accounting policy on the consolidated income statement

	For the year ended 30 November 2013 as previously reported £'000	Adopt IAS 19 (revised 2011) £'000	For the year ended 30 November 2013 as restated £'000
Continuing operations			
Revenue	84,267	–	84,267
Cost of sales	(55,519)	–	(55,519)
Gross profit	28,748	–	28,748
Distribution costs	(968)	–	(968)
Administrative expenses	(19,139)	(250)	(19,389)
Operating profit	8,641	(250)	8,391
Finance costs	(793)	40	(753)
Profit before income tax	7,848	(210)	7,638
Income tax expense	(2,367)	49	(2,318)
Profit for the year attributable to shareholders	5,481	(161)	5,320
Earnings per share (basic)	12.7p	(0.4)p	12.3p
Earnings per share (diluted)	12.5p	(0.4)p	12.1p

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Notes to the consolidated financial statements continued

31 Changes in accounting policies continued

Impact of change in accounting policy on the consolidated statement of comprehensive income

	For the year ended 30 November 2013 as previously reported £'000	Adopt IAS 19 (revised 2011) £'000	For the year ended 30 November 2013 as restated £'000
Profit for the year	5,481	(161)	5,320
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains in defined benefit pension plans net of tax	(3,079)	161	(2,918)
Items that may be subsequently reclassified to profit or loss			
Exchange losses on translation of foreign subsidiaries	(921)	–	(921)
Changes in fair value of interest rate swaps held as a cash flow hedge	79	–	79
Changes in fair value of foreign exchange contracts held as a cash flow hedge	932	–	932
	90	–	90
Other comprehensive expense for the year, net of tax	(2,989)	161	(2,828)
Total comprehensive income for the year attributable to the owners of Porvair plc	2,492	–	2,492

Independent auditors' report to the members of Porvair plc

Report on the Parent Company financial statements

Our opinion
In our opinion, Porvair plc's Parent Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Parent Company's affairs as at 30 November 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
Porvair plc's financial statements comprise:

- the Parent Company balance sheet as at 30 November 2014;
- the Parent Company reconciliation of movements in shareholders' funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report & 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.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion
In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting
Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' responsibilities set out on pages 32 and 33, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

Independent auditors' report to the members of Porvair plc continued

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

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

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

Other matter
We have reported separately on the Group financial statements of Porvair plc for the year ended 30 November 2014.

Christopher Maw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
23 January 2015

Porvair plc – Parent Company Balance Sheet (under UK GAAP)

Company registered number 01661935

As at 30 November	Note	2014 £'000	2013 £'000
Fixed assets			
Tangible assets	5	**6**	7
Investments	6	**58,455**	59,338
		58,461	59,345
Current assets			
Debtors: amounts falling due after more than one year	7	**405**	355
Debtors: amounts falling due within one year	7	**926**	95
		1,331	450
Cash at bank and in hand	8	**12**	12
		1,343	462
Creditors: amounts falling due within one year	9	**(13,734)**	(13,510)
Net current liabilities		**(12,391)**	(13,048)
Total assets less current liabilities		**46,070**	46,297
Creditors: amounts falling due after more than one year	9	**(2,025)**	(5,345)
Net assets		**44,045**	40,952
Capital and reserves			
Called up share capital	12	**887**	875
Share premium account	13	**35,334**	35,147
Exchange reserves	13	**(658)**	(952)
Profit and loss account	13	**8,482**	5,882
Total shareholders' funds		**44,045**	40,952

The financial statements on pages 91 to 97 were approved by the Board of Directors on 23 January 2015 and were signed on its behalf by:

B D W Stocks

C P Tyler

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 £3,422,000 (2013: £3,017,000).

Parent Company – reconciliation of movements in shareholders' funds

For the year ended 30 November	Note	2014 £'000	2013 £'000
Profit for the financial year		**3,422**	3,017
Dividends		**(1,325)**	(1,175)
		2,097	1,842
Exchange differences	13	**294**	(113)
Net proceeds from issue of ordinary share capital		**199**	659
Share based payments	13	**503**	455
Net increase in shareholders' funds		**3,093**	2,843
Opening shareholders' funds		**40,952**	38,109
Closing shareholders' funds		**44,045**	40,952

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 between 10% and 33.33% straight line for plant, machinery and equipment.

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

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

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

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

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

Deferred taxation
The charge for tax is based on the profit for the year and takes into account tax deferred or accelerated because of timing differences between the treatment of certain items for accounting and tax purposes under FRS 19. Full provision is made for deferred tax resulting from timing differences between profits computed for tax purposes and profits stated in the financial statements to the extent that there is an obligation to pay more tax in the future as a result of the reversal of those timing differences. Deferred tax assets are recognised to the extent that they are expected to be recoverable, and are measured on a non-discounted basis based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

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

Share based payments
The Company has applied the requirements of FRS 20, 'Share based payment'. 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 Company has granted rights over its equity instruments to the employees of subsidiary companies, there is a corresponding increase recognised in the investment in subsidiary undertakings in those years.

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

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

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

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

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

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

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:	**2014 £'000**	2013 £'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	**14**	12
	14	12

3 Employee numbers

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

	2014 £'000	2013 £'000
Administration	**7**	7
	7	7

4 Directors' emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the Remuneration report on pages 39 to 50, and in note 29 of the Group accounts.

5 Tangible assets

	Plant, machinery and equipment £'000
Cost	
At 1 December 2013	177
Additions	4
At 30 November 2014	**181**
Accumulated depreciation	
At 1 December 2013	(170)
Charge for year	(5)
At 30 November 2014	**(175)**
Net book value	
At 30 November 2014	**6**
At 1 December 2013	7

6 Fixed asset investments

	2014 Investment in subsidiary undertakings £'000	2014 Loans to subsidiary undertakings £'000	2014 Total £'000	2013 Investment in subsidiary undertakings £'000	2013 Loans to subsidiary undertakings £'000	2013 Total £'000
Cost						
At 1 December	**49,298**	**26,114**	**75,412**	48,143	26,202	74,345
Additions in the year	**–**	**–**	**–**	1,120	–	1,120
(Repayments)/advances	**–**	**(818)**	**(818)**	–	126	126
Write-off of subsidiary loan balances	**–**	**(12,085)**	**(12,085)**	–	–	–
Capital contributions arising from FRS 20 share based payments charge	**29**	**–**	**29**	35	–	35
Exchange differences	**–**	**30**	**30**	–	(214)	(214)
At 30 November	**49,327**	**13,241**	**62,568**	49,298	26,114	75,412
Accumulated provisions						
At 1 December	**(2,598)**	**(13,476)**	**(16,074)**	(2,598)	(13,476)	(16,074)
Write-off of subsidiary loan balances	**–**	**11,961**	**11,961**	–	–	–
At 30 November	**(2,598)**	**(1,515)**	**(4,113)**	(2,598)	(13,476)	(16,074)
Net book value						
At 30 November	**46,729**	**11,726**	**58,455**	46,700	12,638	59,338
At 1 December	**46,700**	**12,638**	**59,338**	45,545	12,726	58,271

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

Loans written off in the period relate to balances with previously dormant subsidiaries that have been dissolved in the year.

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.

7 Debtors

	Note	2014 £'000	2013 £'000
Amounts falling due within one year:			
Corporation tax recoverable		**892**	64
Prepayments		**34**	31
		926	95
Amounts falling due after more than one year:			
Deferred taxation	11	**405**	355
		405	355

8 Cash at bank and in hand

	2014 £'000	2,013 £'000
Cash at bank and in hand	**12**	12

Notes to the financial statements continued

9 Creditors

	Note	2014 £'000	2013 £'000
Amounts falling due within one year:			
Borrowings	10	**12,265**	11,826
Trade creditors		**80**	132
Taxation and social security		**95**	109
Accruals and deferred income		**1,294**	1,443
		13,734	13,510
Amounts falling due after more than one year:			
Borrowings	10	**1,900**	5,211
Retirement obligations		**125**	134
		2,025	5,345

10 Borrowings

	2014 £'000	2,013 £'000
Secured multi-currency revolving credit facility of US$20 million (2013: US$20 million) maturing in January 2018 with interest at 2.25% (2013: 2.25%) above US dollar LIBOR	**1,900**	4,474
Secured five year amortising debt facility of £0.75 million (2013: £1.75 million) expiring in June 2015 with interest at 2.00% (2013: 2.00%) above Sterling LIBOR	**727**	1,720
Bank overdraft offset against cash balances in other Group companies under a Group banking offset arrangement	**11,538**	10,843
	14,165	17,037

	2014 £'000	2013 £'000
Bank and other loans of the Company are repayable as follows:		
Within one year	**12,265**	11,826
One to two years	**–**	737
Two to five years	**1,900**	4,474
	14,165	17,037

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 (reduced to £0.75 million at 30 November 2014) and a £2.5 million multi-currency overdraft facility.

The loans are shown net of issue costs of £102,000 (2013: £134,000) 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 2014, the Company had £10.8 million (2013: £7.6 million) unused loan facility and an unutilised £2.5 million (2013: £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.

11 Deferred tax asset

Deferred tax assets have been recognised as follows:

Assets	2014 £'000	2013 £'000
Accelerated capital allowances	**4**	4
Short term timing differences	**401**	351
	405	355

11 Deferred tax asset continued

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

	2014 £'000	2013 £'000
At 1 December	**355**	258
Adjustment in respect of prior years	**(45)**	–
Tax credited to equity in respect of share options	**95**	97
At 30 November	**405**	355

There were no unrecognised deferred tax amounts at 30 November 2014 (2013: £nil).

The deferred tax asset in the table above has been included in debtors: amounts falling due after more than one year (note 7).

12 Called up share capital

	2014 £'000	2013 £'000
Allotted and fully paid:		
44,363,331 ordinary shares of 2 pence each (2013: 43,733,598)	**887**	875

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

13 Reserves

	Share premium account £'000	Exchange reserves £'000	Profit and loss account £'000
At 1 December 2013	35,147	(952)	5,882
Premium on shares issued	187	–	–
Retained profit for the year	–	–	2,097
Exchange differences	–	294	–
Share based payments	–	–	503
At 30 November 2014	**35,334**	**(658)**	**8,482**

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

14 Contingent liabilities

The Company has no contingent liabilities at 30 November 2014.

15 Financial Commitments

At 30 November 2014 the Company had annual commitments under non-cancellable operating leases expiring as follows:

	2014		2013	
	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	**48**	**1**	–	1
	48	**1**	12	2

Shareholder information

Registrar services

Our shareholder register is managed and administered by Capita Asset Services. Capita Asset Services should be able to help you with most questions you have in relation to your holding in Porvair plc shares.

Capita can be contacted at:

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

www.capitaassetservices.com

Telephone: 0871 664 0300 (calls cost 10p a minute plus network extras, lines are open 8.30am-5.30pm Mon-Fri) (from outside the UK: +44 (0) 20 8639 3399) E-mail: shareholderenquiries@capita.co.uk.

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

Share dealing service

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

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

www.capitadeal.com – online dealing

0871 664 0364 – telephone dealing

email: info@capitadeal.com

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

Financial calendar 2015

30 November 2014
Financial year end 2014

26 January 2015
Full year 2014 results

14 April 2015
AGM

30 April 2015
Ex-dividend date

01 May 2015
Record date for dividend

31 May 2015
Half year 2015 period end

05 June 2015
Payment date for dividend

29 June 2015
Half year 2015 results announcement

30 July 2015
Ex-dividend date

31 July 2015
Record date for dividend

04 September 2015
Payment date for dividend

30 November 2015
Financial year end 2015

25 January 2016
Full year 2015 results

Other information

Contact details and advisers

Company Secretary and registered office
Chris Tyler
Porvair plc
7 Regis Place
Bergen Way
King's Lynn
Norfolk PE30 2JN

Telephone: +44 (0)1553 765500
Fax: +44 (0)1553 765599

www.porvair.com

Company registration number
01661935

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Abacus House
Castle Park
Cambridge CB3 0AN

Principal bankers
Barclays Bank plc
Barclays Commercial Bank
PO Box 885
Mortlock House
Station Road
Histon
Cambridge CB24 9DE

Registrars and transfer office
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Solicitors
Travers Smith LLP
10 Snow Hill
London EC1A 2AL

Stockbrokers
Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET

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Porvair plc
7 Regis Place
Bergen Way
King's Lynn
Norfolk PE30 2JN

Telephone: +44 (0)1553 765500
Fax: +44 (0)1553 765599

www.porvair.com