

Aerospace & Industrial | Laboratory | Metal Melt Quality

**RESILIENT
RESPONSIBLE
SUSTAINABLE**

Porvair is a specialist filtration, laboratory and environmental technology group.

We focus on markets which have long term growth potential of which aerospace, energy and industrial process, laboratories and metal melt quality are the most important.

At the heart of what we do is filtration and engineering expertise, which enables us to solve our customers' increasingly complex challenges across all the markets we serve.

Our purpose

The Group's fundamental aim remains the development of specialist filtration, laboratory and environmental technology businesses for the benefit of all stakeholders. Responsible business development is essential for creating long term value.

Our stakeholders

Engaging with our stakeholders is fundamental to the way we do business.

These include:

- Customers
- Employees
- Suppliers
- Shareholders
- Communities



As part of our commitment to transparent reporting this Annual Report also sets out for the first time our approach to **Environmental, Social and Governance (ESG)**. Read more on pages 40 to 55.



Read more about stakeholder engagement and decision-making in our **s172 Statement** on pages 56 to 59.

Group financial performance 2020

A RESILIENT PERFORMANCE

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Revenue (£m)

£135.0m

(2019: £144.9m)

Adjusted profit before tax* (£m)

£12.6m

(2019: £14.8m)

Operating profit (£m)

£12.6m

(2019: £14.8m)

Net cash (£m)

£4.9m

(2019: £4.0m)

Adjusted operating profit* (£m)

£13.6m

(2019: £15.6m)

Basic earnings per share (pence)

18.4p

(2019: 23.6p)

Adjusted basic earnings per share* (pence)

21.6p

(2019: 25.3p)

Total dividend (pence per share)

5.0p

(2019: 4.9p)

*See notes 2 and 8 for definitions and reconciliations.

The Group's record for growth, cash generation and investment is as follows:

	5 years CAGR*	10 years CAGR*	15 years CAGR*
Revenue growth	7%	8%	8%
Earnings per share growth	3%	13%	11%
Adjusted earnings per share growth	6%	15%	13%
	£m	£m	£m
Cash from operations	70.9	127.9	154.4
Investment in acquisitions and capital expenditure	50.5	72.2	86.3

*Compound annual growth rate

Porvair's strategy and purpose has remained consistent since 2004, a period that now encompasses two recessions and many years of growth. This longer term record gives the Board confidence that the Group can show resilience in difficult times, and will return to growth when economies allow.



Read more in the Chief Executive's report on pages 14 to 23.

Porvair at a glance

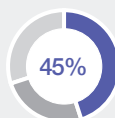
The Group has three divisions:
**Aerospace & Industrial, Laboratory
and Metal Melt Quality.**

Our divisions



Aerospace & Industrial division

The Aerospace & Industrial division designs and manufactures a broad range of specialist filtration equipment for aerospace, energy, and industrial applications. It has operations in the UK, US and the Netherlands and its sales are global.



Approximate split
of Group revenue

Our main operating companies and principal markets

- Porvair Filtration Group
- Royal Dahlman
- Aerospace
- General Industrial
- Energy
- Petrochemical

2020 performance

Revenue

£62.0m

(2019: £64.6m)

Adjusted operating profit

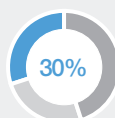
£6.3m

(2019: £8.5m)



Laboratory division

The Laboratory division designs and manufactures instruments and consumables for use in environmental and bioscience laboratories with a particular focus on water analysis instruments, diagnostics and sample preparation equipment. It has operations in the UK, US, Germany, the Netherlands and China and its sales are global.



Approximate split
of Group revenue

Our main operating companies and principal markets

- Seal Analytical
- Porvair Sciences
- JG Finneran ("JGF")
- Environmental
- Sample preparation
- Chromatography

2020 performance

Revenue

£40.1m

(2019: £41.3m)

Adjusted operating profit

£6.7m

(2019: £6.6m)



Metal Melt Quality division

The Metal Melt Quality division designs and manufactures porous ceramic filters for the filtration of molten metals. It is the world leader in the filtration of cast house aluminium and super alloys. It has operations in the US and China and its sales are global.



Approximate split
of Group revenue

Our main operating companies and principal markets

- Selee Corporation
- Selee China
- Global Aluminium
- US Foundry
- Super Alloys

2020 performance

Revenue

£32.9m

(2019: £39.0m)

Adjusted operating profit

£2.8m

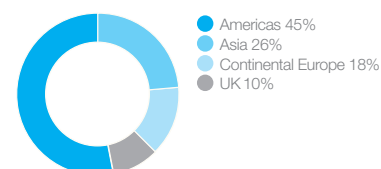
(2019: £2.8m)

Where we operate

We have manufacturing operations in the UK, US, Germany, the Netherlands and China and we sell our products globally. We operate in close partnership with our customers and our strategy is to establish geographic presence where end-markets require.

Revenue by geographic region (%)

Revenue by customer location



Revenue by manufacturing location



Regional dynamics

Americas

The Group continues to expand its footprint in North America:

The Group has seven manufacturing sites in the US. Over the last five years it has grown its manufacturing revenue organically and by acquisition.

As the footprint in the US grows the Group seeks to produce more in the US for domestic use, importing less from other locations. Export sales from the US, particularly to the Middle East and Asia, form an important part of each division's sales. In 2020 more capacity was commissioned for the Laboratory division.

Revenue

45%

45% of Group revenue comes from the Americas.

UK and Europe

Phased investments in the UK and Europe:

The acquisition of Royal Dahlman in late 2019 increased the Group's footprint in Continental Europe giving the Aerospace & Industrial division new capabilities in the oil and gas sector and providing new routes to market particularly in the Benelux region. Rohasys, acquired in 2017, has accelerated the Laboratory division's drive into robotic automation for laboratories.

Revenue

10%

10% of Group revenue comes from the UK.

18%

18% of Group revenue comes from Europe.

Asia

The Group continues to build its presence in Asia:

The Chinese government's 'China 2025' drive to increase domestic high value manufacturing should raise the quality requirements of domestic aluminium cast houses. This offers opportunities for the Group's Metal Melt Quality plant in Xiaogan for its high quality filtration solutions. The plant has had significant investment over the last five years and operates to the equivalent high standards of safety and quality as those met in the US. India, China, Japan and Korea are all important markets for the Group.

Revenue

26%

26% of Group revenue comes from Asia.

Porvair in a changing world

UNDERSTANDING GLOBAL TRENDS AND CHALLENGES

Global trends including: tighter environmental regulations; growth in analytical science; changes in transportation; the replacement of plastic by aluminium; and the drive for manufacturing process efficiency all offer opportunities for which the Group develops differentiated product developments.

We aim to meet the growing need for sustainable solutions in ways that are economically, environmentally and socially responsible.

Population growth and changing societal expectations

Global population is expected to increase to 8.5 billion by 2030, which will increase demand for clean water and energy. In tandem, a growing middle class, particularly in Asia, will drive growth in aviation passenger air miles.

Transition to low carbon global economy

The United Nations has set a target of reaching Net zero carbon emissions by 2050 and the UK government has adopted this target in law.

Environment preservation and waste

Environmental issues, including plastic waste and preservation of biodiversity, are challenging all businesses globally.

Increasing regulatory compliance: emissions

Governments, regulatory authorities and businesses are mandating tighter standards of environmental cleanliness; product performance; testing regimes; and product quality. For filtration specialists this is an opportunity.

(Source: United Nations Sustainable Development Report)

Improved manufacturing efficiency

Improved process efficiency and performance is a key driver to reduce waste and improve energy efficiency. Developments in our filtration and separation technologies help drive manufacturing efficiency; increase the accuracy of analytical tests; and provide cleaner emissions.

Technology and innovation

Technological developments and innovation will drive lower emissions and use of resources. Filtration and separation technology will be part of the solution.

Global pandemic – Covid-19

The Global pandemic has disrupted global trends and some of the Group's markets, most particularly aerospace, and provided opportunities in other markets such as diagnostic equipment. Once the world recovers from the pandemic, the Group expects the trends for tighter regulation; growth in analytical science; the expansion of air travel; the replacement of plastic with aluminium and the drive for manufacturing efficiency to reassert themselves.





We continue to focus on markets which have long term growth potential; clear product regulation requirements; and require strong engineering or technical skills. Many of the products developed by Porvair are used to the benefit of the environment and wider society and we recognise that our operations can make an important contribution to a more sustainable world.

We seek markets with robust demand drivers and where we can maintain barriers to entry through our specialist design and engineering skills, patent protection and quality accreditation.

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

We continue to invest in research and development to provide innovative products that solve the challenges our customers and society faces and provide Porvair with further opportunities for growth.

The global pandemic has tested the resilience of the business. We are working to ensure that the business emerges in better shape to grow and respond to future opportunities.

Porvair in a changing world continued

MAINTAINING OPERATIONAL AND COMMERCIAL RESILIENCE

The Group serves the needs of a range of specialist filtration markets, such that it is not dependent upon any one market.

The Group seeks to maintain its competitive advantage through technical differentiation and product quality. The Group seeks to identify specific opportunities where it has commercial, reputational or technological advantage.

Aerospace

Specialism

The Group is a leading specialist in the design and manufacture of filtration components and assemblies for the aerospace industry. Our components are designed specifically for particular airframes and are specified on most of the world's commercial airframes.

Niche positions

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

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

2020 opportunities and challenges

- The reduction in global flying hours by up to 85% and production of aircraft by up to 30% has had a significant impact on the Group's revenue from aerospace.
- The suspension of production of the Boeing 737-Max has had an impact on the Group's revenue.
- The Aerospace operations have been restructured to reduce costs while maintaining the Group's capabilities ready for when aerospace demand returns.
- The Group does not expect the fundamental drivers of air traffic (global trade, growing middle class populations, tourism) to change in the longer term.

Energy & Industrial

Specialism

The Group provides filtration solutions for energy and industrial process applications. Our filters are to be found in many of the harshest industrial environments.

Niche positions

The Group has niche expertise in:

- Hot gas and gasification filtration.
- Pulse jet filtration systems.
- Nuclear containment filtration.
- Ballast water filtration.
- FCC slurry oil filtration.
- Microelectronics manufacturing filtration.

2020 opportunities and challenges

- The integration of Royal Dahlman into the Group has delivered filtration manufacturing synergies to the Group.
- Development of the Group's gasification filters has significantly improved their performance.
- IMO regulations for ballast water and low emissions bunker fuel provide the Group with good opportunities.



Laboratory

Specialism

The Group designs and manufactures a range of equipment for use in laboratories. Seal Analytical is a global leader in the manufacture of laboratory based instruments and robotics for clean water analysis. Porvair Sciences produces a broad range of microplates, filters, tubing and associated consumables used in diagnostics, sample preparation and chromatography applications.

Niche positions

The Group has niche expertise in:

- Clean water analysis.
- Laboratory robotics.
- Sample preparation, filtration, and separation.
- The filtration of genetic material.
- Chromatography consumables.

2020 opportunities and challenges

- In the first stages of the pandemic demand from industrial and academic institutions reduced.
- The Group provided components to several of the consortia providing breathing apparatus required in the first wave of the pandemic.
- New capacity and clean room manufacturing space has been installed to meet the demand for diagnostic testing related filters and microplates.
- The Group's opportunities are expected to improve as regulations tighten throughout the world; demand for clean water in the developing world increases; and the availability of cheaper and more efficient testing equipment drives demand for sample preparation.



Adapting to
market challenges
and opportunities

Metal Melt Quality

Specialism

The Group's Metal Melt Quality division specialises in the design and manufacture of ceramic filters for molten metal. The Group provides patent protected filters for: the aluminium cast house industry; the filtration of gray and ductile iron; and the filtration of super alloys used in the manufacture of turbine blades.

Niche positions

- The global market for cast house aluminium filters, particularly high magnesium alloys.
- The North American market for gray and ductile iron filters, mainly used in the manufacture of engine blocks and gearbox housings.
- Bespoke 3D printed ceramic filters used in the global market for aerospace and IGT exotic alloy turbine blades.

2020 opportunities and challenges

- In the first stage of the pandemic the plant in Wuhan, China, was closed for eight weeks.
- Growth in the China plant after reopening helped it break even.
- US operations were impacted in the second half by the recessionary effects of the pandemic.
- The US plant was tightly controlled and periods of production shutdown were used to clean the facilities, improve workflow and upgrade systems.
- In the long run aluminium production is expected to grow as more use is made of aluminium's lightweight and fully recyclable properties.



Porvair in a changing world continued

RESPONSIBLY MANAGING
THE IMPACT OF COVID-19**Prioritising safety and supporting customers, employees, suppliers and communities during the pandemic****Employee wellbeing and workplace safety**

In the early weeks of the pandemic the priority for the Group was to ensure staff were able to work safely. Vulnerable staff were shielded until working practices and plant layouts had been amended to meet revised safety guidelines. The plant in Hubei Province was closed for two months from February with staff retained on full pay. All other plants remained open, with some minor supply disruptions and occasional absences for isolation.

Business continuity

Spending was reduced across the Group. Ordinarily, a combination of overtime and temporary or subcontracted staff is used to give operational flexibility, but these arrangements were adjusted to amend capacity. By the end of year the Group's workforce had reduced by 13%.

Investing responsibly for the future

The Group took measures to ensure it would emerge robustly from the pandemic. It continued to undertake sensible capital expenditure, either to meet anticipated demand, increase margins or improve quality. Projects to improve process automation and visual inspection continued unchanged and investments in capacity for diagnostic filters and microplates were made to bring on extra capacity to meet demand.



Deploying our expertise and working collaboratively

The Group has been able to support the fight against the pandemic in a number of ways:

In the early stages, the Group:

- Produced filters and other components for several of the UK consortia that developed hospital breathing apparatus.
- Contributed in a small way to provision of personal protective equipment, by using its development 3D printers to make components for face masks.

Latterly, the Group has seen increasing demand for:

- Pipette tip filters and microplates used in the diagnostic analysis of Covid-19 samples.
- Porous plastic vents used in some of the Covid-19 analysis instruments.

Capital investments are being made to scale up the Group capacity to meet this demand.

Supporting
the fight against
Covid-19



Porvair in a changing world continued

WELL POSITIONED TO PROVIDE
SOLUTIONS FOR A CLEANER AND
SAFER WORLDDelivering sustainable solutions and
creating long term value

Many of the products developed by Porvair are used to the benefit of the environment and wider society and we recognise that our operations can make an important contribution to a cleaner and safer world. We act responsibly and with integrity wherever we operate.

Responsible business development is essential for creating long term value for all our stakeholders and we aim to meet the growing need for sustainable solutions in ways that are economically, environmentally and socially responsible.

We have a clear focus on our strategic priorities to deliver sustainable success. We are well positioned for the opportunities ahead.

Sustainable



Porvair: Moving towards Zero Carbon

In June 2019, the UK became the first major country to legislate for a Net zero target for carbon emissions by 2050.

Most Porvair products contribute to a cleaner world by reducing emissions, improving process efficiencies or identifying pollutants.

The Group supports the UK Government goal of reducing greenhouse gas emissions to Net zero by 2050 and will adopt TCFD (Task force on Climate related Financial Disclosures) guidelines as it develops its ESG reporting framework.

Moving towards Net zero is consistent with the Group's fundamental aim to develop specialist filtration, laboratory and environmental technology businesses for the benefit of all stakeholders.

ESG

A growing focus for many of our stakeholders is how we approach Environmental, Social and Governance issues at Porvair. Sustainability is an area we have carefully considered in the last year and we have taken practical measures to demonstrate its importance within our business and how it reinforces our ability to create value for all our stakeholders.



Read more about our Move towards Zero Carbon in our ESG report on pages 40 to 55.

Assisting in the
drive to a lower
carbon future



Chairman's statement

Resilient performance and strong balance sheet.



John Nicholas, Chairman

“

Prospects for the medium term are good and Porvair should return to its historical pattern of growth once the pandemic retreats.

Net cash

£4.9m

Net cash at 30 November 2020 was £4.9 million (2019: £4.0 million).

Dividend

5.0p

Dividend increased to 5.0 pence per share (2019: 4.9 pence).

Introduction

Porvair aims to develop specialist filtration, laboratory and environmental technology businesses for the benefit of all stakeholders. I am pleased to report that this year Porvair has delivered a resilient performance in challenging circumstances. We finished the year with a strong balance sheet and are optimistic for the future.

Results

Revenue in the year to 30 November 2020 was 7% lower at £135.0 million (2019: £144.9 million). Operating profit was 15% lower at £12.6 million (2019: £14.8 million) and adjusted operating profit was 13% lower at £13.6 million (2019: £15.6 million). Basic earnings per share were 18.4 pence (2019: 23.6 pence) and adjusted earnings per share was 21.6 pence (2019: 25.3 pence). At 30 November 2020 the Group had net cash of £4.9 million (2019: £4.0 million).

While 2020 started well, trading was disrupted by the pandemic. Actions were taken to protect staff wellbeing. Working practices and plant layouts were changed to introduce social distancing and other Covid-19 safety features, and vulnerable members of staff were supported when away from work.

Management adjusted operations to changing levels of demand and continued to invest for post-Covid-19 economic recovery. Order levels dropped in the early summer, with sharp declines in aerospace, molten metal and industrial markets. Operating costs were reduced, ensuring that the Group remained profitable and cash generative throughout the year. Towards the end of the year order levels began to improve, led by strong demand for high volume filters and microplates for diagnostics.

Current trading and outlook

Until the pandemic recedes, near term trading remains unpredictable and the Group continues to withhold earnings guidance. But the results for the year turned out to be better than initially feared in our contingency planning. This was partly because the Group went into the pandemic financially sound and stable; and partly because the underlying growth drivers for most of the markets we serve remain in place, even though they are currently more volatile than usual. We expect demand for emissions control, clean water, process efficiency and laboratory consumables to revert to normal levels as economies allow. Certain end markets, aerospace in particular, may take longer to recover; while others, mainly in the Laboratory Division, are already rebounding strongly.

We entered 2021 with a strong balance sheet and a lower cost base than a year ago, which will be helpful while we wait for vaccinations to bring the pandemic under control. The next few months may continue to be difficult, but beyond that we are increasingly optimistic. Investments made over the last few years will help margins and the new product development pipeline is strong for the near term. Prospects for the medium term are good and Porvair should return to its historical levels of growth once the pandemic retreats.

“I am pleased to report that this year Porvair has delivered a resilient performance.”

Dividends and Pension

Consistent with its strategic purpose of developing Porvair for the benefit of all stakeholders, the Board has been mindful of the interests of shareholders and pensioners. The Company increased its deficit recovery payments to the Porvair Pension Plan to £1.6 million (2019 £1.0 million) per annum.

The Board re-affirms its progressive dividend policy and recommends a final dividend of 3.3 pence per share, a cost of £1.5 million (2019: 3.2 pence per share, a cost of £1.5 million). The full year dividend increased by 2% to 5.0 pence per share, a cost of £2.3 million (2019: 4.9 pence per share, a cost of £2.2 million). The Company had £17.9 million (2019: £19.2 million) of distributable reserves at 30 November 2020.

Board changes

The Board comprises a Chairman, two executive Directors, and two other Independent Non-Executive Directors. During the year Sally Martin became Senior Non-Executive Director and Jasi Halai became Chairman of the Audit Committee following Paul Dean's retirement from the Board in February 2020.

We recruited James Mills who will become Group Finance Director when he joins the Group in March 2021. Chris Tyler will step down from the Board at the Annual General Meeting in April 2021 but will retain his role as Company Secretary.

Staff

This has been a challenging year and the response of our staff to the many difficulties they have faced has been outstanding. Porvair believes in devolving management autonomy as far as possible and the actions taken by our management teams in looking after staff wellbeing have been exemplary. The Board takes employee engagement seriously and, as set out in the ESG report, has a system in place to make sure it hears and responds to all staff comments. We are fortunate to have colleagues around the Group who show such pragmatism and optimism at times like these and the Board is very grateful for the hard work, enthusiasm and dedication of all our staff.

Governance

The Board sets high standards for its corporate governance. The Group has a clear purpose and demonstrates strong ethical behaviour within a framework of transparent and robust governance. It has in place monitoring systems to ensure that standards are upheld throughout the Group. The Board complied with all aspects of the 2018 UK Corporate Governance code throughout the year ended 30 November 2020.

In 2020 the Group has:

- implemented the 2018 UK Corporate Governance Code in full from 1 December 2019;
- conducted a competitive tender process to select a new firm of auditors and appointed RSM UK Audit LLP from September 2020;
- drafted a new remuneration policy, which is included in this report and accounts on pages 81 to 89, which will be put to shareholders for approval at the Annual General Meeting in April 2021; and
- reported for the first time on pages 56 to 59 on the matters set out in Section 172 of the Companies Act 2006 that the Board considered in its discussions and decision-making.

Key Board decisions

The principal decisions taken by the Board in 2020 were those of a strategic nature that are significant to any of our key stakeholder groups. In 2020 these were:

- Consideration of the effect on the Group of the Covid-19 pandemic;
- Decisions to pay the final dividend for 2019 and the approval of the interim dividend for 2020;
- Appointment of new auditors; and
- Approval of the Group's strategic plan for 2021 to 2024.

These are described in full on pages 58 and 59.

Environmental, Social and Governance ('ESG')

The Board sets out its ESG report on pages 40 to 55. In that report the Group has:

- incorporated a first paper on how the Group might address a zero carbon future;
- implemented a common workforce engagement system across the Group; and
- agreed key ESG metrics, setting these at the heart of Group strategy.

The Board sees this as a start and expects that its activities and reporting will develop over time.

John Nicholas

Chairman

29 January 2021

Transparent reporting

Porvair has a clear purpose, and integral to delivering it is being a socially responsible company which demonstrates strong ethical behaviour within a framework of transparent and robust governance.

The Board actively engages with our shareholders, employees and wider stakeholder Groups when making decisions, and considers the impact of Group activities on the community, environment and its reputation.



Read more about Stakeholder engagement and the Board's decision-making within our s172 Statement on pages 56 to 59.
Read more about our compliance in our Governance section on pages 60 to 89.

Chief Executive's report

Against the backdrop of a challenging year, Porvair remains well positioned with optimism for the future.



Ben Stocks, Group Chief Executive

“

Over the course of this extraordinary year management has acted to protect staff wellbeing; adjust operations to changing levels of demand; and to continue investment for post Covid-19 economic recovery. The ill wind of the pandemic was mainly a challenge but has also brought opportunities.

Revenue

£135.0m

Revenue fell 7% to £135.0 million (2019: £144.9 million).

Cash generated from operations

£13.2m

(2019: £16.8 million).

Staff numbers

13%

Staff numbers are 13% lower at 880 (2019: 1,017).

Overview of 2020 and impact of Covid-19

Over the course of this extraordinary year, management has acted to protect staff wellbeing; adjust operations to changing levels of demand; and to continue investment for the post Covid-19 economic recovery. There are early indications that the year ahead will show the benefits of these actions.

While 2020 started strongly, trading was overtaken by events: first in Wuhan where our plant was shut for eight weeks to the end of March; and later across the rest of the Group where supply was constrained by lockdowns in the second quarter and again towards the end of the year. Order levels dropped in the early summer, with de-stocking sharpening declines in aerospace, molten metal and industrial markets. Actions were taken to ensure working practices were Covid-19 compliant and members of staff were fully supported when away from work. In July, orders stabilised at a lower level and they have increased steadily since. Operating costs were reduced, ensuring that the Group remained profitable and cash generative throughout. Recessionary effects meant the Group finished the year with 13% fewer staff.

The ill wind of the pandemic was mainly a challenge, but it also brought opportunities. Manufacturing equipment upgrades for productivity improvements were more easily carried out. Periods of lower demand are good times to change process control software, clean facilities and improve workflow. There was more time for skills training. It was also a good year for new product development, with some projects accelerating as technical staff were less drawn into daily production issues. New products have always been a focus at Porvair and the current pipeline is encouraging: new industrial process filters are in trials; wider applications have been found in superalloy filtration; and high volume life science filters for diagnostics are now in production and will need capacity expansion in early 2021. All of this will benefit the Group when demand recovers.

Porvair remains positioned to address global growth trends, some of which have been affected by the pandemic. While the near term prospects for aerospace are more challenging than they have been in recent years, the outlook for laboratory sample preparation and diagnostics is much more positive. The fundamental drivers of Group demand remain in place: tightening environmental regulations; growth in analytical science; more carbon-efficient transportation; the replacement of plastic and steel by aluminium; and the drive for manufacturing process efficiency.

Porvair's strategic purpose remains the development of specialist filtration, laboratory and environmental technologies for the benefit of all stakeholders, and the Board has been mindful of the need to balance these obligations this year. This statement, and the full Environmental, Social and Governance ('ESG') report that accompanies it, set out how the Group has sought to benefit customers, staff, shareholders, pensioners, and communities in 2020.

Financial results

	2020 £m	2019 £m	Change %
Revenue	135.0	144.9	(7)
Operating profit	12.6	14.8	(15)
Adjusted operating profit*	13.6	15.6	(13)
Adjusted profit before tax*	12.6	14.8	(15)
Profit before tax	11.6	14.0	(17)
Adjusted earnings per share*	21.6p	25.3p	(15)
Earnings per share	18.4p	23.6p	(22)
Cash generated from operations	13.2	16.8	
Net cash at 30 November	4.9	4.0	

*See note 2 and note 8

Reported and constant currency revenue reduced by 7%. Profit before tax reduced by 17%. For the first time in many years the Group recorded significant adjusted items. The principal adjustments concern the release of provisions; impairment of tangible assets, principally in China; and charges related to redundancies. These are set out in full in note 2.

Adjusted profit before tax reduced by 15% and adjusted earnings per share reduced by 15% to 21.6 pence. The Group invested £4.2 million (2019: £14.1 million) in acquisitions and capital expenditure in 2020.

The Group's record for growth, cash generation and investment is as follows:

	5 years CAGR*	10 years CAGR*	15 years CAGR*
Revenue growth	7%	8%	8%
Earnings per share growth	3%	13%	11%
Adjusted earnings per share growth	6%	15%	13%
	£m	£m	£m
Cash from operations	70.9	127.9	154.4
Investment in acquisitions and capital expenditure	50.5	72.2	86.3

*Compound annual growth rate

Porvair's strategy and purpose has remained consistent since 2004, a period that now encompasses two recessions and many years of growth. This longer term record gives the Board confidence that the Group can show resilience in difficult times, and will return to growth when economies allow.

Strategy and business model

Strategic statement and business model

Porvair develops specialist filtration, laboratory and environmental technology businesses for the benefit of all stakeholders. Principal measures of success include consistent earnings growth and improvements in selected ESG measures as set out in the full ESG report.

Porvair 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 typically designed into a system that will have a long life-cycle and must perform to a given specification.

Orders are won by offering the best technical solutions at an acceptable commercial cost. Technical expertise is necessary in all markets served. New products are often adaptations of existing designs with attributes validated in our own test and measurement laboratories. Experience in specific markets and applications is valuable in building customer confidence. Domain knowledge is important, as is deciding where to direct resources.

This strategy continues to work well for the Group, which, from a position of relative financial strength, invests in both organic and acquired growth, as appropriate.

A full ESG report is published for the first time within this Annual Report, setting out:

- Porvair's ESG management framework and goals;
- How the Group might address a Net zero carbon future;
- ESG metrics and results; and
- How the Group has acted for the benefit of its stakeholders in 2020.



Read more in our ESG report on pages: 40 to 55.

Read more in our Divisional review section on pages: 18 to 23.

Chief Executive's report continued

Strategy and business model continued

Our business model has five principles:

1

Focus on markets where we see long term growth potential.

These are:
Aerospace & Industrial; Laboratory;
and Metal Melt Quality. All have clear
structural growth drivers.

Structural growth drivers

- Population growth.
- Environmental and emissions regulations.
- Growth in analytical sciences.
- Manufacturing process quality and efficiency.

2

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

Our products typically clean, or
confine emissions to protect complex
downstream systems and are replaced
regularly. A high proportion of our annual
revenue is from repeat orders.

Repeat orders

- Aviation filters are replaced as part of regular maintenance checks.
- Metal melt filters are replaced after each use.
- Sample preparation filters used in analytical sciences are replaced after each use.

3

Make new product development a core business activity.

Through a focus on new product
development, we aim to generate growth
rates in excess of the underlying market.
Where possible, we build differentiation and
intellectual property around our product
developments.

Robust intellectual property

- Around 20% of revenues are covered by patents.
- Most individual filtration products require process qualification.
- All aviation filters have design accreditation.

4

Establish geographic presence where end-markets require.

Our geographic presence follows the
markets we serve. In the last twelve
months: 45% of revenue was in the
Americas; 26% in Asia; 18% in Continental
Europe; 10% in the UK; and 1% in Africa.
The Group has plants in the US, UK,
Germany, the Netherlands and China.
In the last twelve months, 47% of revenue
was manufactured in the US, 31% in the
UK, 17% in Continental Europe and
5% in China.

Geography

- Most aviation engineering is carried out in the US and EU, with China and Brazil also active.
- Water cleanliness regulation is growing throughout the world.
- Most higher grades of aluminium are smelted in the US, Middle East and China.

5

Invest in both organic and acquired growth.

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

Key developments

- Over the last five years the Group has delivered £71 million in cash from operations and invested £51 million in capital expenditure and acquisitions.
- In 2020 the Group generated £13.2 million in cash from operations and invested £4.2 million in acquisitions and capital expenditure.

Underpinned by key resources and relationships to create, protect and deliver value:

Stakeholder relationships

Customers

We aim to differentiate our products and enhance the range of capabilities and solutions we can offer to both new and existing customers.

- Innovative solutions
- Differentiated products
- High product quality
- Commitment to service and solving our customers' challenges
- Research & development

Shareholders

Our focus on cash generation enables us to reinvest in the business to:

drive growth; generate attractive returns; and deliver a progressive dividend.

- Dividend growth
- EPS growth

Employees

We recognise the value our people contribute to our culture and collective success.

- Workplace engagement
- Training & development
- Loyalty
- Robust Health & Safety
- Retention strategies
- Employee diversity

Communities & Environment

We understand our role in the communities in which we operate and beyond.

- Creating a positive social impact in the local communities in which we operate.
- Many of Porvair's products are used to the benefit of the environment and wider society.

Investment proposition and summary of business model

We operate in attractive niche markets. We deliver extensive industry knowledge and engineering capabilities to build strong customer relationships and our geographic presence follows the markets and customers we serve.

We focus on:

- Markets with long term growth potential;
- Applications that are mandated and replacement is regular; and
- New product development.

We maintain a conservative financing structure and aim to meet dividends, organic investment and acquisitions from free cash flow and modest borrowings.

Chief Executive's report continued
Divisional performance

AEROSPACE & INDUSTRIAL

**BUILDING, MAINTAINING
AND ENHANCING CLOSER
CUSTOMER RELATIONSHIPS**

FLIGHT

Differentiation is achieved through design engineering; the development of intellectual property; and quality accreditations. Demand grows as customers seek cleaner, safer or more efficient operations.



Financial performance 2020

	2020 £m	2019 £m	Change %
Revenue	62.0	64.6	(4)
Operating profit	8.0	8.2	(3)
Adjusted operating profit*	6.3	8.5	(26)

*See note 2 and 3

Performance in 2020

The Aerospace & Industrial division designs and manufactures a wide range of specialist filtration products, demand for which grows as aerospace and industrial customers seek cleaner, safer or more efficient operations. Differentiation is achieved through design engineering; the development of intellectual property; and quality accreditations.

Revenue was lower by 4%, with a 19% reduction in aerospace revenue offset by a strong first full year from Royal Dahlman, which traded ahead of expectations in both its petrochemical and distribution businesses. UK industrial filtration capacity was upgraded during the year to support Royal Dahlman, where orders for flue gas emission filters in the first half of 2021 are strong. Long order lead times in the aerospace supply chain meant that aerospace revenue fell later in the year.

Second half aerospace revenues were 29% lower than the same period in 2019, in line with wider industry metrics. Gasification revenues were £7.0 million (2019: £11.0 million), recognised in the first half of 2020. These will repeat, but irregularly and not necessarily in 2021. US general industrial had a mixed year but finished strongly, particularly in microelectronics and sintered products, for which the plant in Caribou, Maine, was extended and upgraded.

In such challenging circumstances, management acted to adjust costs and staff numbers reduced by 21% over the course of the year, mainly in the UK based aerospace business. The UK Government Jobs Retention Scheme enabled the division to assess its response to falls in order patterns before making organisational changes or redundancies. During that time all staff furloughed received their full salary and benefits. The Group has concluded that it should fund the impact of necessary restructuring in full and Job Retention Scheme payments received for employees made redundant have been returned. The Board sees this action as being consistent with its purpose of developing Porvair for the benefit of all stakeholders.

Performance summary

- Revenue down 4%
- £7 million of gasification spares delivered
- Royal Dahlman traded ahead of expectations
- Aerospace down 19%
- Second half revenue down 29%
- Staff numbers down 21%

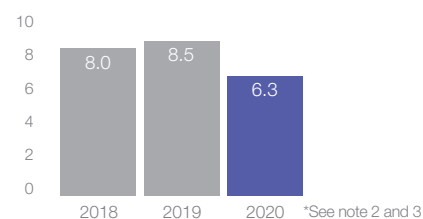
2021 outlook

- Lower cost base
- Demand in Aerospace not expected to recover in 2021

Adjusted operating profit* (£m)

£6.3m

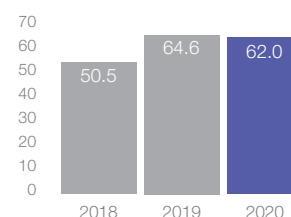
(2019: £8.5m)



2020 Revenue (£m)

£62.0m

(2019: £64.6m)



Chief Executive's report continued

Divisional performance

LABORATORY

NEW PRODUCT DEVELOPMENT IN ANALYTICAL AND BIOSCIENCE TECHNOLOGY



This division serves the analytical laboratory market, where increasing availability of smaller automated instruments and the growing requirement for ever improving detection limits drives demand for sample preparation and testing.



Financial performance 2020

	2020 £m	2019 £m	Change %
Revenue	42.0	43.7	(4)
Inter segment revenue	(1.9)	(2.4)	
External revenue	40.1	41.3	(3)
Operating profit	7.0	6.4	9
Adjusted operating profit*	6.7	6.6	2

*See note 2 and 3

Performance in 2020

The Laboratory division has two operating businesses: Porvair Sciences (including JG Finneran) and Seal Analytical.

Porvair Sciences manufactures laboratory filters and associated consumables. Differentiation is achieved through proprietary manufacturing capabilities and filtration media.

Seal Analytical is a leading supplier of instruments and consumables for environmental laboratories for which demand is driven by water quality regulations. Differentiation is achieved through consistent new product development.

Revenue in 2020 fell 3% with demand affected in the middle of the year by Covid-19 related shutdowns of environmental, academic and industrial laboratories.

Towards the end of the year demand rebounded strongly with sales from new products contributing well. Adjusted operating profit grew 2% as a result.

Cleanroom manufacturing capacity was increased in the US and laboratory space and equipment upgraded in the UK. Sales resources were added in Europe. Further expansion for the manufacturing of diagnostic components is underway with record orders received for the early part of 2021.

Performance summary

- Revenue down 3%
- Adjusted operating profit up 2%

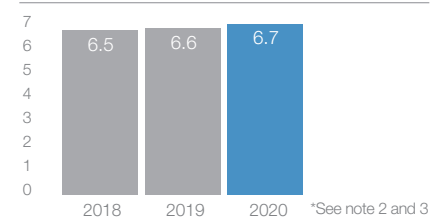
2021 outlook

- Diagnostic capacity expansion
- US cleanroom capacity
- New European sales resources

Adjusted operating profit* (£m)

£6.7m

(2019: £6.6m)

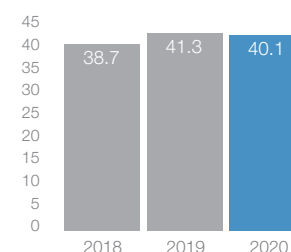


*See note 2 and 3

2020 Revenue (£m)

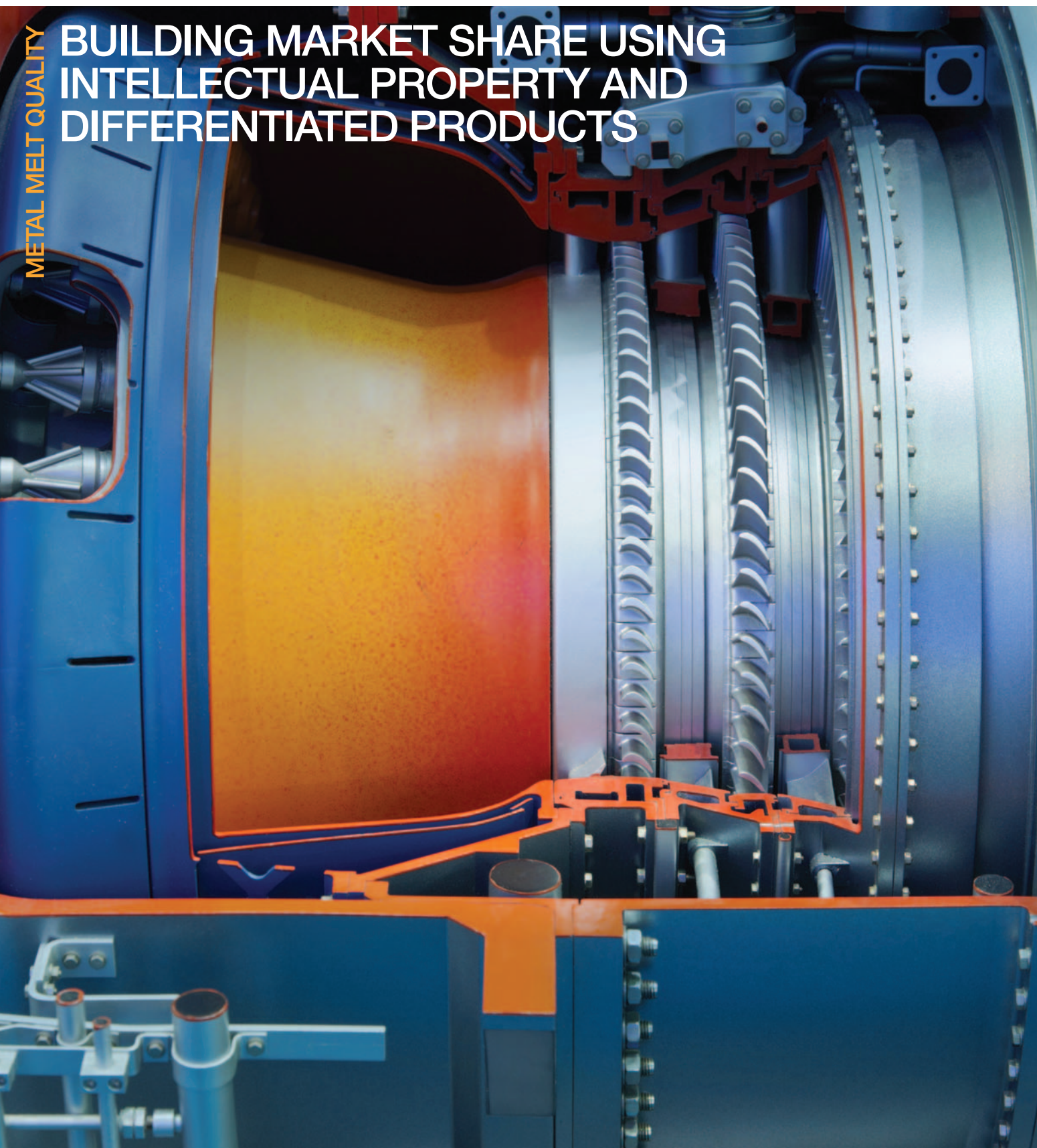
£40.1m

(2019: £41.3m)



Chief Executive's report continued
Divisional performance

METAL MELT QUALITY

**BUILDING MARKET SHARE USING
INTELLECTUAL PROPERTY AND
DIFFERENTIATED PRODUCTS**

The Metal Melt Quality division has a well differentiated product range based on patented products and a promising new product pipeline.



Financial performance 2020

	2020 £m	2019 £m	Change %
Revenue	32.9	39.0	(16)
Operating (loss)/profit	(0.2)	2.8	(106)
Adjusted operating profit*	2.8	2.8	(1)

*See note 2 and 3

Performance in 2020

The Metal Melt Quality division manufactures filters for molten aluminium, ductile iron and nickel-cobalt alloys. It has a well differentiated product range based on patented products and a promising new product pipeline.

Revenue was 16% lower than 2019, but adjusted operating profit was flat. This was well ahead of management's expectation and was achieved through tight cost control and a significantly better performance in China which saw 37% revenue growth.

US operations used periods of lower demand to clean manufacturing facilities, improve workflow and upgrade process control software to a Group standard package. After a difficult year, which included restructuring costs and an impairment of the Chinese assets (see note 1), the division reported sequential growth between the third and fourth quarter and better order books into 2021.

Performance summary

- Revenue down 16%
- Adjusted operating profit flat
- 37% growth in China
- Strong operational performance

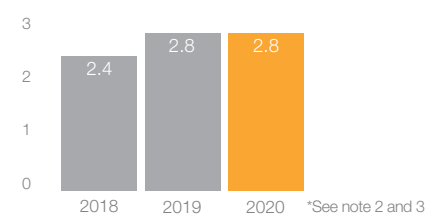
2021 outlook

- Return to growth in fourth quarter 2020
- Growth in China

Adjusted operating profit* (£m)

£2.8m

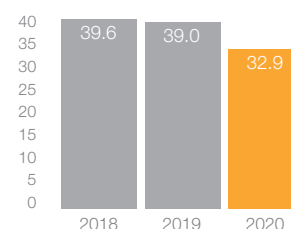
(2019: £2.8m)



2020 Revenue (£m)

£32.9m

(2019: £39.0m)



Finance Director's review



Chris Tyler, Group Finance Director



Generating free cash flow remains key to the Group's business model.

Performance highlights

- **Adjusted operating profit* down 13% to £13.6 million** (2019: £15.6 million).
- **£4.9 million of restructuring and write down costs** (2019: £nil).
- **£4.0 million of project related warranty releases** (2019: £nil).
- **IFRS 16 adopted.**
- **£4.2 million invested in capital expenditure and acquisitions** (2019: £14.1 million).

Adjusted profit after tax*

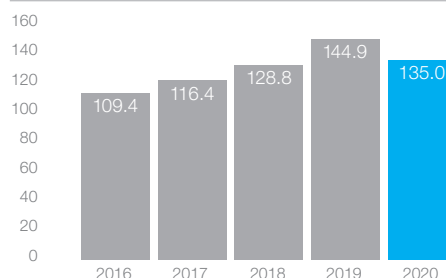
£9.9m

Adjusted profit after tax down 14% to £9.9 million (2019: £11.6 million).

*See notes 2 and 8 for definitions and reconciliations.

Turnover (£m)

£135.0m



Group results

	2020 £m	2019 £m	Change %
Revenue	135.0	144.9	(7)
Operating profit	12.6	14.8	(15)
Profit before tax	11.6	14.0	(17)
Profit after tax	8.4	10.8	(22)

Reported and constant currency (see note 2) revenue fell 7%. Royal Dahlman contributed a full year for the first time. Excluding Royal Dahlman, revenue fell by 19%. Operating profit was £12.6 million (2019: £14.8 million) and profit before tax was £11.6 million (2019: £14.0 million). Profit after tax was £8.4 million (2019: £10.8 million).

Alternative performance measures – profit

	2020 £m	2019 £m	Change %
Adjusted operating profit*	13.6	15.6	(13)
Adjusted profit before tax*	12.6	14.8	(15)
Adjusted profit after tax*	9.9	11.6	(14)

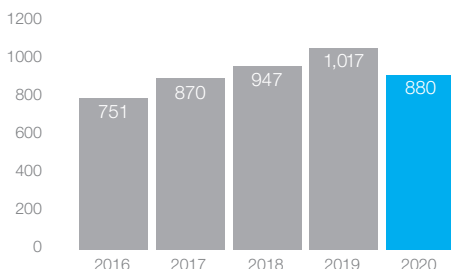
The Group presents alternative performance measures to enable a better understanding of its trading performance (see note 2).

Adjusted operating profit and adjusted profit before tax exclude items that are considered significant and where treatment as an adjusted item provides a more consistent assessment of the Group's trading. Adjusted operating profit excludes £1.0 million (2019: £0.8 million) of net charges from operating profit. These are:

- The impact of acquiring businesses:
 - the amortisation of intangible assets arising on acquisition of businesses was £0.6 million (2019: £0.6 million); and
 - other acquisition related adjustments to profit and loss related to acquiring businesses of £0.4 million credit (2019: £0.2 million charge). In 2020, the £0.4 million credit relates to the release of earnout contingent consideration (see note 12).
- Other items that are considered significant and where treatment as an adjusted item provides a more consistent assessment of the Group's trading:

Year end staff numbers

880 permanent and temporary staff



- restructuring costs of £2.2 million (2019: £nil) comprised redundancy costs, and plant reconfigurations related to the impact of the Covid-19 pandemic, principally arising in the Aerospace & Industrial and Metal Melt Quality divisions.
- a net credit of £4.0 million (2019: £nil) related to the large gasification projects. Settlement of outstanding warranty issues and the cancellation of performance bonds has allowed the Group to release £5.1 million (2019: £nil) from its provisions. Related to the release, the Group has written off a £1.1 million (2019: £nil) receivable due over the next five years; and
- an impairment write down of tangible assets of £2.6 million (2019: £nil). £2.3 million results from the Board's review of Chinese operations taking a more prudent view of asset values based on changing geopolitical and international trade assumptions. £0.3 million of redundant fixed assets in Aerospace & Industrial have been written off.

Group operating performance

Revenue fell 7% and adjusted operating profit fell 13%. Adjusted operating margin was 10.1% (2019: 10.8%). Adjusted operating margins in the Aerospace & Industrial division were 10.1% (2019: 13.2%). Lower revenue from the second quarter, particularly in aerospace, drove down margins. Adjusted operating margins in the Laboratory division were 16.0% (2019: 15.1%). A switch to higher margin diagnostic equipment products and away from industrial products improved the margin in the second half. Metal Melt Quality operating margins increased to 8.5% (2019: 7.3%). Lower sales in the US led to lower US margins despite a strong operational performance, but this was offset by a better performance in China. Adjusted Central costs reduced to £2.2 million (2019: £2.4 million).

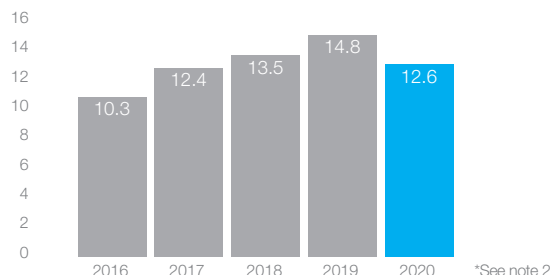
Impact of exchange rate movements on performance

The international nature of the Group's business means that relative movements in exchange rates can affect reported performance. The rate used for translating the results of overseas operations were:

	2020	2019
Average rate for translating the results:		
US \$ denominated operations	\$1.28:£	\$1.27:£
Euro denominated operations	€1.13:£	€1.14:£
Closing rate for translating the balance sheet:		
US \$ denominated operations	\$1.34:£	\$1.29:£
Euro denominated operations	€1.12:£	€1.17:£

Adjusted profit before tax* (£m)

£12.6m



The very similar average rates for the year used for translating the US dollar and Euro into Sterling meant that there was no significant difference between reported revenue and revenue at constant currency.

In the year, the Group sold US\$28.1 million (2019: US\$27.0 million) at an average rate of US\$1.30:£1 (2019: US\$1.28:£1) and €3.5 million (2019: €3.5 million) at an average rate of €1.15:£1 (2019: €1.14:£1).

At 30 November 2020, the Group had US\$1.3 million (2019: US\$9.9 million) of outstanding forward foreign exchange contracts; hedge accounting has been applied to US\$nil (2019: US\$8.6 million) of these contracts. The Group had US\$4.1 million (2019: US\$7.8 million) of net current assets on the UK operations' balance sheet.

Finance costs

Net interest payable comprises bank borrowing costs, interest on lease liabilities, interest on the Group's pension deficit and the cost of unwinding discounts on provisions. Interest increased in the year to £1.0 million (2019: £0.8 million). The implementation of IFRS 16 for the first time this year resulted in an interest charge of £0.4 million (2019: £nil). The defined benefit pension scheme interest cost reduced to £0.3 million (2019: £0.4 million), bank interest and borrowing facilities non-utilisation fees were £0.3 million (2019: £0.3 million). The charge related to unwinding discounted provisions reduced to £nil (2019: £0.1 million).

Interest cover was 14 times (2019: 19 times). Interest cover on bank finance costs was 49 times (2019: 45 times).

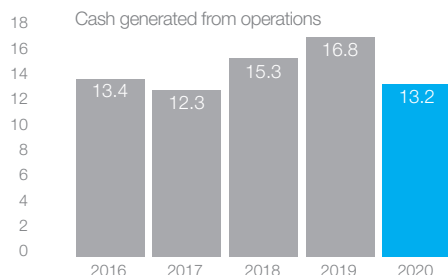
Tax

The Group tax charge was £3.1 million (2019: £3.2 million). The tax charge on the adjusting items was £0.5 million and the tax on the adjusted profit before tax was £2.6 million. This is an effective rate of 19% (2019: 23%), in line with the UK standard corporate tax rate of 19% (2019: 19%). The tax rate in the UK was lower than the standard rate because of tax relief on the exercise of share options. US tax was at an effective rate of 22% (2019: 23%) and in the Netherlands it was 20% (2019: 22%). The Group tax rate was pushed up by profits made in Germany, which attract a 31% tax rate (2019: 30%). The tax rate is lower than the prior year because no further losses in China were incurred. In the prior year, the tax rate was increased by 2% because the Group did not take a tax credit relating to the losses arising in China.

Finance Director's review continued

Cash generation (£m)

£13.2m



The tax charge comprises current tax of £2.3 million (2019: £2.6 million) and a deferred tax charge of £0.8 million (2019: £0.6 million).

The Group has current tax provisions of £0.2 million (2019: £0.6 million). The current tax provision includes £1.0 million (2019: £1.2 million) for uncertainties relating to the interpretation of tax legislation in the Group's operating territories offset by payments on account and amounts recoverable for overpayments of tax.

The Group carries a deferred tax asset of £2.6 million (2019: £2.4 million) and a deferred tax liability of £2.8 million (2019: £2.6 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, predominantly arising in the US and acquired intangibles in the Netherlands.

Total equity and distributable reserves

Total equity at 30 November 2020 was £98.2 million (2019: £95.3 million), an increase of 3% over the prior year.

Increases in total equity arose from: profit after tax of £8.4 million (2019: £10.8 million); employee share option schemes net of tax of £0.1 million (2019: £0.7 million); and £0.4 million (2019: £0.6 million) arising on the proceeds of the issue of shares on share option exercises.

Reductions in total equity arose from: dividends paid of £2.3 million (2019: £2.1 million); purchases by the Employee Benefit Trust of the Company's own shares charged directly to equity of £0.7 million (2019: £0.6 million); a pension scheme actuarial loss (net of tax) of £1.3 million (2019: £2.3 million); and exchange losses (net of tax) on translation of £1.7 million (2019: £1.1 million).

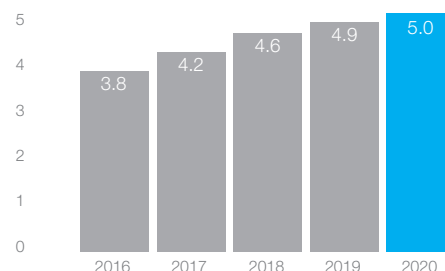
The Company had £17.9 million (2019: £19.2 million) of distributable reserves at 30 November 2020. The Company's distributable reserves increased in the year from dividends received from other Group companies, offset by an actuarial loss, head office costs, investment write downs, and dividends paid to shareholders.

Return on capital employed

The Group's after tax return on capital employed of 12% (2019: 14%) gives a measure of the operating return the Group makes on all its invested capital. It fell in the year because of lower profitability and

Dividend (pence per share)

5.0p



an increase in average capital employed of £5.2 million. The after tax return on operating capital employed of 28% (2019: 36%) gives a measure of the returns that the Group makes on its fixed assets and working capital. It fell in 2020 because of lower profitability and an increase in the average capital employed of £5.2 million mainly comprising the effect of a full year of ownership of Royal Dahlman. The Group's divisions have post-tax weighted average costs of capital of between 6% and 8%.

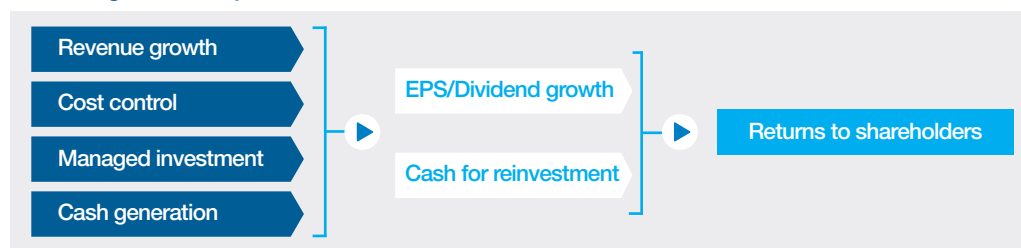
Cash flow

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

	2020 £m	2019 £m
Cash flow		
Operating cash flow before working capital	19.5	18.1
Working capital movement	(6.3)	(1.3)
Cash generated from operating activities	13.2	16.8
Interest	(0.3)	(0.3)
Tax	(2.5)	(3.3)
Capital expenditure net of disposals	(3.6)	(4.3)
	6.8	8.9
Acquisitions	(0.6)	(9.8)
Dividends	(2.3)	(2.1)
Share issue proceeds	0.4	0.5
Purchase of EBT shares	(0.7)	(0.6)
Increase in bank borrowings	1.5	4.6
Repayment of right of use lease liabilities	(2.3)	–
Net cash increase in the year	2.8	1.5

	2020 £m	2019 £m
Net debt reconciliation		
Net cash reported at 30 November	4.0	6.6
IFRS 16 transition adjustment	(15.2)	–
Net cash at 1 December	(11.2)	6.6
Increase in cash and cash equivalents	2.8	1.5
Increase of borrowings	(1.5)	(4.6)
Decrease in lease liabilities	1.8	–
Exchange (losses)/gains	(0.6)	0.5
Net (debt)/cash at 30 November	(8.7)	4.0
Net cash and bank debt	4.9	4.0
Lease liabilities	(13.6)	–
Net (debt)/cash at 30 November	(8.7)	4.0

Continuing to drive improved returns to shareholders



Generating free cash flow is key to the Group's business model and operating cash flow of £13.2 million (2019: £16.8 million) represented an 80% (2019: 89%) conversion rate of operating profit before depreciation and amortisation. Net working capital increased by £6.3 million (2019: £1.3 million). Receivables reduced by £4.1 million (2019: increase of £0.7 million) following good receivables collections and a weaker fourth quarter than the prior year. Inventories increased by £0.3 million (2019: £2.4 million). Inventories in the Laboratory division increased by £0.8 million reflecting the strong order book and aerospace finished goods increased by £0.9 million, which will reduce as aerospace orders recover. Throughout the rest of the Group inventories reduced by £1.6 million. Payables and provisions reduced by £10.1 million (2019: increase of £1.7 million), £5.1 million from releasing provisions in the Aerospace & Industrial division, the reduction in other payables reflects reduced purchases in the final quarter, lower accruals and faster payments to suppliers.

Provisions, contingent liabilities and performance bonds

The Group has £4.6 million (2019: £9.8 million) of provisions for dilapidations and warranty risks. In December 2019, a US\$0.9 million (£0.7 million) performance bond was called by the customer, the amount was paid and charged to provisions. Subsequently progress has been made on resolving warranty risks and US\$5.0 million of performance bonds have lapsed. Consequently £5.1 million of provisions have been released. £0.7 million of warranty provisions have been created in relation to sales made in the year.

At 30 November 2020, the Group had the following advanced payment bonds (relating to monies received in advance on contracts) and performance bonds issued to customers in US dollars and Euros:

	\$'000	€'000
Advanced payment bonds	–	162
Performance bonds	2,549	842
At 30 November 2020	2,549	1,004
	\$'000	€'000
Performance bonds	8,534	638
At 30 November 2019	8,534	638

The uncalled performance bonds are expected to be called or released no later than March 2023.

Capital expenditure

Capital expenditure was £3.6 million (2019: £4.3 million) in the year. Expenditure was spread across each division: £0.9 million (2019: 0.5 million plus £0.4 million brought into use) was spent on buildings and infrastructure mainly to complete the 20,000 square feet of space in the Laboratory division in the US; £2.1 million (2019: £3.4 million) was spent on plant and machinery plus a further £1.0 million (2019: £0.5 million) in the course of construction last year was brought into use. £0.5 million (2019: £0.1 million) was spent on equipment that is in the course of construction. £0.2 million (2019: £0.4 million) was spent on intangible assets including software upgrades and intellectual property costs.

Acquisitions

£0.6 million (2019: £9.8 million) was spent on acquisitions in the year, all in relation to earnout payments for Rohasys B.V. There are no earnout payments remaining.

Pension schemes

The Group supports its defined benefit pension scheme in the UK ("The Plan"), which is closed to new members, and provides access to defined contribution schemes for its other employees. A summary of the costs of pension provision is given below:

	2020 £m	2019 £m
Charged to operating costs:		
Defined contribution schemes	2.4	2.1
Defined benefit scheme	0.7	0.6
Additional pension provision	0.2	–
Pension protection levy	0.1	0.1
Total pensions charged to operating costs	3.4	2.8
Charged to interest payable:		
Defined benefit scheme	0.3	0.4
Total pensions charged to interest payable	0.3	0.4
Total pension costs	3.7	3.2

The Group's cash contributions paid to The Plan were £2.2 million (2019: £1.6 million).

The Group's net retirement benefit obligation was £15.4 million (2019: £14.5 million). The Plan's liabilities increased to £48.6 million (2019: £45.2 million). The Plan's assets increased to £33.4 million (2019: £30.8 million). There were a further £0.3 million (2019: £0.1 million) of non-Plan liabilities.

The actuarial loss in the year of £2.0 million (2019: £2.7 million) net of £0.7 million (2019: £0.5 million) of tax was recognised in the statement of comprehensive income. The Plan's assets achieved an actuarial gain of £1.6 million (2019: £3.2 million). The experience loss of £nil (2019: £0.9 million) related to adjustments arising from the triennial valuation completed in 2019. The actuarial loss on the liabilities of £3.6 million (2019: £5.0 million) arose principally from changes to the discount rate used to value The Plan's liabilities and a change in the mortality assumption:

- The discount rate reduced from 2.0% to 1.5%, as a result of lower AA bond yields, which accounted for £3.4 million in increased liabilities.
- The mortality assumptions have been updated to incorporate the CMI 2019 Core Projection Model. This increased the life expectancy of 65 year old women by 0.2 years and men by 0.1 years. The liabilities increased by £0.2 million as a result.

The triennial actuarial valuation of The Plan determines the cash contributions that the Group makes to The Plan. A full actuarial valuation was completed in the year based on The Plan's position at 31 March 2018. Based on the valuation, the Group agreed to set the employer's contributions at 20.9% (previously 18.9%) of salary. The Group committed to making a £0.2 million annual contribution towards the running costs of The Plan from April 2019, which will increase by 3.5% per annum thereafter. The Group also committed to make additional annual contributions, to cover the past service deficit, of £1.6 million (previously £1.0 million) per annum from 1 December 2019 until 1 December 2028.

Finance Director's review continued

Borrowings and bank finance

At 30 November 2020, the Group had cash balances of £15.6 million (2019: £12.9 million) and borrowings of £10.7 million (2019: £8.9 million).

In 2017, the Group secured a five year revolving credit facility of €23 million (£20.4 million) with Barclays Bank plc and Handelsbanken plc. The facility has a margin over LIBOR of 1.5% and a non-utilisation fee of 0.4375%. The Group also has a £2.5 million overdraft facility provided by Barclays Bank plc. The financial covenants require the Group to maintain interest cover of 3.5 times and net debt to be less than 2.5 times EBITDA.

In May 2020, the Group received loan proceeds of US\$1.8 million (£1.4 million) from the Truist Bank, under the Paycheck Protection Program ("PPP"). The PPP provides for loans to qualifying businesses which are forgivable after eight weeks provided the loan proceeds are used for eligible purposes and payroll levels are maintained. The Group had not taken forgiveness at the year end and the loan is treated as current borrowings in these accounts.

At 30 November 2020, the Group had net cash of £4.9 million (2019: £4.0 million), €11.1 million (£9.9 million) of unused facilities (2019: €13.3 million of unused facilities (£11.4 million)), and an unutilised overdraft facility of £2.5 million (2019: £2.5 million).

Adoption of IFRS 16

At 30 November 2020, the Group had right of use assets of £12.8 million (2019: £nil) and lease liabilities of £13.6 million (2019: £nil) arising as a result of adopting IFRS 16 for the first time in the year ended 30 November 2020.

Under IFRS 16, the Group's leases for property, plant and equipment previously treated as operating leases were brought on to the balance sheet from 1 December 2019. £14.6 million of right of use assets and £15.2 million of discounted lease liabilities were recognised. A net £0.6 million of previously accrued and prepaid rent was eliminated. There was no change to opening reserves.

The profile of expenses related to leasing arrangements has changed. Straight line operating lease expenses have been replaced by a straight line depreciation of the right of use assets and interest charges on lease liabilities, which follow a reducing balance profile. Consequently, there will be earlier recognition of cost under IFRS 16 compared to the previous treatment under IAS 17. Over the lifetime of each lease there will be no change in the overall income statement impact or the cash paid out.

The adoption of IFRS 16 reduced adjusted profit before tax by £0.2 million and basic earnings per share by 0.4 pence per share. The adjustments are shown below:

	2020 Adjusted operating profit £m	2020 Adjusted profit before tax £m
As reported	13.6	12.6
Operating lease rentals, removed from operating costs	(2.3)	(2.3)
Depreciation on leases – right of use assets, added to operating costs	2.1	2.1
Interest on lease liabilities	–	0.4
Pre-IFRS 16	13.4	12.8

Finance and treasury policy

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

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

International Trade

The UK left the EU on 31 January 2020 and signed a trade agreement with the EU, which became effective on 31 December 2020. The Board does not expect the impact of this change in trading arrangements to be significant for the Group. The Board notes that revenues between the UK and Continental Europe were less than 10% of total revenues in 2020. 45% of Group revenue is manufactured in the US and higher US tariffs on China trade have had an effect on trading. A few customers in the US and China have switched back to domestic suppliers, and the Group has both won and lost accounts as a result. The net effect has been small.

Chris Tyler
Group Finance Director
29 January 2021



Principal risks and uncertainties: pages 32 to 38
Remuneration report: pages 72 to 89

Key performance indicators

Measuring progress in improving financial performance and in embedding sustainable long term growth.

We align our KPIs with our strategy and use a number of financial and non-financial measures to track progress against it to create value:

■ Financial KPIs
■ Non-financial KPIs



Financial KPIs – what we measure

[Link to strategic objective](#)

Revenue growth

① ② ③ ④ ⑤

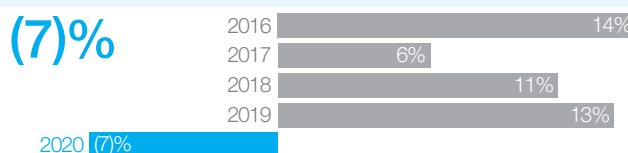
Revenue growth captures our performance in the main tenets of our business model: meeting customer requirements; developing new products; expanding geographically; and making acquisitions.

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

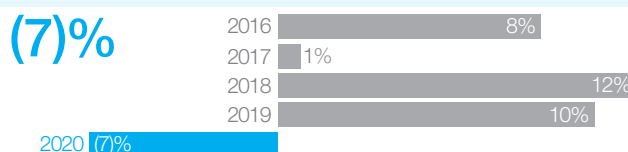
Performance in 2020

The performance of the Group is explained in full in the Chief Executive's report.

Revenue was down 4% in Aerospace & Industrial, 3% in Laboratory and 16% in Metal Melt Quality. A first full year of revenue from Royal Dahlman added 6% to revenue. There was no difference between revenue growth reported and growth at constant currency.



Revenue growth at constant currency



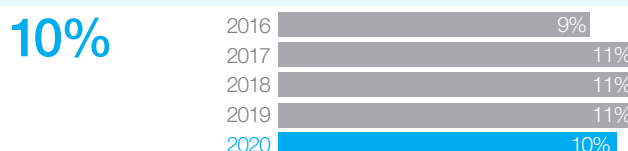
Adjusted operating margin

① ② ③

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

Performance in 2020

Overall adjusted operating margins fell slightly. Operating margins reduced in the Aerospace & Industrial division to 10.1% (2019: 13.2%). In the Laboratory division operating margins increased to 16.2% (2019: 15.1%). Metal Melt Quality operating margins increased to 8.5% (2019: 7.3%).



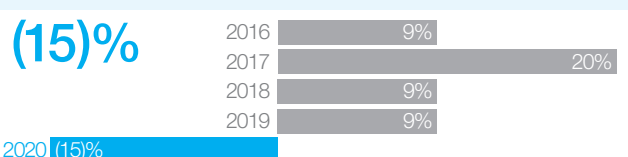
Adjusted profit before tax growth

① ② ③

A measure of the profits of the business before corporation tax and excluding the items relating to acquisition costs, amortisation of intangible assets acquired on acquisition and other significant items which when excluded give a more consistent assessment of the Group's performance.

Performance in 2020

The performance is described in full in the Chief Executive's report and the Finance Director's review. The operating profit fell by a greater percentage than the decline in revenue, reflecting the effect of fixed costs on profitability. A small increase in interest increased the profit before tax decline to 15%.



Key performance indicators continued

Strategy and business model: pages 15 to 17
Principal risks and uncertainties: pages 32 to 38
Remuneration report: pages 72 to 77

Financial KPIs – what we measure

[Link to strategic objective](#)

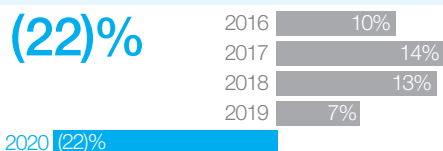
Basic earnings per share growth

① ② ③

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

Performance in 2020

Basic earnings per share fell more than the profit before tax because the tax rate increased as a result of write downs not attracting tax relief.



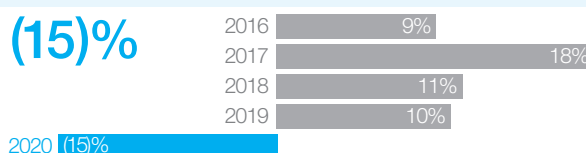
Adjusted basic earnings per share growth

① ② ③

Adjusted basic earnings per share excludes acquisitions costs, amortisation of intangible assets acquired on acquisition and other significant items which, when excluded, give a more consistent assessment of the Group's trading.

Performance in 2020

Adjusted basic earnings per share fell in line with the adjusted profit before tax.



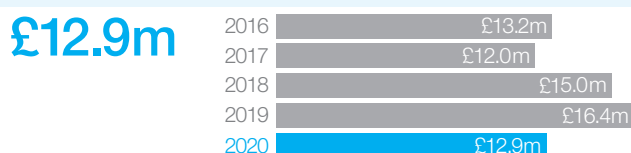
Cash generated from operations less interest

⑤

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

Performance in 2020

The Group's cash performance was not as good as the prior year with an 80% (2019: 89%) conversion of operating profit before depreciation and amortisation reflecting faster payments to suppliers, a higher pension deficit contribution and lower share base payments as a component of profitability.



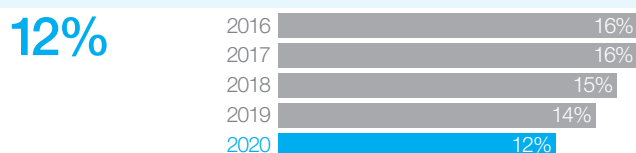
Adjusted post tax return on capital employed

⑤

Adjusted 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 2020

The Group's return on capital employed dropped compared with the prior year mainly as a result of lower profitability and an increase in average capital employed following the Royal Dahlman acquisition in the last quarter of 2019. It exceeded the Group's post tax weighted average cost of capital which is between 6% and 8%.



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

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

- Financial KPIs
- Non-financial KPIs

Financial KPIs – what we measure

[Link to strategic objective](#)

Adjusted post tax return on operating capital

5

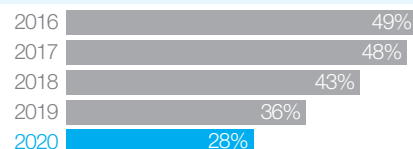
Adjusted post tax return on operating capital employed gives a measure of the Group's ability to make financial returns from the fixed assets and working capital employed in its operations. It ignores the goodwill arising on acquisitions and the impact of the pension deficit.

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 2020

The Group's return on operating capital employed dropped during the year as a result of lower profitability and the increase in average capital employed following the acquisition of Royal Dahlman in the last quarter of 2019.

28%



Non-Financial KPIs – what we measure

Lost time accidents per 100 employees

This gives a measure of the likelihood of an employee having an accident that results in time off work.

Performance in 2020

There were 13 lost time accidents in the year, compared with 2 in the prior year.

1.3



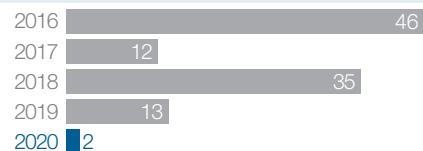
Days lost to accidents per 100 employees

In conjunction with the KPI above this gives a measure of the severity of accidents resulting in lost time.

Performance in 2020

None of the accidents in the year resulted in significant lost time.

2



Greenhouse gas total intensity ratio

The total intensity ratio is measured in kilogrammes of CO₂ per pound Sterling of revenue.

Performance in 2020

Greenhouse gas emissions reduced by 5% in the year but revenue was lower by 7% resulting in a small increase in the intensity ratio.

0.139



Principal risks and uncertainties

Risk management framework

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

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

Risk appetite

The Board considers risk as an integral part of decision making and performance management, both in relation to the current and future performance of the business. The Board manages this by linking risk appetite, which is reviewed by the Board each year, to the strategic objectives, in order to assess where the level of risk sits.

Our approach to risk management

Risk management is embedded in the management processes of the Group which has adopted the 2018 UK Corporate Governance Code. The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and has implemented a risk management process with specific steps scheduled throughout the financial year. The process adopted by the Group to embed risk management in the Group's operations is outlined below:

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

Risk governance

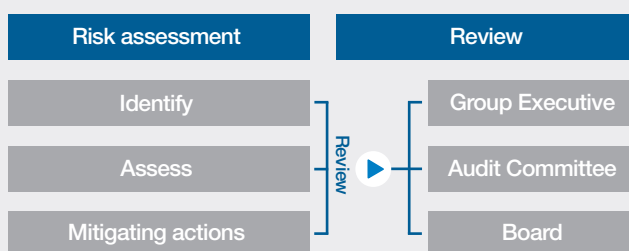
The Board has overall responsibility for ensuring that the Group maintains an effective risk management system and actively monitors the risk management process. Specifically the Board:

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

Principal risks and uncertainties

The Group maintains a comprehensive register which identifies risks and uncertainties that could impact the operations, the mitigation processes in place and outlines the weaknesses that should be addressed by the operations. The risk register includes over 140 individual risks and associated mitigation processes. The principal risks and uncertainties described on pages 33 to 38 are those which individually or collectively might be expected to have the most significant impact on the Group's long term performance and prospects.

Risk assessment review



Key and links to strategy:

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

Change in level of risk:

- ↔ No change to risk ↘ Risk exposure reduced ↗ Risk exposure increased

Emerging risks

- ER 1 – Existing market risk – Covid-19
ER 2 – Regulation risk – Tariffs
ER 3 – Environmental risk

GROUP PRINCIPAL RISKS

Revenue risks

- A – Existing market risk
B – New products and markets risk
C – Large contracts risk
D – Regulation risk – Brexit
E – Competitive risk

Manufacturing and operational risks

- F – Raw materials, resources, price and production risk
G – Facilities and IT risk
H – Cyber attack risk

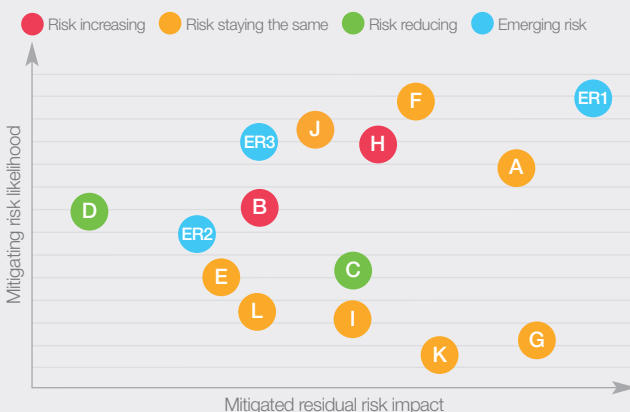
Finance and management risks

- I – Acquisitions risk
J – Pensions risk
K – Financing and liquidity risk
L – Financial risk management

Risk trends

The ongoing review of the Group's principal risks focuses on how these risks may evolve. The chart below makes an estimate of the relative likelihood and impact of the risks described and shows which are considered to be increasing or decreasing in severity.

Risk impact analysis



EMERGING RISKS

Risk description and impact	Link to strategic objective	Mitigation	Change
ER 1 – Existing market risk – Covid-19 ① ② ③ ④ ⑤ The Covid-19 pandemic is likely to affect most markets served by the Group, some negatively, some positively. Aerospace markets and industrial markets are likely to be affected negatively and may take some time to recover. Life Science and laboratory research markets are likely to see an upturn in demand. Social distancing and other regulatory actions taken in consequence of the pandemic may affect Group operations and manufacturing efficiencies.			↗
ER 2 – Regulation risk – Tariffs ① ② ③ ④ ⑤ The long-term impact of potential changes to trade terms could affect export sales. For the Group, changes to UK/US and US/China trade terms are the most significant.		The Group may amend how and where it manufactures goods to minimise tariff impacts. With operations in US, UK, Europe and China, the Group has some flexibility on the original source of its products. The Group makes many bespoke products not easily replaced by alternatives and therefore expects to be able to adapt to changes in trade terms over time without significant disruption.	↗
ER 3 – Environmental risk ① ② ③ ④ ⑤ Increasing environmental awareness often leads to tightening of emissions standards. This might affect both the Group's manufacturing operations and its end-market demand.		The Group carefully monitors all manufacturing inputs and emissions against prevailing environmental standards. The Group's customers routinely find tightening environmental standards require better filtration and emissions control processes, which can be to the Group's advantage. Where end markets are threatened by changes in environmental standards (example: the move from internal combustion to battery vehicles) the Group uses new product development activities to find compensating opportunities (example: the filtration of aluminium for EV battery boxes).	↗

Principal risks and uncertainties continued

REVENUE RISKS

Risk description and impact	Link to strategic objective	Mitigation	Change
A – Existing market risk ① ② The Group serves the needs of a range of specialist filtration markets, such that it is not dependent upon any one market. The Group's four main markets are as follows: • aerospace filtration, where quality and accreditation of products are critical. Product lifecycles are long, although unforeseen world events can cause periods of reduced demand which affect commercial air traffic and thus aircraft demand. • energy and industrial process filtration, where projects tend to be large and demand can be affected by a sustained economic downturn. • laboratory supplies, where revenue can be affected by access to capital in customers' markets (municipal/utilities and industrial laboratories) and changing research priorities. • aluminium filtration, where demand for aluminium can fluctuate with industry demand and commodity prices. Each of the above contribute more than 10% of the Group's revenue and the Group would be affected by a significant decline or increase 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. In the aerospace market, the Group offers a broad range of products for new build and aftermarket applications. Revenue can fluctuate as significant programmes begin or end; or if certain airframes or engine platforms encounter air-worthiness issues. The aerospace market has been affected by Covid-19 in 2020. The Group does not however expect the fundamental drivers of air traffic (global trade, growing middle class populations, tourism) to change in the longer term. A move to more environmentally-friendly aviation could presage changes in demand for the Group's products. 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. New build work will cycle with GDP trends and capital availability. The after-market spares business is more predictable and offers a more regular revenue stream from the installations that the Group serves. Laboratory supplies are chiefly sold for sample preparation, chromatography, diagnostics and meeting the regulatory requirements for clean water. It is expected that the consumable nature of many of these products and the regulated nature of the activities conducted in customers' laboratories will mitigate cyclical changes. These markets are expected to grow as regulations tighten throughout the world; demand for clean water in the developing world increases; and the availability of cheaper and more efficient testing equipment drives demand for sample preparation. Aluminium production fluctuates with economic activity. In the long run it is expected to grow as more use is made of aluminium's lightweight and fully recyclable properties. The Group has a strong market position having successfully differentiated its products through improved filter formulations. The production of aluminium has consolidated to larger smelters in regions of low-cost energy. In China, new capacity capable of producing higher grade aluminium is being added and older capacity retired. The Group has developed its sales and production capability to address the requirements of larger customers requiring higher grade filtration.	
B – New products and markets risk ① ② ③ The Group's strategy is to expand geographically into new markets as it becomes necessary to support its customers. Outside its traditional markets of US and Europe, the Group has invested in operations in India and China. There is a risk that the additional complexity of operating in these regions will limit the return that the Group is able to make on its investments.		↗ The Group invests in new geographic markets in support of its existing customers. It starts with small operations specifically supporting existing customers to gain experience of operating in the new market before making significant investment. New investment is subjected to the Group's normal capital approval processes. In 2020 the Group assessed that political and trade risks in China had increased since it first invested there. The carrying value of fixed assets held in China were reduced as a result.	

Key and links to strategy:

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

Change in level of risk:

-  No change to risk
  Risk exposure reduced
  Risk exposure increased

REVENUE RISKS CONTINUED

Risk description and impact	Link to strategic objective	Mitigation	Change
C – Large contracts risk ① ② The Group supplies filtration equipment to several large industrial installations. The frequency and scale of orders can materially affect the results of the Group. The Group is often required to provide performance bonds at the inception of these contracts, which could be called in the event that the Group fails to meet its contracted commitments. The Group also has a number of long-term supply agreements for filters and agreements with key distributors for certain of its products. Its results will be affected should it lose a significant customer or distributor	① ②	 Larger orders or longer term spares contracts have direct senior management involvement on a day to day basis. The Group makes every effort to ensure that its commitments are met on time and in full. It seeks to innovate and develop its products to provide the customer with ever improving filtration performance. The large gasification contracts are now commissioned or completed and spares are now the principal revenue stream. The Group maintains close contact with each of its long-term customers and major distributors and has a long history of working with them. In each case the Group provides unique or patented products to the customers or distributors which provide additional permanence to the relationships.	
D – Regulation risk – Brexit ① ② Having left the EU on 31 January 2020 the UK signed a trade agreement with the EU on 31 December 2020, which may have an impact on the Group's trade between the UK and the EU.	① ②	 The Board does not expect the impact on the Group to be significant following the trade agreement. Revenues between the UK and EU were less than 10% of total revenues in 2020.	
E – Competitive risk ① ② Porvair operates in competitive global markets. The Group's achievement of its objectives is reliant on its ability to respond to many competitive factors including, but not limited to, new entrants, pricing pressures, technological innovations, product quality, customer service, currency movements, manufacturing capabilities and the employment and retention of qualified personnel. If the Group does not continue to compete in its markets effectively by developing innovative solutions for its customers and delivering high quality customer service, it could lose them and its results could be adversely affected.	① ②	 The Group recognises that certain of its competitors are larger and have greater financial resources. This may enable them to deliver products on more attractive terms than the Group or to invest more resources, including research and development. The Group seeks to maintain its competitive advantage through technical differentiation and product quality rather than price. Through the development of a strategy that focuses on micro niches within the Group's chosen markets, the Group seeks to identify specific opportunities where it has a commercial, reputational or technological advantage that enables it to compete successfully.	

Principal risks and uncertainties continued

MANUFACTURING AND OPERATIONAL RISKS

Risk description and impact	Link to strategic objective	Mitigation	Change
F – Raw materials, resources, price and production risk ① ② ③ The Group uses a wide variety of different raw materials and subcontracted processes. Occasionally critical components are single sourced either for regulatory or performance reasons. Should supplies of these materials or processes become unavailable the Group's ability to produce certain products could be delayed or products may need to be redesigned. Prices for raw materials can be volatile and are affected by the cyclical movement in commodity prices such as oil, alumina, gas and steel. The Group's ability to pass on these price fluctuations to its customers is to some extent dependent on contractual terms and 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. Some production equipment is not duplicated, usually for cost, regulatory, or efficiency reasons. A significant failure of any of these pieces of equipment can result in production delays and a potential loss of revenue.		Wherever possible the Group seeks to dual source supplies and processes. Where this is not possible the Group has in place long term agreements, or significant buffer stocks. It has an active programme of close monitoring of its suppliers including assisting them with improvements in quality and continuity. The Group is exposed to commodity price risk in its operations. Where practical the Group seeks to fix its raw material prices. The Group buys certain raw materials and energy on long term or forward 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 regular planned shutdowns for maintenance and equipment is maintained to a high standard. It has Standard Operating Procedures set out on each machine to ensure the safe and proper operation of the equipment. Failures of critical equipment are therefore rare.	↔
G – Facilities and IT risk ① ② The Group operates fifteen production facilities, the largest facility generating between 20% and 25% of the Group's revenue. A disaster, such as a fire or flood, at any of the Group's facilities could have a material impact on the Group's performance. The Group relies on IT systems for all its record maintenance and is dependent upon good bandwidth connections between its sites. A loss of servers or bandwidth, or significant cyber or virus attack could interrupt the operations and result in a loss of data.		The Group maintains insurance of its equipment and facilities and carries business interruption insurance to cover loss of profits. In addition, the Group has ISO 9001 and other industry specific quality control systems which reduce the risk that a disaster will occur. The Group has resilient and distributed IT systems and invests in new servers, software and bandwidth to improve the resilience of its systems. It has comprehensive IT disaster recovery plans, which are periodically tested.	↔
H – Cyber attack risk ① ② The Group has experienced several minor cyber attacks and the frequency of these attacks is increasing. A cyber attack could cause loss or corruption of data or interrupt the operation of systems.		The Group's systems have been tested against actual cyber attacks and in each case systems have been out of action for less than 24 hours and only minimal data loss has been suffered. The Group has distributed systems. Each operation's systems are largely independent from the systems of the other operations, such that a virus or concerted cyber attack could be contained within one operation. The Board has conducted a review of the process in place to reduce the risk of cyber attack. The Group is vigilant to attack and ensures that its systems are regularly improved to make them more secure and resilient. Although the systems are distributed, best practice ideas are shared within the Group's IT staff.	↗

Key and links to strategy:

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

Change in level of risk:

-  No change to risk
  Risk exposure reduced
  Risk exposure increased

FINANCE AND MANAGEMENT RISKS

Risk description and impact	Link to strategic objective	Mitigation	Change
I – Acquisitions risk ④ ⑤ The Group has an active programme of seeking and integrating complementary acquisitions. A poorly executed acquisition could severely constrain the Group.		 The Group engages in thorough due diligence on its target companies and adopts a cautious approach in its selection and completion of acquisitions. In the case of each completed acquisition it develops and implements an integration plan.	
J – Pensions risk ⑤ The Group operates a defined benefit pension scheme which is closed to new members but remains open for future accrual for the existing active members. The Group retains the ultimate responsibility for ensuring that the trust has sufficient funds to ensure that all current and future pensions can be paid in full. A significant shortfall in the value of the assets of the scheme compared with its liabilities could impair the Group's ability to pay dividends and require the Company to make additional payments to the scheme.		 The pension scheme is financed through a separate trust fund and administered by a Board of Trustees with an independent Chairman. The Group maintains a close oversight of the pension scheme through appointment of its own trustees to ensure that the scheme is properly administered and that sound investment advice is obtained. The Board regularly reviews the performance of the scheme and its investment strategy with a focus on reducing risk to the Group. The Group has a deficit recovery plan in place that is affordable for the Company and expected to reduce the current deficit. The deficit contribution is reviewed every three years as part of the triennial valuation.	
K – Financing and liquidity risk ① ② ③ At certain times the Group uses borrowings to finance its operations. Damage to, or loss of, its banking relationships could have a material impact on the Group's ability to do this, which could damage the operations and profitability of the Group.		 To mitigate this risk, the Group 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. It has a policy of maintaining low gearing and significant headroom in normal circumstances in its covenants. It maintains close relationships with its bankers and carefully monitors the restrictions on its borrowings.	

Principal risks and uncertainties continued

FINANCE AND MANAGEMENT RISKS CONTINUED

Risk description and impact	Link to strategic objective	Mitigation	Change
L – Financial risk management 5 The Group's operations expose it to a variety of financial risks that include the effects of: • foreign exchange risk; • credit risk; and • interest rate cash flow risk.		↔ The Group has in place financial risk management procedures that seek to limit the adverse effects on the financial performance of financial risks. The principal procedures are described below: 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 and some in Euros. The UK operations of the business generate significant recurring revenues in US dollars and the Group seeks to minimise the impact of movements in the US dollar exchange rate on the value of these US dollar flows by using financial instruments to fix the future value of the US dollars. The Group does not apply hedge accounting to these transactions. In the case of large contracts where the future currency income is in a different currency from the operation's functional currency, is certain, and can be specifically assigned to individual transactions, the Group takes out forward foreign exchange contracts to minimize the impact of currency fluctuations. The Group applies hedge accounting to these transactions. 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. Interest rate cash flow risk The Group has only interest bearing liabilities. In view of the low levels of Group borrowing the Group does not have any interest rate hedging instruments. The Group has no exposure to equity securities price risk as it holds no listed or other equity investments.	

Viability and going concern

Selection of Viability period

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

- The Group's planning processes extend over three years and provide the Board with a reasonable timeframe over which developments can be foreseen with a degree of certainty;
- Its specific investment plans can be reasonably foreseen and will be implemented within the period covered;
- There is a reasonable expectation that changes to current market trends can be anticipated over the period; and
- To the extent that the Group has long term supply contracts with its key customers these usually have three year renewal periods.

Integration with the Group strategy and business model

The Group's strategy is set out on page 15. The aspects of the strategy that have the most impact on the viability of the business are:

- The characteristics of specialist filtration and environmental technology businesses. Generally, the products the Group designs and manufactures are mandated by regulation, quality accreditation or a maintenance cycle. Our products are generally protecting much more costly or complex downstream systems. Products are often designed for specific applications, which typically have long life cycles, and have regular replacement cycles. These characteristics provide the business with a degree of repeatability of orders and a reasonable level of revenue security.
- Our ability to apply our expertise to a range of attractive niche markets. Our customers require filtration and emission control products that perform to a given specification. Our filtration expertise is applicable across all our markets. We win business by applying that expertise to offer the best technical solution at an acceptable cost to a particular application.
- Our approach to investment and growth. We aim to meet our dividend and investment needs from free cash flow and modest borrowing. We aim for a mix of organic and acquisition growth funded from our own resources. Over the medium term the Group has demonstrated an ability to generate free cash flow and integrate modest acquisitions.

Annual assessment process

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

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

In undertaking its strategic review in 2020, the Board considered the prospects of the Group over the one and three year periods to 30 November 2021 and 2023, respectively. The one-year planning period normally has a greater level of certainty and is, therefore, used to set detailed budgetary targets throughout the Group – it is also used by the Remuneration Committee to set targets for annual incentives. The three-year period provides less certainty of outcome, but sets out the medium term objectives of the Group and the investment plans and financial targets associated with those objectives. It is also used by the Remuneration Committee for setting the performance targets for the long term incentive plans. In the current pandemic environment these outlooks have a much higher level of risk and uncertainty than in a normal year.

Stress tests and scenarios

As part of the Group's planning processes, the Group has analysed the adverse impacts that could arise as a result of the risks outlined on pages 33 to 38. The central planning assumptions were adjusted to test the impacts of the potential risks including:

- A further deterioration in trading as a result of the continuing impact of the Covid-19 pandemic;
- A forced plant shutdown requiring lengthy remedial work; and
- Loss of business or reduced profitability arising from operational challenges including material sourcing and competitor risks.

The results of the stress tests demonstrated that the cash generating capabilities of the business and the expected availability of financing facilities would enable the Group to withstand the impact of these scenarios arising in combination over the next three years. Further mitigations would be available to the Group including reductions in capital expenditure and cost reduction programmes. The Group's current banking facilities expire in May 2022. In the absence of further acquisitions, the viability tests show that the Group could continue to operate without new facilities on expiry of current facilities but it could be constrained. It is, however, expected that the Group will seek a renewed borrowing facility and the implied covenant calculations suggest that the Group would be able to arrange further facilities on reasonable terms.

Viability and going concern assessment

On the basis of this and other matters considered by the Board during the year, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period assessed. In doing so, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty.

After having made appropriate enquiries and reviewing the current financial position, including all the information presented in its strategic review of the business, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these accounts.

ESG report

BUILDING A SAFE AND RESPONSIBLE BUSINESS

The Group's fundamental aim remains the development of specialist filtration, laboratory and environmental technology businesses for the benefit of all stakeholders. Responsible business development is essential for creating long term value.

Engaging with our stakeholders is fundamental to the way we do business.

Our principal stakeholders are customers, staff, suppliers, shareholders and the local communities where we operate.



↑ Life below water

Leading maritime research laboratories use Seal Analytical's seawater analysis systems to monitor levels of inorganic contamination in oceans across the globe. Life below water is the 14th UN Sustainable Development Goal.

“The Group’s fundamental aim is to develop Porvair for the benefit of all stakeholders. Principal measures of success include consistent earnings growth and improvement in selected ESG metrics.”

Ben Stocks Group Chief Executive

Our approach

This report sets out how we approach Environmental, Social and Governance issues at Porvair. The Board has used The United Nations Sustainable Development Goals as a framework for describing its approach.

Developing our ESG framework and goals

Main steps taken by the Board this year have been:

- A first paper on how the Group might address a zero carbon future;
- Implementing a common workforce engagement system across the Group; and
- Agreeing key ESG metrics and setting these at the heart of Group strategy.

The Board sees this as a start and expects that its activities and reporting will develop over time.

A longer term perspective

The Board seeks consistent improvement in all results, both financial and non-financial. It further recognises that sound financial performance is essential if wider long term goals are to be achieved.

Metrics and Targets

- The Group’s carbon intensity ratio has moved from 0.224 in 2010 to 0.139 in 2020 (Scope 1 & 2), as set out on page 49. This is marginally up on 2019. Total gross emissions fell 4.7% in 2020. Total revenues fell 7%. The Board has set a goal to further reduce carbon intensity by 10% by 2025, when targets will be reviewed.
- We have decided not to set an absolute greenhouse gas emission target. As set out on page 45, we expect demand for our products to grow as the drive for Net zero carbon gathers pace, and we therefore believe carbon intensity is a better measure than absolute emissions.
- We manufacture thousands of different products each year, for thousands of different customers. We have looked at including a Scope 3 measure into our targets but cannot see a meaningful way of capturing Scope 3 emissions for the time being. This will be kept under review pending wider industry initiatives to better capture Scope 3 emissions.
- We will continue to comply with the Non-Financial Reporting requirements contained in s414C of the 2006 Companies Act.

We will adopt the following targets:

- Reduce carbon intensity by 10% between 2020 and 2025 (see page 49).
- Annual decreases in Lost Time Accidents per 100 employees (see page 52).
- Employee Engagement. Annual employee surveys in all plants with findings relayed to the Board and Board comments communicated to employees as part of a set agenda of staff communications meetings (see pages 50 and 51).
- Improving senior staff gender ratios (see page 51).

What does ESG mean at Porvair?

Environmental



- Environmental stewardship and managing our environmental impacts.
- Addressing key environmental challenges that our markets and customers face.

- Porvair: Moving towards Zero Carbon and TCFD disclosure.

Social



- Formal and informal workforce engagement.
- Investing in our people and their potential.
- Building a diverse and inclusive culture.

- Prioritising workplace safety.
- Ensuring a positive social impact in the communities where we operate.

Governance



- Balancing the interests of all our stakeholders.
- Responsible and ethical conduct.

- Board oversight of climate related risks and opportunities.
- Setting ESG metrics and targets at the core of the business.

ESG report continued

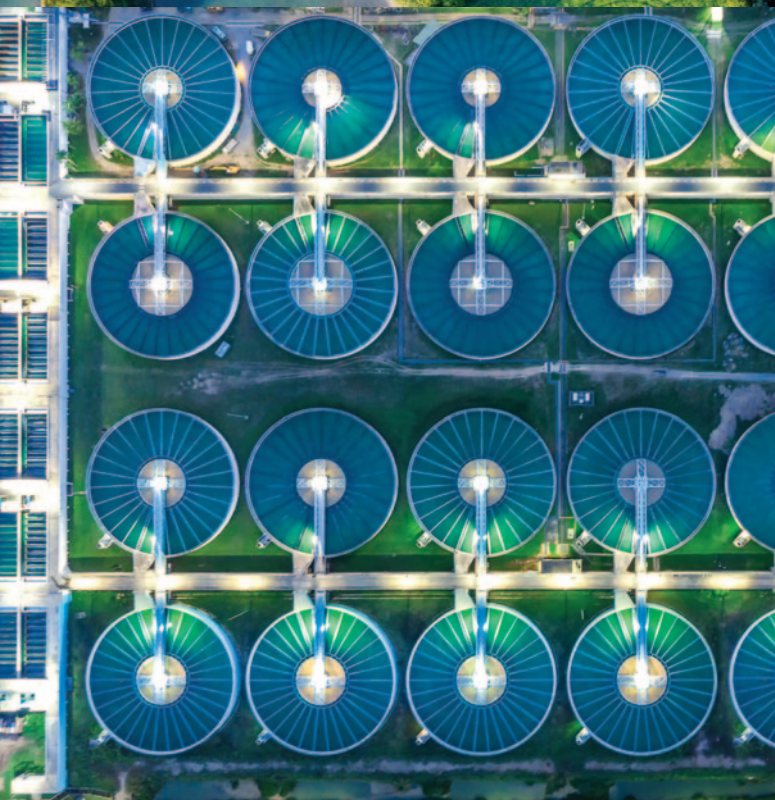
Many of the products developed by Porvair are used to the benefit of the environment and wider society and we recognise that our operations can make an important contribution to a cleaner world.

6 CLEAN WATER AND SANITATION



Clean water and sanitation

Seal Analytical offer water quality laboratories a range of products to automate and improve water quality testing. Access to clean water is the 6th UN Sustainable Development Goal.



Our products

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

- The Group's industrial filters contain and reduce emissions.
- The Group's water analysis equipment ensures drinking water is fit for consumption and waste water is not contaminated.
- The Group's maritime water analysis equipment monitors small changes in the oceans' chemical composition.
- The Group's nuclear filters prevent emissions of fissile material.
- The Group's Metal Melt Quality products prevent contamination of aluminium and iron and help to improve the strength to weight ratio of metal components.
- The Group's ballast water filters control emissions of contaminated ballast from ships.
- Many of the Group's filters provide protection from contamination for systems and processes, which helps improve their quality and longevity.



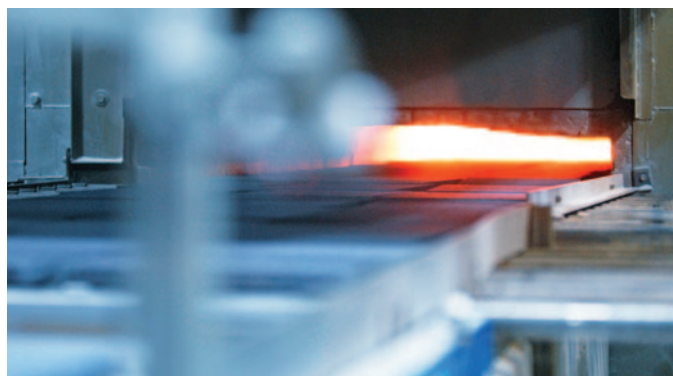
Porvair's expertise has an important role to play in addressing key environmental challenges:

Clean water analysis

The market for clean water and environmental testing is growing throughout the world as more of the world's population seeks access to clean water and environmental regulations tighten. The Group's water analysis equipment ensures drinking water is fit for consumption and waste water is not contaminated.

Reducing marine pollution

Porvair's advanced filters for shipping prevent organic material from re-entering the ocean when ballast water is pumped out. These systems are required on all large ships to meet International Maritime Organisation (IMO) ballast water regulations.



Our operations

The Group consistently seeks to improve its environmental profile. Environmental impacts are managed in conformity with local regulatory requirements.

The Group's manufacturing processes have only limited direct emissions, but in all cases the Group recognises and respects regulatory parameters. Increasingly the Group is investing in closed-loop systems for solvents or hazardous materials. In 2020 our closed-loop water recycling process in Metal Melt Quality was abandoned as the closed-loop system was not considered adequate.



Industry, innovation and infrastructure

The UN's 9th Sustainable Development Goal seeks to retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes. Most of the projects undertaken by Porvair's Royal Dahlen conform to this goal; as does the work undertaken in the Metal Melt Quality division, where advanced aluminium filters are used in developing lighter, stronger and fully recyclable components for next generation transportation.



Light-weight sustainable metals

As the world strives for a more fuel efficient and recyclable future, aluminium is a big part of the solution. Light-weight, strong and highly recyclable, value-added aluminium products can lower energy costs and reduce plastic consumption in dozens of applications. Porvair's CSX™ filters deliver a better environmental profile and improved filtration compared with the competition with lower risk of inclusions passing into the metal.

Filtration solutions for energy & industrial processes

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

ESG report continued

PORVAIR: MOVING TOWARDS ZERO CARBON ADOPTING A TCFD FRAMEWORK

Background

In June 2019, the UK became the first major country to legislate for a Net zero target for carbon emissions by 2050.

Most Porvair products contribute to a cleaner world by reducing emissions, improving process efficiencies or identifying pollutants.

The Group supports the UK Government goal of reducing greenhouse gas emissions to Net zero by 2050 and will adopt TCFD (Task force on Climate related Financial Disclosures) guidelines as it develops its ESG reporting framework.

Moving towards Net zero is consistent with the Group's fundamental aim to develop specialist filtration, laboratory and environmental technology businesses for the benefit of all stakeholders.

Using the TCFD recommended headings, this section outlines how climate related and Net zero issues may affect Group activities, strategy and investment decisions.

TCFD: Core elements of recommended climate related financial disclosures



1. Climate related and Net zero planning framework

Our strategic thinking is based on the following planning assumptions for 2020 – 2040:

- Aircraft will run more efficiently, on a combination of greener fuel and electricity. The Sustainable Aviation Roadmap (2020) and similar studies are helpful in identifying aero industry challenges.
- Auto and light truck transport will move towards battery or hydrogen power.
- Oil derivatives will still be used for the production of chemicals or critical materials. Carbon Capture and Storage technologies will develop to better balance the carbon release from fossil fuels.
- Electricity generation will move to solar, wind and nuclear power.
- Industrial plants will seek to eliminate the direct use of fossil fuels and will invest in technologies to make more efficient use of utilities.
- Emissions standards across industry will tighten.
- 'Dematerialisation' trends will lead to the growth of internet based commerce and communication; more selective business travel; and a greater propensity for home working.

2. Climate related and Net zero risks and opportunities for Porvair

Risks – Some of our markets are likely to decline as climate related and Net zero activities accelerate. Our strategy in such areas is to manage this decline, find alternative revenue streams, and adjust investment priorities. Markets served that may be thus affected include:

- Internal combustion engine components and castings: engine blocks; gearboxes; air intake filters; engine silencing materials, which will reduce as automobiles move to electric power.
- Filters for petro-chemical processing will fall in step with the demand for fossil fuels, offset to some degree by the need for better filtration of finer grade derivatives and tighter emissions controls.
- Demand for certain polymers will decline – unrecycled polymer beverage packaging for example. Others may increase: insulating polymers or certain synthetic textiles are seen as being beneficial to Net zero. Fine polymers, such as those needed in solar cell production or wind turbine blade manufacture, may grow.

Net zero

Governments in the UK and Ireland have set targets to achieve Net zero by 2050.

<2°C

The Paris Agreement 2015 aims to limit global warming to well below 2°C and pursue 1.5°C.

Opportunities – Porvair products reduce emissions both directly and indirectly. Directly, many of our industrial filters capture hydrocarbon by-products for later treatment or sequestration. Indirectly, Porvair filters protect critical industrial equipment, prolong asset life and improve efficiency. Our filters clean fluids, gases and molten metals to allow higher quality production with less scrap and lower input costs. Many of these applications will grow as climate related and Net zero activities develop. Examples:

- Aluminium usage is expected to rise as its lightweight and fully recyclable properties are recognised, particularly when the primary metal is made using hydro or solar power. Higher-grade aluminium requires filtration.
- There will be a move to recyclable or re-usable laboratory consumables. Both plastics and glass have carbon implications in their manufacture, and the Group has capabilities in both materials. Plastics generally emit more carbon per tonne in manufacture than glass but if re-usable, plastic labware is lighter, less breakable and can be easier to manufacture. In some clinical applications the need for cleanliness will be paramount, but in other laboratories demand for washable and recycled labware will increase. The Group is well placed to adapt to these needs.
- In aerospace, Net zero planning is considering airspace and operational improvements; fleet upgrades with new aircraft technology; and the adoption of sustainable aviation fuels. Both new aircraft technology and the adoption of sustainable fuels will need specialist filtration. There will also be a move towards greater use of electric systems, requiring dust and air filters to protect servo motor parts and other sensitive equipment. Batteries, electrical motors and computer systems all require efficiently filtered coolant architecture. As these applications work through airframe and engine development, we expect a marked increase in new product development activity which will be supported by more Group investment in test and measurement capabilities.
- In industrial processing, the need for cleaner working environments and higher purity raw materials (needed, for example, to reduce scrap) will increase, leading to greater demand for water purity and air quality.
- Pressure to reduce all emissions (beyond carbon) will drive demand for wider filtration products. The Group's products are used in a wide range of emissions control applications including ballast water filtration, water analysis, and nuclear remediation.

Some of these changes are already apparent: demand from the US auto and light truck industry has not grown for several years. Demand for aluminium used in EV auto battery box production has been rising. The Board sees the balance of these risks and opportunities across the Group as positive, with the drive for new product development and innovation improving product mix and margin.

3. Risk Management

The Group identifies, assesses and manages climate related and Net zero risks and opportunities as part of its regular risk assessment process, as set out in the Annual Report and Accounts.

From 2020, climate related and Net zero risks are addressed through the Emerging Risk section of the risk management framework – a process led by the Executive Directors during quarterly reviews of each division.

Strategic risks and opportunities are identified and discussed at an annual Board strategy review. Investment priorities are set accordingly. Where capital investment decisions have a carbon emissions element, each decision identifies whether the investment will affect the Group's carbon intensity and whether alternative solutions have been considered.

4. Actions and investment priorities arising

In addition to the new product development activities directed at emissions control, the Group's near-term focus will be in four areas:

- Reduction in the direct use of fossil fuels.
- Reduction in the intensity of electricity used in operations.
- Reduction in the use of raw materials made from fossil fuels or high carbon materials.
- Increased use of green power suppliers.

Direct use of fossil fuels

Porvair uses furnaces in its operations in the manufacture of ceramics, sintered metal and glass products. Most metal sintering is carried out either in electric vacuum furnaces or hydrogen furnaces, however natural gas is used for glass production and ceramic filter production. Gas furnaces could be replaced with large electric furnaces for ceramic firing but the cost and quality implications of such a switch are not fully understood for the time being. This will be kept under review. Currently there is no viable alternative to the open flame burners required for the glass furnaces.

“In June 2019, the UK became the first major country to legislate for a Net zero target for carbon emissions by 2050. There is strong public support for Government enabling this change and the UK has world-leading capabilities in research and innovation to help inform the approaches we might take, but we must not underestimate the scale of this challenge.”

Sir Patrick Vallance
Co-Chair, Council For Science And Technology (CST)

ESG report continued

PORVAIR: MOVING TOWARDS ZERO CARBON ADOPTING A TCFD FRAMEWORK CONTINUED

Certain processing operations that currently use natural gas could use cleaner solutions: microwave or RF dryers; or different annealing techniques; and these will be evaluated when appropriate.

Various Porvair plants use gas boilers for heating. Other available technologies will be considered as capital investments are assessed.

Continuous energy reduction strategies

Porvair seeks to make steady improvements to its manufacturing efficiency. Often this will be accompanied by the use of newer and more fuel-efficient equipment. The Group has:

- Installed LED lighting throughout its plants;
- Acquired servo assisted presses rather than hydraulic presses, which use much less energy; and
- Made increasing use of recycling rather than landfill disposal.

In the future, the Group will:

- Continue to use technological advances to install more energy efficient equipment as old machines are retired.
- Replace car and van fleets with electric vehicles as they become more economical.

Raw materials made from fossil fuels

Porvair has two main categories of raw material made from fossil fuels:

- Precursor foam and organic binders used in the manufacture of ceramic filters for molten metal. The Group seeks to develop filters that use different precursors and has switched several customers to alternatives. This will continue. Further work will be needed to remove organic binders used in production.

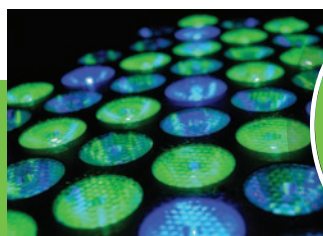
- Technical plastics used in labware products. The Group is investing in labware re-use systems and glassware alternatives. Where plastics are selected for their technical characteristics (such as cleanliness or chemical inertness), investments are directed to reduce manufacturing scrap and energy use.

Sustainable electricity supplies

The Group uses a biomass electricity supplier to provide the electricity to its UK plants. It expects in time to be able to source sustainable electricity for all of its plants, including the possibility of limited solar and wind generation at its own facilities.

Related actions being undertaken by the Group in support of climate related, Net zero and wider ESG goals:

As the Group's ESG framework develops it will be more closely linked to management remuneration. Senior management bonuses already carry a link to Corporate Social Responsibility requirements and over time senior staff incentive schemes will be introduced to better align with ESG metrics.



Net zero by
2050

2050





→ Responsible consumption and production

Ensuring sustainable production patterns is central to the UN's 12th Sustainable Development Goal, in which substantial waste reduction is called for through prevention, reduction, recycling and reuse. Porvair's focus is on manufacturing scrap reduction, lower use of landfill and higher levels of recycling.



Alignment with TCFD principles

In 2020 the Board moved to adopt the TCFD framework as set out in this report. The principal elements are:

- **Governance:** disclose the organisation's governance around climate related risks and opportunities.
- **Strategy:** disclose the actual and potential impacts of climate related risks and opportunities.
- **Risk Management:** disclose how the organisation identifies, assesses and manages climate related risk.
- **Metrics and Targets:** disclose the metrics and targets used to assess and manage relevant climate related risks and opportunities.



Read more on pages 41 and 44 to 47



ESG report continued

Greenhouse gas emissions

The Group has implemented the UK Government's guidance on measuring and reporting greenhouse gas emissions, in line with DEFRA guidelines, using conversion units published by the Carbon Trust. The Group reports 'Scope 1 and 2' emissions in tonnes of carbon dioxide. Scope 1 covers direct emissions 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, principally electricity.

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

2010 is used as a base year and 'kilogrammes of CO₂ emission per pound sterling of revenue' as a measure of intensity. The Group aims to reduce its total intensity ratio over time and has set a goal to reduce carbon intensity by 10% between 2020 and 2025.

Energy Saving Opportunity Scheme (ESOS)

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

Porvair has completed two full EA audits. Porvair is required to carry out further ESOS assessments every 4 years. Reports by the auditors will incorporate recommendations identifying opportunities for cost saving energy measures.

REACH

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

Trichloroethylene and chromium trioxide appear on the ECHA Annex XIV list of products that have been banned unless specifically authorised for use. Porvair Filtration Group's Segensworth site has eliminated Trichloroethylene from its processes. To replace chromium trioxide, used in Alocrom 1200, it has begun to design new products

using a replacement treatment (SURTEC). For existing products, it has joined an aerospace group which has special dispensation to continue to use Alocrom 1200 on existing products. Air and manual handling procedures for the use of Alocrom 1200 have been significantly improved.

The Metal Melt Quality division keeps under review its use of boric acid, which is a substance named in the Candidate List of the REACH regulations, to ensure that it meets its REACH reporting obligations on filters shipped into the EU.

Waste

The Board monitors waste disposal and recycling volumes. The Board uses categories of waste set out in ISO 14001: 2015 environmental management systems to categorise its solid and liquid waste. The Board expects that a focus on the treatment of waste will lead to reductions in waste and an increase in recycling.

Metrics and targets:

Measuring Scope 3 carbon emissions and value chain carbon footprint

Greenhouse gas emissions are categorised into three groups or 'Scopes' by the most widely-used international accounting tool, the Greenhouse Gas (GHG) Protocol. Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain.

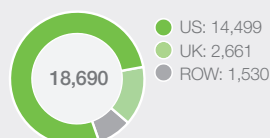
Porvair manufactures thousands of different products each year, for thousands of different customers. We have looked at including a Scope 3 measure into our targets but cannot see a reliable way of capturing Scope 3 emissions for the time being. This will be kept under review pending wider industry initiatives to better capture Scope 3 emissions.

Carbon intensity

We have decided not to set an absolute greenhouse gas emission target. We expect demand for our products to grow as the drive for Net zero gathers pace, and we therefore believe carbon intensity is a better measure than absolute emissions.



Geographical breakdown (tonnes CO₂)



Total for year ended 30 November 2020



Affordable and clean energy

Affordable and clean energy, including access to advanced and cleaner fossil fuel technology is the 7th UN Sustainable Development Goal. The Porvair Filtration Group produces a wide range of filters that are used in emission controls and in the production of cleaner fuels.



Greenhouse gas (GHG) emissions

	Year ended 30 November 2020 tCO ₂	Year ended 30 November 2019 tCO ₂	Year ended 30 November 2010 tCO ₂
Scope 1 – Direct GHG Emissions			
Gas	10,586	11,031	8,571
Owned vehicles	589	484	368
Total scope 1 gross emissions	11,175	11,515	8,939
Scope 2 – Indirect GHG Emissions			
Electricity	7,515	8,096	5,204
Total scope 2 gross emissions	7,515	8,096	5,204
Total gross emissions	18,690	19,611	14,143
	kCO ₂ /£	kCO ₂ /£	kCO ₂ /£
Scope 1 intensity ratio	0.083	0.079	0.142
Scope 2 intensity ratio	0.056	0.056	0.082
Total intensity ratio	0.139	0.135	0.224

Geographical breakdown (tonnes of CO₂)

	Year ended 30 November 2020			Year ended 30 November 2019			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	547	2,114	2,661	439	2,348	2,787	479	1,497	1,976
US	9,538	4,961	14,499	10,047	5,374	15,421	8,350	3,639	11,989
ROW	1,090	440	1,530	1,029	374	1,403	110	68	178
Total	11,175	7,515	18,690	11,515	8,096	19,611	8,939	5,204	14,143

ESG report continued

Porvair facilities are encouraged to engage with and support their local communities. Each does so according to its means.



Our people

Porvair provides employment in a wide range of disciplines associated with the design and manufacture of specialist filtration, laboratory and environmental technologies. 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.

Board's employee engagement system

The Board seeks to maintain good channels of communication with all its staff. The Board considers it important that the views and concerns of staff are heard; that the objectives of each business are understood; and that standards of behaviour are shared by all. Clear two-way communication is important. The Board has put in systems that allow staff survey results, comments arising, and staff suggestions to be heard at Board level. While almost all issues raised are resolved at a local level, Board members make sure they understand the views and concerns of all staff members. Sally Martin, the Group's Senior Non-Executive Director, is the designated Director responsible for employee engagement.

The system works as follows:

- Monthly reports are given to the Board from each plant on the employee consultations and staff communications. Reports include all the enquiries that have been made by employees and comments on how they have been resolved.
- At least annually (sometimes more) all plants undertake a confidential all-staff survey with 17 standard questions plus any other questions relevant locally. The results of these surveys and any issues raised are presented to the Board in a semi-annual formal report.
- Following each report the designated Non-Executive Director engages with the employees in each plant to feedback the Board's views on the information reported.

Investing in our people and their potential

We recognise that our competitive advantage can only be maintained by developing our own talent internally as well as recruiting the best skills from outside.

Training and development programmes are important both for our employees to fulfil their potential and to help our business achieve its goals. Much of our training uses the experience found within our own operations.

Our training programmes mainly concern:

- Technical skills and knowledge transfer;
- Sponsorship for tertiary education qualifications;
- Team leadership;
- Training apprentices;
- Health & safety; and
- Quality.



Metrics and targets: Improving Senior Staff gender ratios

Total Staff

31%

31% of the Group's workforce are female.

Senior Staff and Directors

30%

30% of the Group's senior staff and Directors are female.

- The Board considers this process to be working well: workforce views are fairly reflected; communication is two-way; Board discussion and decision making is influenced by reports received and participation is encouraged.

Employee engagement: additional aspects

- Annual employee surveys are reviewed with staff who know that results are seen at PLC Board level.
- Suggestion boxes allow comment and feedback – anonymous if necessary – to be fed through to management. Staff know that all suggestions posted are reported to the Board.
- All sites hold all-staff 'town hall' meetings monthly or quarterly (depending on the number of staff on the site). Staff concerns may be raised at these meetings, and any issues raised through employee surveys or suggestion boxes are addressed at these meetings. These meetings also cover:
 - Health and Safety matters;
 - Financial and operational metrics;
 - Significant plant or HR developments;
 - Staff questions and answers including responses to questions raised previously, or comments on previous questions from the Board;
 - Long service and other awards; and
 - Local community interaction.
- Workers Council meetings. Two EU sites have workers councils. The proceedings and issues they raise are reported to the Board.
- Site visits by Executive Board directors. A member of the Executive Board will visit each site at least once per year. During these visits, the dates of which are published to staff in advance, time is set aside to meet as many staff as possible. Should a member of staff wish to meet the Board member, for any particular reason, arrangements will be made for them to do so. All such visits will be reported to the Board.

Employee engagement 2020

- Several surveys identified divisions between departments within plants that were not previously apparent. Addressing these issues has been helpful for morale and mutual understanding.
- Most staff commentary addressed Covid-related issues and how working practices were impacted. These were addressed case by case on a local basis.
- Where specific concerns were raised in a plant (examples included: provision of work uniforms; ideas for equipment purchases; healthcare provisions) the Board fed back messages asking local management to ensure the appropriate action had been taken.
- Few site visits by Board members were possible in 2020. These will be re-started when Covid-19 restrictions allow.

Employee engagement metrics

The Board is considering whether a suitable metric can be identified that will give a measure of employee satisfaction. The Board is currently monitoring the scoring that is derived from the employee surveys and the turnover of staff based on the number of voluntary resignations as a percentage of total employees. The Board will publish a metric in future if it considers that it provides a guide to employee satisfaction.

Diversity

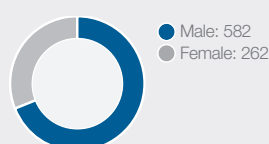
It is the Group's policy to recruit, train, promote and treat all personnel on grounds solely based on individual ability and performance. These principles are applied regardless of gender, sexual orientation, religion, age, nationality or ethnic origin. The staff employed in each plant are generally representative of the ethnic diversity and backgrounds of the local population surrounding the plant.

The Group's split between male and female permanent employees is shown in the table below:

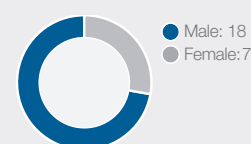
	Female	Male	Total
Directors	2	3	5
Senior Managers: (Plc staff; General Managers and their direct reports)	7	18	25
Employees	253	561	814
Total at 30 November 2020	262	582	844

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 opportunities for a disabled person should, as far as possible, be identical to that of all other employees.

Employee diversity



Senior Management diversity



ESG report continued



Prioritising workplace safety

Workplace safety in 2020 was overtaken by actions to ensure that social distancing was observed and all workplace activities were Covid secure. This involved extensive changes to plant layouts, amended working practices, working from home and finding new ways of interacting between teams and with customers and suppliers.



Health and safety

Our approach

The Group recognises its responsibilities for the health and safety of its employees and to the communities in which the Group operates. By prioritising health and safety, and reducing accidents and injuries, staff benefit from safer working environments and the Group benefits from settled and more secure employees.

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 monthly review of reportable accidents in Board papers.

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

Progress against our objectives in 2020

The Group continues to implement health and safety improvements throughout its plants. In the current year £0.1 million of capital expenditure was spent specifically on health and safety improvements including lighting, flooring and air handling. Health and safety projects in the year focused principally on making our plants safe for work in the pandemic, charged as expenses.

Periods of low production resulting from the pandemic enabled the Metal Melt Quality plant in Hendersonville, NC, to devote employee resources to a reorganisation and refurbishment of the plant. This has created a cleaner and safer working environment for all the plant employees and created a sense of ownership amongst the employees for the facility in which they work.

In 2020, while days lost to accidents per 100 employees improved, Lost Time Accidents per 100 employees increased to 1.3. We are focused on reducing this number in 2021.

Metrics and targets

A Decrease in Days Lost to Accidents per 100 employees

23

23 days were lost to accidents as a result of 13 minor accidents

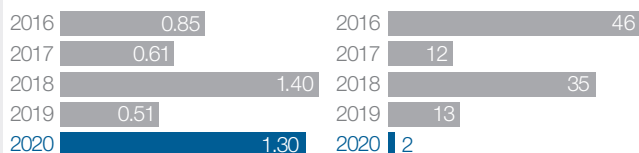
Health & Safety performance

Lost time accidents
per 100 employees

1.3

Days lost to accidents
per 100 employees

2



Good health and well-being

Porvair Sciences has developed a range of products that are used in sample preparation and analysis of infectious diseases, including diagnostic testing for Covid-19. Good health and wellbeing is the 3rd UN Sustainable Development Goal.

“We encourage local operations to interact with their communities and use local suppliers when commercially prudent.”

Customers and suppliers

Relationships with customers

The Group's products are generally bespoke for specific customers and often 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 subcontractors, 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.

Delivering sustainable solutions for our customers

- Because of the nature of its products, the Group typically has long customer relationships.
- Most new product introductions are developed with existing customers as a means of adding value to a client.

Maintaining resilient supply chains

- The Group typically has long relationships with its suppliers.
- The Board considers supplier resilience as a critical strategic risk and reviews key supply arrangements in its risk management process.
- The Group works closely with its suppliers to ensure that the quality and delivery standards are met.

Ensuring a positive social impact in the communities where we operate

We create positive social impacts through our activities and local job creation where our global operations are located. Porvair companies support a variety of charities and projects most relevant to their local area and proactively support community engagement and volunteering.



Community

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.

The Aerospace & Industrial division has contributed to a number of local charities to support disadvantaged local people and communities.

The Metal Melt Quality plant in Hendersonville, NC supports the United Way of Henderson County (UWHC), a charity local to its main plant; the division makes donations and employees make payroll deductions to donate to the charity. A number of employees participate in projects to repair homes and provide facilities for the disadvantaged in the community and are active in mentoring and providing support for the children of single parent families.

The Laboratory division in the US has contributed to a number of water initiatives and charities. Employees made donations to charities supporting cancer relief and local deprived children.

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 authorities. It has been the beneficiary of local funding designed to promote employment and has joined programmes to promote local businesses and services in the area.



ESG report continued

“We recognise the importance of effective corporate governance in supporting the long term success and sustainability of our business.”

Integral to Porvair’s fundamental purpose are transparent and robust governance, safe and responsible operations and an ethical management culture.

Environmental | Social | Governance



Priorities for Porvair

- Balancing the interests of all our stakeholders.
- Responsible and ethical conduct.
- Board oversight of climate related risks and opportunities.
- Setting ESG metrics and targets at the core of the business.

Non-Financial Reporting requirements

We will continue to comply with the Non-Financial Reporting requirements contained in s414C of the 2006 Companies Act.



See page 59 for more information

Section 172(1) Reporting

The s172 Statement, which is reported for the first time in the 2020 Annual Report, reviews the principal decisions made by the Board of Directors and how the Directors have engaged with stakeholders.



See pages 56 to 59 for more information

Responsible business governance

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

The 2018 UK Corporate Governance code applied to the Group from 1 December 2019. The Board complied with all aspects of the Code throughout the year ended 30 November 2020.

More details of the Group's approach to Corporate Governance are given in the Group's report and accounts.

Risk management

Risk management and review forms a core part of each divisional quarterly review, with risk assessments and actions arising discussed with each management team and followed up in the annual internal audit process. The outputs from these discussions are fed through in regular Board reports where key issues are discussed. Further details are given on pages 32 to 38.

Anti-bribery and corruption policy

The Group prohibits 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 in 2019 provided expert professional training for its staff who have contact with customers and suppliers.

Modern Slavery

The Group has zero tolerance of slavery and human trafficking in all its different forms in any part of its business and in its supply chain. The approach reflects a commitment to act ethically and responsibly in all business relationships and to ensure that slavery and human trafficking are not present in any part of its business or in its supply chain.

A copy of the Group's policy on Modern Slavery is available on the Group's website at www.porvair.com.

Human rights

The Group supports and is committed to upholding the UN Guiding Principles on Business and Human Rights and the core labour standards set out by the International Labour Organisation.

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

Engaging with our stakeholders

The success of the Group depends on developing and maintaining open and strong relationships with all our key stakeholders. We operate with integrity; comply with laws and regulations as they apply in the locations where we operate; and endeavour to treat all stakeholders of the Group fairly.

Customers

- We seek to build long term stable relationships with our customers.
- Our products are generally bespoke for specific customers and are designed and tested in partnership with those customers.
- Our products often have long lifecycles and our customers provide us with stable revenues.
- Through research and development, we seek to offer customers regular upgrades and improvements to the products we offer.
- We operate according to strict anti-corruption and anti-bribery policies.

Suppliers

- The Group has a stable supplier base and seeks to build long term relationships.
- The Group seeks local suppliers to fulfil its requirements.
- Many of our suppliers are critical to the manufacture of specific parts.
- The Group works closely with its suppliers to ensure quality and delivery standards.
- We operate according to strict anti-corruption and anti-bribery policies.

Employees

- We provide a broad range of roles in design, manufacture, sales and administration.
- We have both formal and informal communication processes.
- We recruit, train and develop staff solely on the basis of ability.
- Our employees generally reflect the ethnic diversity of the local population close to each plant.
- We operate in accordance with local laws, customs and with due regard for human rights.

Group operating companies

- The Board has overall responsibility for the control and management of Group strategy and performance.
- Each division has its own autonomous management team, financial systems and controls. Only demonstrably Group-wide activities are managed at the Group head office.
- The Board has established a framework of controls encompassing procedures applicable to all businesses that are subject to executive review.
- Each operating division operates its own accounting systems, internal controls and manages its own risks.

Shareholders

- We seek to provide shareholders with informative and comprehensive communications.
- We seek to publish results promptly, usually within 10 weeks for year end results and 5 weeks for interim results.
- The Executive Board members meet regularly with our key investors to discuss Group performance and to hear their views.
- Board members make themselves available to meet with shareholders and potential investors when requested.

Communities

- Our staff profiles mirror the diversity of the local communities around each plant.
- We seek to use local suppliers where possible.
- The local environment is important to us and we take care to keep our waste to a minimum.
- Our employees are active in their local communities and contribute time and money to local charities.

Section 172(1) Statement

ENGAGEMENT AND DECISION MAKING

s172(1) Reporting

The revised UK Corporate Governance Code ('2018 Code') was published in July 2018 and applies to accounting periods beginning on or after 1 January 2019. The Companies (Miscellaneous Reporting) Regulations 2018 ('2018 MRR') require Directors to explain how they considered the interests of key stakeholders and the broader matters set out in Section 172(1) (A) to (F) of the Companies Act 2006 ('s172') when performing their duty to promote the success of the Company under s172. This includes considering the interest of other stakeholders which will have an impact on the long term success of the Company. This s172 Statement, which is reported for the first time, reviews the principal decisions made by the Board of Directors and how the Directors have engaged with stakeholders.

This s172 Statement focuses on matters of strategic importance to the Group, and the level of information disclosed is consistent with the size and the complexity of the business.

General confirmation of Directors' duties

The Board has a framework for determining the matters within its remit and has approved Terms of Reference for the matters delegated to its Committees. Certain financial and strategic thresholds have been determined to identify matters requiring Board consideration and approval and delegated authorities are set out in the Group's reporting and accounting manual.

When making decisions, each Director ensures that he/she acts in the way he/she considers, in good faith, would most likely promote the Company's success for the benefit of all of its stakeholders.

"This s172 Statement focuses on matters of strategic importance to the Group. It sets out the Board's approach to decision making; its stakeholder engagement; and key decisions taken in 2020."

The Board's approach to decision making

s172(1) (A) – The likely consequences of any decision in the long term

The Directors consider the long term consequences of their decisions with reference to their understanding of the business and the markets in which it operates.

- Porvair aims to develop specialist filtration, laboratory, and environmental technologies for the benefit of all stakeholders.
- The Board reviews its strategy each year, which drives a medium term review of the likely outlook for the Group as described in the Group's viability assessment (see page 39).
- In considering its long term development the Board will allocate capital and resources according to strategic priorities. These include:
 - investments in research and development, sales and marketing and production capabilities;
 - capital expenditures to boost organic growth; and
 - acquisition investments to increase technical expertise or routes to market.

The Group seeks to balance the short term costs of these investments with their likely future benefit.

In 2020 the Board further addressed challenges associated with Covid-19:

- Ensuring that all staff were able to shield or continue working safely;
- Adjusting operating capacities to meet changing market dynamics; and
- Re-configuring priorities and investments to position the Group for economic recovery.

s172(1) (E) – The desirability of the company maintaining a reputation for high standards of business conduct

- All of the Group's operations maintain ISO9001 quality standards as a minimum, with certain plants conforming to quality standards specific to their market (e.g. Aerospace).
- The Board monitors compliance with local laws and standards and has policies on Modern Slavery, Anti-bribery and corruption, and human rights.
- Remuneration arrangements for senior management are tied to Group corporate and social responsibility standards which specify four areas of focus: business integrity and ethics; people; HSE performance; and relationships and community impact.

The Board's approach to stakeholder engagement

The success of the Group depends on developing and maintaining good relations with all stakeholders.

s172(1) (B) – The interests of the company's employees

Employees are fundamental to our business. Success depends on attracting, retaining and motivating employees by providing:

- Fair pay and benefits;
- Training and development opportunities;
- A workplace environment with a high regard for health and safety procedures;
- A broad range of roles in engineering, manufacture, sales and administration;
- Formal and informal communication processes; and
- Staff development solely on the basis of ability.

Our employees reflect the ethnic diversity of the local population close to each plant.

We operate in accordance with local laws, customs and with due regard for human rights.

The Directors recognise that our pensioners, though no longer employees, also remain important stakeholders.

More information on this can be found within our report on Employee Engagement (see pages 50 and 51).

In their decision making the Directors are careful to properly consider the interests of all stakeholders.

s172(1) (C) – The need to foster the company's business relationships with suppliers, customers and others

Delivering our strategy requires mutually beneficial relationships with suppliers, customers and regulatory bodies. The Board expects all such relations to be conducted appropriately and in conformity with Group policies.

Relationships with customers

- Because of the nature of its products the Group typically has long customer relationships.
- Most new product introductions are developed with existing customers as a means of deepening the relationship with a valued client.
- Senior management will engage personally with all key commercial contacts to ensure good communications.
- The Group rarely makes significant changes to its terms and conditions, valuing stability in its commercial relationships.

Relationships with suppliers

- The Group typically has long relationships with its suppliers.
- The Board considers supplier resilience as a critical strategic risk and reviews key supply arrangements in its risk management process.
- The Group works closely with its suppliers to ensure that the quality and delivery standards are met.
- Senior management will engage personally with all key commercial contacts to ensure good communications.
- The Group rarely makes significant changes to its terms and conditions, valuing stability in its commercial relationships.

Relationship with Group Operating Companies

- The Board has overall responsibility for the control and management of Group strategy and performance.
- The Group believes in giving management teams autonomy such that most decisions can be made close to the stakeholders affected. Only when it is more efficient are activities managed centrally.
- The Board has established a framework of controls encompassing procedures applicable to all businesses that are subject to executive review.

Relationship with regulatory bodies

The Board encourages its operations to engage constructively with regulatory bodies and to maintain regulatory approvals through the relevant audit processes.

Section 172(1) Statement continued

The Board's approach to stakeholder engagement continued

s172(1) (D) – The impact of the company's operations on the community and the environment

- The development of safe and responsible operations is fundamental to the Group's purpose.
- The Board regularly reviews reports on the Group's impact on the environment.
- The Board regularly reviews reports on the Group's community involvement projects.
- All Group operations draw staff, ancillary services and supplies from the local economies wherever practical.
- The Board monitors key environmental metrics including carbon intensity; waste/landfill; and use of renewable fuels.

s172(1) (F) – The need to act fairly as between members of the company

- The Board maintains a regular dialogue with its members through meetings with investors, its AGM and comments received in relation to its regulatory releases and publications.
- The Board publishes results promptly, usually within 10 weeks for year end results and 5 weeks for interim results.
- The Board provides briefings to analysts and media outlets, who in turn provide an independent perspective on the Company for the benefit of their clients and readers.
- The Board uses judgement and analysis of information gained through this information exchange to act fairly as between the Company's members.
- The Board seeks to provide shareholders with informative and comprehensive communications.
- The Executive Board members meet regularly with our key investors to discuss Group performance and to hear their views.
- Board members make themselves available to meet with shareholders and potential investors when requested.

Principal decisions taken by the Board in 2020

Definition of principal decisions:

We define principal decisions taken by the Board as those decisions in 2020 that were of a strategic nature and that are significant to any of our key stakeholder groups. As outlined in the FRC Guidance on the Strategic Report, we include decisions related to capital allocation and dividend policy.

1. Consideration of the effect on the Group of the Covid-19 pandemic

Decision taken in March 2020

What was the outcome

To accept the Executive Directors' report into the effects of the pandemic on the Group which had four objectives:

- To ensure that all working environments for our employees were safe;
- To assess the likely impact of the pandemic on other stakeholders;
- To consider financial scenarios arising from the pandemic; and
- To identify ways in which the Group could position itself for economic recovery.

The review recognised that the Laboratory division was likely to see increased demands and additional capital expenditure was authorised.

The Metal Melt Quality and Aerospace & Industrial divisions were authorised to adjust their cost bases in line with changing levels of activity in their markets. Broader market research and commentary were used to assess plans, particularly in aerospace, and permanent reductions in staffing levels were discussed based on various scenarios.

How were stakeholders considered

Staff affected by this process were treated fairly and where appropriate support from the UK Government Furlough Scheme and the US PPP loan scheme was used to allow the Company time to assess economic impacts. Suppliers affected were communicated with regularly. Emphasis was given to the longer term benefits of these actions for all stakeholders.

2. Decisions to pay the final dividend for 2019 and the approval of the interim dividend for 2020

Decisions taken in March and June 2020

What was the outcome

Prior to the Annual General Meeting, the Board considered whether it was appropriate to pay the final dividend for 2019 and as part of its review of the half year results it considered whether to pay an interim dividend. In both cases the Board considered it appropriate to pay the dividend.

How were stakeholders considered

The Board has a stated policy of paying a progressive dividend. This is straightforward in periods of steadily growing profits and when the dividend is well covered. In periods such as 2020, when profits might fall the Board has to consider both the past performance and the outlook for the Group including whether the cash paid as a dividend could be better used in other ways.

The Board concluded that the dividend was sufficiently well covered; that there were adequate distributable reserves; and the Group had access to sufficient finance. Staff, customers, suppliers and the future investment opportunities for the business were considered to be unaffected by the decision to pay the dividend and shareholders received the income from the Group that they would have expected.

3. Appointment of new auditors

Decision taken in June 2020

What was the decision

The Board carried out an audit tender process to determine whether it was getting best value from its auditor. The process concluded with the appointment of RSM UK Audit LLP and the resignation of Deloitte LLP.

How were stakeholders considered

The decision to put the audit out to tender was taken following a request from Deloitte to increase the audit fee significantly. The Board was aware of the upward pressure on audit fees but considered that it could not accept a significant increase in an environment of economic hardship. This decision was informed particularly in the light of the restructuring of the business and its impact on employees, including those likely to lose their jobs as a consequence of the Covid-19 pandemic.

In selecting the firms to be included on the tender list, the Board took into account the needs of investors and shareholders and limited the proposed firms to a selection from the largest eight firms that apply the FRC's Audit Firm Governance Code.

4. Approval of Porvair's strategic plan for 2021 to 2024

Decision taken in November 2020

What was the decision

The Board conducts a strategic review each year which considers the strategic direction of the Group and its immediate and medium term priorities. Three and five year plans are considered.

How were stakeholders considered

The Group's strategic framework specifically considers the benefits to all stakeholders. This year particular emphasis was given to shareholders, staff and pensioners. In 2020 the Board made a minor amendment to its strategic purpose, adding the following: "principal measures of success will include consistent earnings growth (per share) and selected ESG metrics."

Non-financial information statement

We will continue to comply with the Non-Financial Reporting requirements contained in s414C of the Companies Act 2006. The table set out below, and the information it refers to, is intended to help stakeholders understand our position on key non-financial matters.

Reporting requirement	Policies and standards which govern our approach	Additional information
Stakeholder engagement	Summary statement	P: 56
Environmental matters	Environmental performance	P: 48 & 49
Employees	Employee engagement	P: 50 & 51
	Whistleblowing policy	P: 68
	Health & Safety policy	P: 52
	Diversity policy	P: 51
	Training and development	P: 50
Human rights	Modern Slavery Act statement	P: 55
	Human Rights	P: 55
Social matters	Porvair in the community	P: 53
	Relationship with customers and suppliers	P: 53
Anti-corruption and anti-bribery	Anti-bribery and anti-corruption policy	P: 55
Description of principal risks and impact of business activity	–	P: 32 to 38
Description of the business model	–	P: 15 & 16
Non-financial performance indicators	–	P: 31

Board of Directors

“The Board’s role is to promote the long term success of the Group through the setting of a clear purpose and sustainable strategy which creates value for all our stakeholders.”



John Nicholas

Independent Non-Executive Chairman

(N) (R)

Appointed to the Board in October 2017, he became Chairman in April 2018.

External appointments:

John is Non-Executive Chairman of Diploma PLC. He was previously Senior Non-Executive Director of Mondi plc, Rotork plc and Ceres Power Holdings plc and Chairman of the Audit Committee of Hunting plc. He was Group Finance Director of Tate & Lyle plc from 2006 to 2008 and prior to that Group Finance Director of Kidde plc from its demerger from Williams plc in 2000 until its acquisition by United Technologies in 2005. John was a member of the UK Financial Reporting Review Panel for six years until April 2015.

Relevant experience:

John is an experienced Non-Executive Director with broad experience in manufacturing and service industries. John brings strong leadership skills and provides an effective commitment to the Board. John holds an MBA from Kingston University and is a Chartered Certified Accountant.

Committee membership:

Chairman of the Nomination Committee and member of the Remuneration Committee.



Ben Stocks

Group Chief Executive

Appointed to the Board in February 1998.

Previous career and external appointments:

Ben was previously Managing Director of the Speciality Packaging Division of Carnaud Metal Box. He is a Non-Executive Director of the Aerospace Technology Institute.

Relevant experience:

Ben has been Group Chief Executive since joining the Board in 1998. He leads the Group's management and has been instrumental in delivering the Group's consistent strategy and growth. Over his career with the Group he has acquired considerable domain knowledge and extensive filtration market knowledge. He has an MBA from INSEAD.

Committee membership:

None.



Chris Tyler

Group Finance Director

Appointed to the Board in September 2004.

Previous career:

Chris had previously held a number of senior financial positions at Cable & Wireless, latterly as Chief Financial Officer of Cable & Wireless in the Caribbean. He was a Non-Executive Director of Plant Impact plc and Chairman of its Audit Committee from 2015 to 2018.

Relevant experience:

Chris is a Chartered Accountant with commercial and financial experience gained in international technology and manufacturing businesses. He oversees financial control and reporting and is responsible for the Group's accounting, compliance, financial planning and reporting functions. He is a Chartered Accountant.

Committee membership:

Group Company Secretary and Pension Scheme Trustee.



Sally Martin

Senior Independent Non-Executive Director

(A) (N) (R)

Appointed to the Board in October 2016.

External appointments:

Sally is Supply and Trading Operations Manager for Europe & Africa in the Shell International Trading and Shipping Company Limited. In a thirty-year career with Shell, Sally has built a strong track record in strategy; M&A; international business development; and engineering and operations.

Relevant experience:

Sally brings a wealth of experience in strategy, business development, engineering and operations. She has particular focus on safety management, large project delivery and managing large and dispersed teams. Her extensive team management skills make her ideally suited to lead our employee engagement processes and chair the Group's Remuneration Committee. She is a member of the Chartered Institute of Electrical Engineers.

Committee membership:

Chairman of the Remuneration Committee and member of the Audit and Nomination Committees. Designated Board member for employee engagement.



Jasi Halai

Independent Non-Executive Director

(A) (N) (R)

Appointed to the Board in June 2019.

External appointments:

Jasi is Group Financial Controller and Operating Officer for 3i Group plc and has held a broad range of senior finance positions at 3i since 2005.

Relevant experience:

Jasi's role in the financial management of the portfolio 3i Group plc companies gives her recent and relevant financial experience and makes her ideally suited to chair the Group's Audit Committee. She is a member of the Chartered Institute of Management Accountants and holds an MSc in investment management from the CASS Business School.

Committee membership:

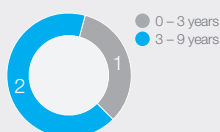
Chairman of the Audit Committee and member of the Remuneration and Nomination Committees.

Composition of the Board

Executive and Non-Executive Directors



Non-Executive Tenure



Key to Board Committee Membership

- (A) Audit Committee
- (N) Nomination Committee
- (R) Remuneration Committee
- Blue background denotes Committee Chairman

Chairman's introduction to governance

"The Board provides effective and strategic leadership to the Group within a framework of robust corporate governance."

Dear shareholder

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

In the Governance section of this report the Board sets out the information, policies and procedures adopted by the Group to ensure compliance with the relevant governance codes and financial law. The Governance section includes the Directors' Report, the Corporate Governance Report, the Report of the Audit Committee and the Remuneration Report and Remuneration Policy.

The Board

The Board consists of three Non-Executive Directors and two Executive Directors. The Board provides strategic leadership and guidance with the aim of allowing the Executive team to develop the business profitably within the framework of risk management and compliance.

The Board has established three Committees to advise the Board:

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

The Nomination Committee and the Remuneration Committee comprises all of the Non-Executive Directors. As Chairman of the Group, I do not sit on the Audit Committee.

I confirm that, following performance evaluation of each Non-Executive Director, their performance continues to be effective with appropriate commitment to the role.

Compliance with the Code

The Board complied with all aspects of the 2018 UK Corporate Governance code throughout the year ended 30 November 2020. The 2018 UK Corporate Governance code has applied to the Group from 1 December 2019.

Developments in 2020

We have implemented the 2018 Corporate Governance Code in full from 1 December 2019.

We conducted a competitive tender process to select a new firm of auditors and appointed RSM UK Audit LLP from September 2020.

Jasi Halai became Chairman of the Audit Committee when Paul Dean retired from the Board in February 2020.

Sally Martin became Senior Non-Executive Director when Paul Dean retired from the Board.

We recruited James Mills, following a recruitment process conducted by Odgers Berndtson, to join the Board and become Group Finance Director when he joins the Group in March 2021.

Chris Tyler agreed to step down from the Board at the Annual General Meeting in April 2021 and will retain the role of Company Secretary.

We have drafted a new remuneration policy, with advice from Alvarez and Marsal, which is included in this report and accounts and will be put to shareholders for approval at the Annual General Meeting in April 2021.

John Nicholas

Chairman

29 January 2021

Transparent reporting

Porvair has a clear purpose, and integral to delivering it is being a socially responsible company which demonstrates strong ethical behaviour within a framework of transparent and robust governance.

Section 172 Statement

In line with the new reporting requirements of the 2018 UK Corporate Governance Code, we have evolved our stakeholder engagement section to describe how our stakeholders and the matters set out in Section 172 of the Companies Act 2006, have been considered in Board discussions and decision-making. The Board actively engages with our shareholders, employees and wider stakeholder Groups when making decisions, and considers the impact of Group activities on the community, environment and its reputation.

Compliance with the UK Corporate Governance Code 2018

The principles set out in the UK Corporate Governance Code 2018 (the 'Code') emphasise the value of good corporate governance for long term sustainable success. The Board applied the principles and complied with all provisions of the Code throughout the year ended 30 November 2020.

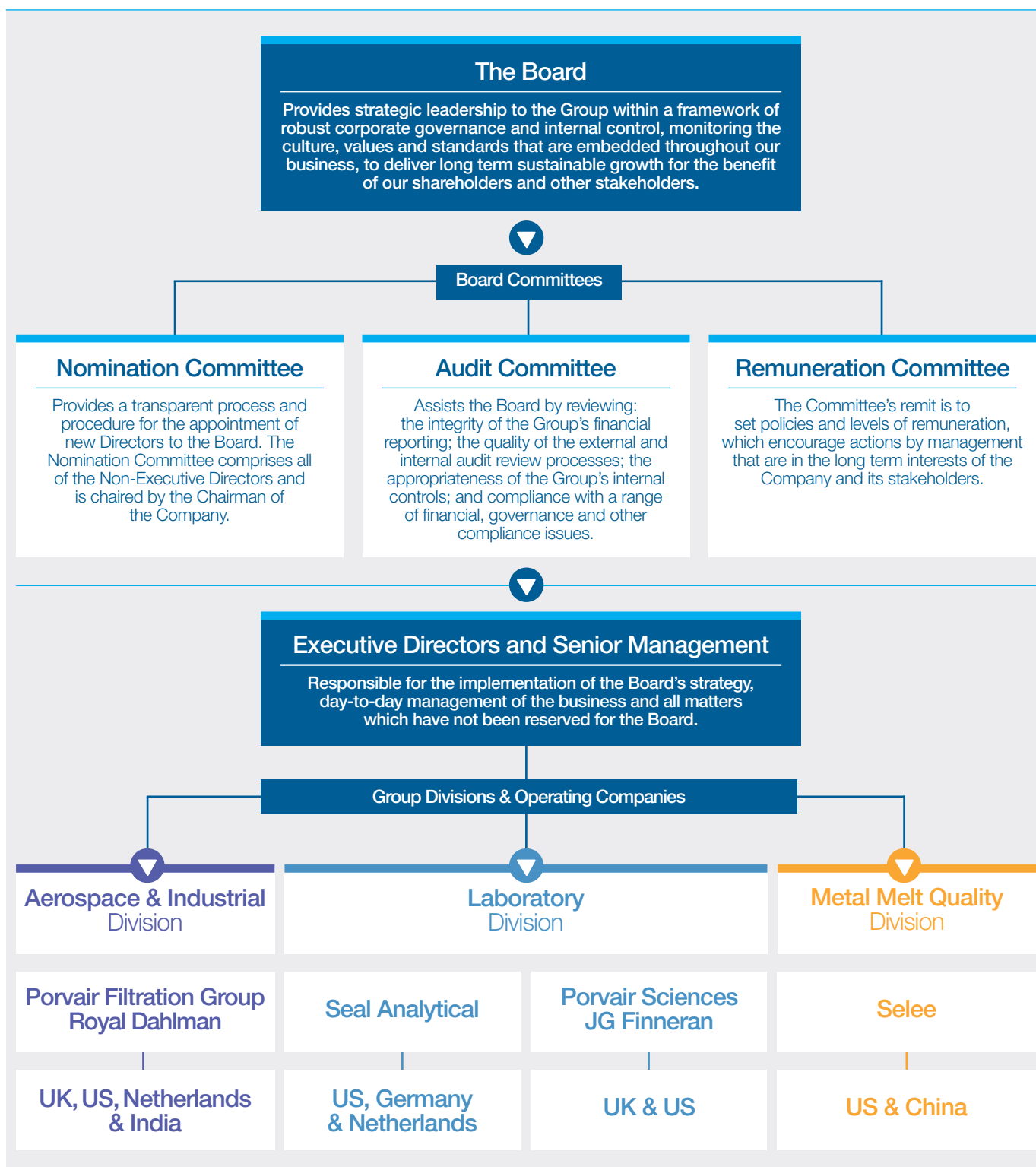
Further details on how we have applied the principles set out in the Code can be found as follows:

- Section 1: Board leadership and Company purpose (p: 66)
- Section 2: Division of responsibilities (p: 66)
- Section 3: Composition, succession and evaluation (p: 67)
- Section 4: Audit, risk and internal control (p: 67 and 68)
- Section 5: Remuneration (p: 67)

Chairman's introduction to governance continued

Porvair's governance structure

Good governance continues to provide the framework for effective delivery of our strategy. The Board is committed to maintaining very high standards of corporate governance and ensuring values and behaviours are consistent across the business. The Board provides strategic leadership and guidance with the aim of allowing the Executive team to develop the business profitably within the framework of risk management and compliance.



Directors' report

The Directors are pleased to present their Annual Report and the audited accounts of the Group for the year ended 30 November 2020.

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 purpose, strategy, objectives, key performance indicators, likely future developments, and risks and uncertainties are discussed throughout the report.

Dividends

An interim dividend of 1.7 pence per share (2019: 1.7 pence per share) was paid on 28 August 2020. The Directors recommend the payment of a final dividend of 3.3 pence per share (2019: 3.2 pence per share) on 4 June 2021 to shareholders on the register on 30 April 2021; the ex-dividend date is 29 April 2021. This makes a total dividend for the year of 5.0 pence per share (2019: 4.9 pence per share).

Directors and their interests

The names and biographical details of the Directors are set out on page 60. All the current Directors served throughout the year and up to 29 January 2021. Paul Dean retired from the Board on 3 February 2020. In accordance with best practice, it is the Board's policy that all Directors, who continue to serve, should offer themselves for re-election each year.

James Mills will join the Company and the Board as Group Finance Director in March 2021, a resolution to confirm his appointment will be put to the Annual General Meeting. Chris Tyler will retire from the Board following the Annual General Meeting on 20 April 2021. He will continue in the role of Company Secretary.

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 66.

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 72 to 80. None of the Directors had a material interest in any contract of significance in relation to the Company or its subsidiaries during the year.

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

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

Research and development

The Group continues to undertake a research and development programme with the objective of identifying and developing new materials and products which have the potential to contribute to the growth of the Group. During the year, £3.5 million (2019: £4.2 million) of development expenditure was written off to the income statement and no development expenditure (2019: £nil) was capitalised. The expenditure is of a development nature and is largely undertaken in-house rather than by third parties.

Greenhouse gas emissions

The disclosure of the Group's greenhouse gas emissions is given in the ESG report on page 49, 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 114,501 shares to satisfy the exercise of share options.

Further details of the share capital of the Company are given in note 22 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 regulations 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 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.

Directors' report continued

Section 172 of the Companies Act 2006 disclosure

Details of the Board's compliance with the requirements of Section 172 of the Companies Act 2006 are given on pages 56 to 59.

Non-financial information statement

Non-financial information required by s414C of the Companies Act 2006 can be found by using the references given on page 59 of the Strategic report.

Substantial shareholders

As at 29 January 2021, 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	7,737,427	16.8
Liontrust PLC	3,669,956	7.9
Aberdeen Standard Life Investments	3,345,047	7.2
Vind Equity AS	2,415,934	5.2
Impax Asset Management	2,262,832	4.9
Blackrock Life Ltd	2,002,192	4.3
Financiere de L'Echiquier	1,957,035	4.2

Corporate governance

The Company's statement on corporate governance can be found in the Corporate governance report on pages 66 to 68 of these financial statements. The Corporate governance report forms part of this Directors' report and is incorporated into it by cross-reference.

Employment policies

The Group's employment policies are described in the ESG report on pages 50 and 51, 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 37 and 38.

Going concern

The Directors statement on going concern is incorporated in its review of viability and going concern on page 39.

Annual General Meeting

The Annual General Meeting of the Company is to be held on Tuesday 20 April 2021. The notice for this meeting and proxy forms will be sent to shareholders separately.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

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

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

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

Each of the Directors, whose names and functions are listed on page 60, confirms that, to the best of their knowledge:

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

Directors' responsibility for provision of information to the auditor

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditor

RSM UK Audit LLP replaced Deloitte LLP as auditor of the Company with effect from 15 September 2020, following a tender process. RSM UK Audit LLP has indicated its willingness to continue in office as the Company's auditor. A resolution concerning its appointment will be put to the Annual General Meeting.

By order of the Board

Chris Tyler
Company Secretary
29 January 2021

Corporate governance

Compliance

The following sets out the main principles of good governance in the 2018 UK Corporate Governance Code, which has been adopted by the Company for the first time this year, 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.

LEADERSHIP AND COMPANY PURPOSE

Company Purpose

The Board has defined the Company's purpose as "Porvair aims to develop specialist filtration, laboratory and environmental technologies for the benefit of all stakeholders." Measures of success include consistent earnings per share growth and improvement in selected ESG metrics. Details of how the corporate purpose has been embedded in the operations and the metrics used to measure success are given in the Strategic report on pages 1 to 59.

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 assessing and managing the associated risks. The Board ensures that the financial management, controls and resources are in place to enable the business to meet its objectives. The Directors take collective responsibility for the Group's performance.

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

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

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

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

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

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

The Board has a schedule of six pre-arranged meetings during the year. In addition, such other meetings as are required are arranged to deal with specific issues or transactions. Paul Dean was absent from the December 2019 Board meeting, otherwise there was full attendance at all pre-arranged Board meetings.

Takeover Directive

Disclosures relating to the Takeover Directive are included in the Directors' report (under "Share capital") on page 63.

DIVISION OF RESPONSIBILITIES

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 John Nicholas. Ben Stocks is the Group Chief Executive and Chris Tyler is the Group Finance Director. Jasi Halai, Sally Martin and John Nicholas are Independent Non-Executive Directors. Paul Dean was the Senior Independent Non-Executive Director until his retirement on 3 February 2020, whereupon Sally Martin became the Senior Independent Non-Executive Director.

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 Board considers the independence of each Non-Executive Director and assesses relationships and circumstances likely to affect each Director's judgement. The Board considers each Non-Executive Director to be independent of management.

All of the Directors offer themselves for re-election at each Annual General Meeting.

On joining the Board, a new Director receives appropriate induction including meeting with other Directors, visiting the Group's principal operations and meeting with senior management and the Group's principal advisers.

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

The Company maintains Directors' and Officers' liability insurance.

COMPOSITION, SUCCESSION, EVALUATION AND REMUNERATION

Board Committees

The Board has set formal terms of reference for each of its committees setting out the composition, scope of work and reporting requirements for each Committee.

Nomination Committee

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

The Report of the Nomination Committee on page 69 includes details of the Nomination Committee's remit, composition, attendance, and scope of work in the year.

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

Audit Committee

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

The Report of the Audit Committee on pages 70 and 71 includes details of the Audit Committee's remit, composition, attendance, scope of work in the year and related judgements. A discussion of the Group's internal controls and its approach to internal audit is given in the Audit risk and internal control section on pages 67 and 68.

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

Remuneration Committee

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

The Remuneration report on pages 72 to 89 includes details on remuneration policy, practices and the remuneration of the Directors.

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

Evaluation

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

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 Chairman considers that, following the application of the Board's formal performance evaluation programme, each Director's performance continues to be effective and each Director has demonstrated commitment to their role.

AUDIT RISK AND INTERNAL CONTROL

Internal control

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

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

Control environment – Operational controls – in addition to the Group internal control systems, each business follows control procedures set out by regulators and customer requirements.

These include:

- ISO 9001 systems and controls;
- OSHA health and safety reviews;
- Quality control procedures and inspections;
- Insurance provider reviews;
- Export ITAR compliance controls;
- Customer site and product reviews;
- Aerospace/nuclear compliance and traceability;
- AS9100 compliance audits;
- EPA compliance audits; and
- GLP/FDA compliance.

Corporate governance continued

Risk management – operating business management has a clear responsibility for the identification of risks facing each operation, and for establishing procedures to investigate and monitor such risks. A review of each operation's risk management is included in the normal cycle of Executive Directors' reviews of the operations. The Board reviews a group register of risks and mitigation on a regular basis as part of its normal Board reporting. The Board also commissions independent reviews of the key risks facing the Group as appropriate. Full details of the Group's risk management processes are given in the section on Principal risks and uncertainties on pages 32 to 38.

Information and control systems – The Group's 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 comprising an income statement, cash flow statement, balance sheet and a forecast for the full year. These 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 or other suitably experienced employees. The scope of the reviews each year is agreed in advance with the Audit Committee and the formal reports on each review are considered by the Audit Committee. In addition, the Group Finance Director conducts a cycle of reviews with each plant focused on controls, capital project reviews, environmental compliance and employee engagement.

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.

Whistleblowing policy – the Group has a formal whistleblowing procedure which gives employees the opportunity to escalate their concerns, ultimately to the Senior Non-Executive Director. There were no matters arising in 2020 that were treated as whistleblowing incidents (2019: none).

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. Statutory consolidated results are prepared at each half year and full year and these are reconciled with the consolidated management accounts.

The Audit Committee and the Board have reviewed the effectiveness of the Group's internal controls for the period from 1 December 2019 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
29 January 2021

Report of the Nomination Committee

Governance

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

- Identifying and nominating candidates to fill Board vacancies;
- Evaluating the balance of skills, diversity, knowledge and experience on the Board and the leadership needs of the organisation; and
- Succession planning.

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

Succession planning

The Committee monitors the length of service and the skills and experience of the Non-Executive Directors to assist in succession planning. Succession plans for the Executive Directors are routinely discussed between them and the Chairman. The Committee is confident that the Board has the necessary skills and experience to contribute to the Company's strategic direction and expects to continue to strengthen the Non-Executive Directors' knowledge and experience of the Group's operations in the coming year.

Succession plans for the Group's 30 most senior executives are considered by the Board at least once a year to identify likely succession requirements and ensure that development plans are in place to prepare those managers expected to be able to fill more senior positions as they arise.

Board recruitment process

An external search consultancy is appointed to advise on each appointment to the Board. In the case of Executive Directors, the Committee seeks to include candidates, if appropriate, from the existing employees. Candidates from an initial list are interviewed by the Chairman and Chief Executive. Following selection by the Chairman and Chief Executive, shortlisted candidates (generally no more than three) are then interviewed by the other Directors. Once a suitable candidate has been identified, the Chairman of the committee recommends to the Board that the Company make a formal offer of employment to the candidate.

Boardroom diversity

Recruitment of Board candidates is conducted, and appointments made, on merit and suitability against objective selection criteria with consideration of, amongst other things, the benefits of diversity on the Board, including gender. The Board currently has five members, which reduced from six when Paul Dean stepped down on 3 February 2020. The Board expects to have either five or six members. The Board will seek to ensure that the composition of the Board includes at least two female and two male members. The gender ratio of the Board was 33% female: 67% male, up to 3 February 2020 and is now 40% female and 60% male.

2020 activities

The Nomination Committee met twice during the year to implement its succession plan for the appointment of a new Group Finance Director and to determine the terms of reference for the Company Secretary. All of the members of the Committee attended both meetings. The Group's leadership and succession planning was considered in a meeting of the full Board.

The Committee recommended that the role of Group Finance Director and Company Secretary should be split. The Committee approved terms and conditions for the Company Secretary and agreed that Chris Tyler should continue in the role of Company Secretary on a part time basis. He will resign from the Board at the Annual General Meeting on 20 April 2021.

The Committee undertook a competitive tender process and appointed an independent search consultancy, Odgers Berndtson, to find candidates for Group Finance Director. Following completion of the process as described above, the Committee recommended the appointment of James Mills as Group Finance Director. James is expected to join the Board in March 2021.

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

John Nicholas

Chairman of the Nomination Committee

29 January 2021

Report of the Audit Committee

Statement by the Chairman of the Audit Committee

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

The Committee has put a particular emphasis in the year on:

- The selection and appointment of a new firm of auditors, RSM UK Audit LLP.
- Monitoring, through regular update meetings, the scope and delivery of the auditor's first year work. In particular the online audit approach completed without visiting the Group's operations, as a result of the restrictions in place because of the Covid-19 pandemic.
- The implementation of IFRS 16 – Leases – which is adopted in the accounts for the year ended 30 November 2020 for the first time.
- The implementation of the 2018 UK Corporate Governance Code, which is adopted in this Report and Accounts for the first time.

Jasi Halai

Chairman of the Audit Committee
29 January 2021

Report of the Audit Committee

The Audit Committee has an agreed timetable of meetings with agendas. Representatives of the Group's auditor, RSM, attend meetings by invitation. Other employees of the Company may be invited to attend meetings as and when required.

The Audit Committee comprised all the Independent Non-Executive Directors of the Company, with the exception of the Chairman of the Group. Paul Dean was the Chairman of the Audit Committee until his resignation from the Board and the Committee on 3 February 2020. Jasi Halai became Chairman from that date. Sally Martin is the other member of the Committee. The Board has designated Jasi Halai as the member of the Committee with recent and relevant financial experience. All members of the Committee are deemed to have the necessary ability and experience to understand the financial statements. The Committee as a whole has competence relevant to the sector in which the Group operates.

The Audit Committee met three times during the year. There was full attendance by the members. Two of those meetings were held prior to the Board meetings to approve the announcement of the Group's full year and interim announcements. At those meetings the Committee considered 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 auditor. The third meeting was the first to include RSM and focused on their work to complete their first year as auditor.

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

Impact of Covid-19

The Group, along with other businesses and the UK and global economy, has been impacted by the Covid-19 pandemic to varying degrees across the Group's divisions. The impact of Covid-19 was considered by the Committee particularly in relation to:

- Impairment and going concern – management has updated its forecasts to reflect the estimated effect of the pandemic and an increased level of uncertainty.
- Alternative performance measures – the Group incurred restructuring costs and made use of government support schemes available to UK and US businesses in the year. The classification, presentation and disclosure of these items as "adjusting items" and in the narrative reporting involved a degree of management judgement.

The Committee was satisfied by the approach to the Covid-19 pandemic adopted by management and concurred with the disclosures proposed.

Accounting for major contracts provisions

The Group had significant long-term gasification contracts with two parties containing warranties.

As shown in note 20, the warranty provision has reduced to £4.4 million (2019: £9.5 million), £4.0 million of which specifically relates to the gasification contracts. The main movement being the release of £5.1 million on the resolution reached during the year with one of the parties, with a settlement agreement reached following the payment of a performance bond and release of the remainder of the provision, and reduced risk in relation to the other party. The Committee recognises the high degree of judgement and estimation involved, as well as the quantum of the provisions. It has reviewed the basis for the provisions proposed by the management and concurred with the accounting and presentation.

Other areas of focus

The Committee also reported to the Board that it considered that, taken as a whole, the 2020 Annual Report was fair, balanced and understandable and included the necessary information to assess the performance, business model and strategy of the Group. The Committee reviewed papers specifically relating to:

- pension accounting;
- provisions;
- the carrying value of goodwill and intangible assets; and
- accounting for the adoption of IFRS 16 – Leases, a summary of which is given in note 1 of the accounts.

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

- reviewed announcements relating to the financial performance and reviewed significant financial reporting judgements contained therein, in particular the information contained in the Group's interim report;
- monitored the Group's internal financial controls and the Group's internal control and risk management systems and ensured that these are properly reviewed by the Group's management in line with the procedures set out on page 68;
- reviewed the scope of the internal audit work done in assessing the operating companies' internal controls and procedures. The internal audit work is undertaken mainly 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. This year the internal audit work was significantly curtailed as a result of travel restrictions arising from the Covid-19 pandemic, which prevented a full cycle of reviews, the Committee accepted this as a necessary additional risk;
- agreed the scope, remuneration and terms of engagement of the external auditor;
- actively engaged in the process to select a new auditor for the Group. In response to recent changes in the market for audit services and Deloitte LLP's ("Deloitte") request to increase the audit fee significantly, the Company conducted a tender process for the statutory auditor contract. The Board was aware of the upward pressure on audit fees but considered that it could not accept a significant increase in an environment of economic hardship. In selecting the firms to be included on the tender list, the Board limited the proposed firms only to a selection from the largest eight firms that apply the FRC's Audit Firm Governance Code. Each tendering firm visited one of the Group's UK operations; had briefings from the Group's Directors and senior executives; and made face to face presentations to the Board. The process concluded on 15 September 2020 with the resignation of Deloitte and the appointment of RSM;
- monitored the external auditor's effectiveness, independence and objectivity. The Committee carefully monitored the review, undertaken by Deloitte, of the interim financial information for the six months ended 31 May 2020 and the work carried out by RSM in relation to their audit of the Group and Company accounts for the year ended 30 November 2020. The Committee is satisfied by the quality and independence of their work;
- 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. In making its assessment, the Committee made use of a professionally prepared checklist to guide its assessment; discussed the audit delivery with the management; met with the audit partner and audit management at the September and January Audit Committee meetings in the year; and the Committee Chairman met with the audit partner ahead of each Audit Committee meeting;
- assessed the extent to which the auditor challenged the judgements made by management. The Committee, management and the auditor consider the key areas of judgement within the accounts well in advance of the final year audit. These areas of judgement are included for specific focus in the audit plan. The Committee is presented with papers from the management on the key areas of judgement in the accounts. The judgements contained within these papers are assessed by the auditor in their reporting to the Committee. Outside the formal meetings the Chairman of the Committee meets with the audit partner ahead of each Committee meeting to obtain a detailed understanding of the audit work that has been undertaken;

- reviewed arrangements by which staff of the Group may raise concerns about possible improprieties in matters of financial reporting or other matters;
- considered its own effectiveness by means of a professionally prepared checklist 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 auditor when acting as auditor of the Group accounts. The policy governs the provision of audit and non-audit services provided by the auditor and limits the fees and scope of the services that may be performed by the Group's auditor. In summary, the auditor is limited to fees of no more than 70% of the average fees agreed for the audit in the prior three years and may only undertake:

- reporting required by law or regulation to be provided by the auditor;
- reviews of the interim financial information;
- reporting on regulatory returns;
- reporting on government grants;
- reporting on internal financial controls when required by law or regulation;
- extended audit work that is authorised by the Audit Committee performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions;
- reports required by competent authorities/regulators supervising the Group where the authority/regulator has either specified the auditor or identified to the Group that the auditor would be an appropriate choice of service provider; and
- audit or other services provided as auditor or reporting accountant, that an objective, reasonable and informed third party would conclude the understanding of the Group obtained by the auditor is relevant to the service and the nature of the service provided and would not compromise independence.

All non-audit services in excess of £20,000 provided by the auditor must be 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 4 of the consolidated financial statements. Neither RSM nor Deloitte have provided any other services to the Group in the year.

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.

Tenure of the auditor

RSM was appointed on 15 September 2020 following a competitive tender process. Graham Ricketts has been the audit partner since appointment. Deloitte was the previous auditor, covering a period from the review of the interim results for the six months ended 31 May 2017 until their resignation on 15 September 2020. Their last assignment was a review of the interim financial information for the six months ended 31 May 2020. Paul Schofield was the audit partner throughout Deloitte's appointment.

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 2020. In line with the UK Government reporting regulations on Directors' pay, introduced in October 2013, and the 2018 Corporate Governance Code, 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 2020 and includes a summary of the plans in place for 2021; and
- A Remuneration Policy statement – that sets out 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 and for the revised Remuneration Policy, which will be subject to a binding resolution at the AGM in April 2021.

We would like to thank shareholders for their support of the 2019 Remuneration report. At the AGM on 21 April 2020, the advisory vote on the 2019 Remuneration report received 97% of the votes in favour of the resolution.

The Committee's objectives

The Committee's remit is to set policies and levels of remuneration to encourage actions by management that are in the long term interests of the Company and its shareholders. The Remuneration Committee met twice during the year. Paul Dean was absent for the December 2019 meeting, otherwise the meetings were fully attended by the Committee members.

The Remuneration Committee aims to provide remuneration packages that:

- are competitive, but not excessive;
- are designed to attract, retain and motivate managers of high quality to deliver growth for the business;
- are aligned with stakeholders' interests;
- include an element of the potential reward linked to personal performance; and
- encourage the Executive Directors to accumulate shares in the Company.

Annual bonus awards and vesting of Long Term Share Plan

Porvair's corporate purpose, as stated in the section "Strategy and business model" of the Annual Report, is to develop specialist filtration, laboratory and environmental technologies for the benefit of all stakeholders. Success of the strategy is measured by consistent earnings per share growth, and improvement in selected ESG metrics. The annual bonus is based on cash generated from operations as well as achievement of strategic objectives. Growth in earnings per share is rewarded through the long term incentive awards.

2020 bonus and LTSP vesting

In the past year, the cash generation performance of the Group was below plan. This resulted in no award being made for the financial component of the annual bonus. Although progress was made towards some of the agreed strategic objectives, the Committee decided that the shortfall in the expected performance of the Group as a result of the Covid-19 pandemic meant that no bonus award could be justified.

In 2017, the Committee set a target for the long term incentive award, granted in February 2018, of earnings per share of 26.7 pence in the year ended 30 November 2020 to achieve 100% vesting. 30% of the award would vest if the Group has achieved Basic EPS of 22.6 pence in FY2020. A sliding scale would operate if the Basic EPS is between 22.6 pence and 26.7 pence. Basic earnings per share in the year ended 30 November 2020 is 18.4 pence, consequently no shares from this award vested.

2021 targets and grants

For 2021 the Committee has decided that the potential bonus award should be increased to have a maximum of 100% of salary with 70% available for achievement of financial objectives and 30% available for progress on strategic objectives. More stretching targets have been set to achieve the maximum payout.

The Committee has decided that it should award the Executive Directors with LTSP 2018 options with a face value of 150% of salary that will vest based on the earning per share in the year ending 30 November 2023. Vesting in full will require the Group to achieve Adjusted EPS of at least 32.9 pence, requiring 15% compound annual growth over the three year period.

Revised Remuneration Policy

The Committee believes that the 2018 policy operated well over the past three years and that no major change is necessary in 2021. However, certain new “best practice” features have developed since the last approval of our policy and the Committee has decided, following consultation with its major shareholders, that these should be adopted. As a result, the following changes are proposed.

Pensions

Reduce Executive Director pensions to the workforce level. Executive Director pensions are currently 21% and are capped at 25% of base salary. These will be reduced to the workforce level by 1 December 2022. The current workforce pension contribution is 7% of base salary.

Bonus deferral

Under the current policy, there is no formal bonus deferral. Instead, there exists discretion to pay a portion of the net-of-tax bonus in shares if the shareholding requirement had not been met.

As part of the new policy, it is proposed to adopt a more formal approach. Bonus deferral will be on a gross basis under a new deferred share bonus plan that will be set at 25% of any bonus payable to the Executive Directors if both of the following apply:

- If the shareholding requirement has not been met; and
- If the annual bonus maximum is set above 75% of base salary. (The current policy provides for an annual bonus maximum up to 100% of base salary, but historically it has been set at the lower level of 75%).

The current discretion to pay a portion of the net-of-tax bonus in shares will be retained, but modified so that it applies to no more than 25% of the annual bonus and deferral is on a gross basis.

This change will increase alignment with shareholders and introduces an area of best practice to the remuneration policy.

Removal of discretion to grant exceptional LTSP awards

The current policy provides for normal awards of up to 150% of base salary and exceptional awards of up to 250% of base salary. The Committee does not consider this exceptional facility to be necessary in its current form and will remove it from the policy table.

Clawback and malus

The current clawback and malus provisions can be triggered in the case of gross misconduct or misstatement of results. Following a review of this provision against the requirements of the United Kingdom Corporate Governance Code, the Committee decided to introduce three additional triggers, namely, corporate failure, reputational damage, and miscalculation of incentive amounts.

Shareholding requirement

The current shareholding requirement is for Executive Directors to build a holding equal to base salary within five years. The level of required shareholding will be increased to twice base salary which is in line with investor expectations.

Post-cessation shareholding requirement

The Committee has decided to introduce a post-cessation shareholding requirement which will operate as follows:

- In the first year post-employment, Executive Directors will be required to hold the lower of their applicable shareholding on leaving employment or 200% of their final base salary; and
- In the second year post-employment they will be required to hold the lower of their applicable shareholding on leaving employment or 100% of final base salary.

Shares vesting from LTSP grants or annual bonus awards after the 2021 Policy comes into effect will count towards this requirement. A two-year post-vesting holding period is already in operation for LTSP awards under the current Policy. This ensures that Executives are incentivised throughout their employment to make decisions in the long-term interests of shareholders and the Company.

Sally Martin

Chairman of the Remuneration Committee

29 January 2021

Remuneration report continued

ANNUAL REPORT ON REMUNERATION

This report complies with the UK Corporate Governance Code published in July 2018 (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 2021.

The Committee

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

The members of the Remuneration Committee are drawn solely from the independent Non-Executive Directors. The Remuneration Committee currently comprises all of the independent Non-Executive Directors of the Company; Paul Dean resigned from the Committee on 3 February 2020. To be quorate at least two members of the Committee must attend.

Sally Martin is the Chairman of the Committee. The Group Chief Executive may be invited to attend and speak at meetings of the Remuneration Committee but does not participate in any matter which impacts upon his own remuneration arrangements. The Committee met twice during the year. Paul Dean missed the December 2019 meeting, otherwise the meetings were fully attended by all of its members.

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 2020 £'000
2020						
<i>Executive Directors</i>						
B D W Stocks	322	17	90	–	–	429
C P Tyler	226	16	47	–	–	289
	Basic salary and fees £'000	Taxable benefits £'000	Pension £'000	Annual bonus £'000	Long term incentives £'000	Total 2019 £'000
2019						
<i>Executive Directors</i>						
B D W Stocks	314	27	69	135	451	996
C P Tyler	220	23	46	95	317	701

In 2020 the Executive Directors incurred PAYE tax and national insurance contributions amounting to £697,757 (2019: £834,000) including amounts payable on the exercise of Long Term Share Plan share options.

Ben Stocks' and Chris Tyler's basic salaries will not be increased for 2021 (2020: 2.5% increase). This is in line with the general salary for other employees.

Benefits

Benefits for the Executive Directors comprised: a cash allowance in lieu of a company car; medical insurance and wellness benefits; life assurance; and permanent health insurance. Life assurance benefits covering a lump sum of eight times salary on death in service were provided for Ben Stocks through the Porvair Pension Plan. Life assurance benefits of eight times salary on death in service were provided for Chris Tyler through an excepted life trust. 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 £154,800 of salary until 31 March 2020 and £157,800 thereafter 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 58 on 30 November 2020. In the event that he retires early he may, at the discretion of the Trustees of the Plan, apply to draw a reduced pension. There is no actuarial benefit to the individual to retiring early.

Ben Stocks also received 21% additional salary on the difference between his full salary and the capped limit in lieu of pension benefits. This additional salary is not included in calculations for annual bonus or Long Term Share Plan awards.

Chris Tyler received 21% additional salary in lieu of pension benefits. This additional salary is not included in calculations for annual bonus or Long Term Share Plan awards.

Pension entitlements for future years will be amended in line with the new Remuneration policy. The additional salary percentage in lieu of pension benefits will reduce to 17% from March 2021, 12% from December 2021 and 7% from December 2022.

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 2019 and 2020, awards were capped at 75% of base salary. Up to 50% related to achievement of financial performance targets and up to 25% related to 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 2020:

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	£19.1m	£21.1m	25%	50%	£12.7m	nil
Strategic: For Group margin improvement and organisational development, including acquisitions and succession planning	N/A	N/A	10%	25%	See below	nil

The adjusted operating cash flow can be reconciled to the cash generated from operations. It is a measure that is impacted by Group profitability and control of working capital. The measure used for bonus purposes is based on the management accounts for the year which are translated at constant exchange rates. This ensures that the cash flows in foreign subsidiaries are based on the same exchange rates as the target.

In 2020 the Committee noted that progress had been made in both margin improvement initiatives and organisational development. Margin improvement initiatives were masked by the fall in revenue and as a result Group margins fell. The Committee noted that progress had been made which will benefit the Group on recovery from the pandemic. No acquisitions had been completed in the period but progress had been made on senior executive succession planning, including the recruitment of a new Finance Director. However, the Committee concluded that no bonus should be paid, to reflect the impact of the fall in profits in the year.

For 2021 awards will be capped at 100% of base salary. Up to 70% may be paid on achievement of financial performance targets, based on adjusted operating cash flow and up to 30% on achievement of strategic objectives. The targets, which are commercially sensitive, for adjusted operating cash flow are set by the Remuneration Committee before the start of the financial year. Achievement of plan will be rewarded with a 25% of salary award. Non financial targets will subjectively be based on margin improvement, operational performance in aerospace and progress in acquisitions.

The Committee considers these targets to be consistent with driving improved performance from the Group.

Vesting of Long Term Share Plan

2019 vesting

Options granted in 2017 under the 2008 scheme could only be exercised in full if the Committee was satisfied that in the financial year ended 30 November 2019 ('FY2019') the Group had achieved Basic EPS of at least 23.2 pence. 30% of the award vested if the Group had achieved EPS of 18.0 pence in FY2019. 50% of the award vested if the Group had achieved Basic EPS of 19.2 pence in FY2019. A sliding scale operated if the Basic EPS was between 18.0 pence and 19.2 pence and between 19.2 pence and 23.2 pence. No shares vested if the Basic EPS in FY2019 was below 18.0 pence. 100% of these options vested as a result of the performance in 2019. In the table of Executive Directors' remuneration these options were valued at 594 pence per share.

2020 vesting

Options granted in 2018 under the 2008 scheme can only be exercised in full if the Committee is satisfied that in the financial year ended 30 November 2020 ('FY2020') the Group achieved Basic EPS of at least 26.7 pence. 30% of the award would vest if the Group achieved Basic EPS of 22.6 pence in FY2020. A sliding scale operated if the Basic EPS is between 22.6 pence and 26.7 pence. No shares vested if the Basic EPS in FY2020 was below 22.6 pence. No shares from this award vested.

Remuneration report continued

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 a discretionary share option plan, which was updated in 2018. The LTSP 2008 scheme may not grant any awards after 8 April 2018. A resolution put to the AGM on 17 April 2018 introduced a new LTSP ('LTSP 2018') on substantially the same terms as the old scheme. The schemes provide nominally priced options or share awards with a ten year life, subject to vesting conditions after three years based on performance conditions set by the Committee. The principal differences between the LTSP 2008 and the LTSP 2018 are:

- Malus provisions are embedded in the LTSP 2018 scheme documentation.
- Clawback provisions are available at the discretion of the Committee.
- A cap of 250% of base salary on the discretion available to the Committee to make awards in exceptional circumstances. LTSP 2008 had an uncapped discretion.
- The Committee may make normal awards up to 150% of salary per annum to an Executive.
- LTSP 2018 makes provision for the Committee to introduce a holding period of up to two years after the end of the vesting period.

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 2016, October 2017 and October 2019.

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 market price of the Company's ordinary shares at 30 November 2020 was 540 pence per share (2019: 604 pence per share).

The range of market prices during the year was 395 pence to 786 pence.

Directors' holdings in shares and share options

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

The beneficial interests at 30 November 2020 and 30 November 2019 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.

	2020		2019	
	Ordinary shares (number)	Share options (number)	Ordinary shares (number)	Share options (number)
<i>Executive Directors</i>				
B D W Stocks	671,778	128,137	764,840	214,637
C P Tyler	434,307	88,568	494,311	155,580
<i>Non-Executive Directors</i>				
J H Halai	2,933	–	–	–
S J Martin	–	–	–	–
J E Nicholas	7,500	–	7,500	–

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 2019 (number)	Granted in the year (number)	Lapsed in the year (number)	Exercised in the year (number)	At 30 November 2020 (number)	Exercise price	Grant date	Exercisable from	Expiry date
B D W Stocks									
Vested									
2008	76,200	–	–	(76,200)	–	2p	31/01/2017	31/01/2020	31/01/2027
Unvested									
SAYE	7,537	–	–	–	7,537	398p	01/10/2017	01/10/2022	01/04/2023
2008	64,300	–	(64,300)	–	–	2p	01/02/2018	01/02/2021	01/02/2028
2018	66,600	–	–	–	66,600	2p	31/01/2019	31/01/2022	31/01/2029
2018	–	54,000	–	–	54,000	2p	07/02/2020	07/02/2023	07/02/2030
	214,637	54,000	(64,300)	(76,200)	128,137				
C P Tyler									
Vested									
2008	53,500	–	–	(53,500)	–	2p	31/01/2017	31/01/2020	31/01/2027
SAYE	6,312	–	–	(6,312)	–	240p	01/10/2014	01/10/2019	01/04/2020
Unvested									
SAYE	3,768	–	–	–	3,768	398p	01/10/2017	01/10/2022	01/04/2023
2008	45,200	–	(45,200)	–	–	2p	01/02/2018	01/02/2021	01/02/2028
2018	46,800	–	–	–	46,800	2p	31/01/2019	31/01/2022	31/01/2029
2018	–	38,000	–	–	38,000	2p	07/02/2020	07/02/2023	07/02/2030
	155,580	38,000	(45,200)	(59,812)	88,568				

Scheme interests awarded during the financial year

The table below sets out the options granted during 2019 and 2020:

	Date of grant	Scheme	Number	Exercise price	Share price used to value grant	Face value of grant £'000
B D W Stocks	31 January 2019	2018	66,600	2p	471p	314
	7 February 2020	2018	54,000	2p	594p	321
C P Tyler	31 January 2019	2008	46,800	2p	471p	220
	7 February 2020	2018	38,000	2p	594p	226

For performance over the three year period to 30 November 2023, the Committee has decided that Ben Stocks will be awarded 92,600 2 pence options and Chris Tyler will be awarded 65,000 2 pence options under LTSP 2018 immediately after the announcement of the Group's results. The share price used to value the grant was 521 pence per share.

The Long Term Share Plan shares granted were calculated to equal 150% of a year's salary for each Executive Director based on the average share price over the final quarter of the preceding financial year. Future awards will be calculated on the same basis. The Long Term Share Plan shares are options issued at the nominal value of the Company's ordinary shares of 2 pence.

Performance conditions of the unvested share options

Options granted in 2019 under the LTSP 2018 scheme can only be exercised in full if the Committee is satisfied that in the financial year ending 30 November 2021 ('FY2021') the Group has achieved Adjusted EPS of at least 30.9 pence. 30% of the award will vest if the Group has achieved Adjusted EPS of 26.5 pence in FY2021. A sliding scale will operate if Adjusted EPS are between 26.5 pence and 30.9 pence. No shares vest if the Adjusted EPS in FY2021 are below 26.5 pence.

Options granted in 2020 under LTSP 2018, can only be exercised in full if the Committee is satisfied that in the financial year ending 30 November 2022 ('FY2022') the Group has achieved Adjusted EPS of at least 33.7 pence. 30% of the award will vest if the Group has achieved Adjusted EPS of 29.2 pence in FY2022. A sliding scale will operate if Adjusted EPS are between 29.2 pence and 33.7 pence. No shares vest if the Adjusted EPS in FY2022 are below 29.2 pence.

The Committee intends to award options, after announcement of the Group results under LTSP 2018, which can only be exercised in full if the Committee is satisfied that in the financial year ending 30 November 2023 ('FY2023') the Group has achieved Adjusted EPS of at least 32.9 pence. 20% of the award will vest if the Group has achieved Adjusted EPS of 24.3 pence in FY2023. A sliding scale will operate if Adjusted EPS are between 24.3 pence and 32.9 pence. No shares vest if the Adjusted EPS in FY2023 are below 24.3 pence. These awards have a higher percentage growth requirement than previous years, reflecting the higher allocation and the Committees wish to reward the Directors should they deliver higher than normal growth over the measurement period as economies recover from the pandemic.

Remuneration report continued

These unvested options are subject to an additional two year holding period after the end of the vesting period. After the vesting period, before the end of the two year holding period, the option holder may exercise the option but may only sell sufficient shares to settle the option price and the income tax payable.

The options granted under the SAYE scheme in 2016, 2017 and 2019 were issued at a 20% discount to the market price at the date of grant. These options have no performance conditions.

The Company funds the Employee Benefit Trust, approved at the 2015 AGM, to settle incentive share awards granted in 2016 and the future. At 30 November 2020 the Trust held 135,700 shares (2019: 145,400).

The table below sets out the options exercised during 2020:

	Date of exercise	Scheme	Number	Exercise price	Share price on date of exercise
B D W Stocks	17 February 2020	2008	76,200	2p	680p
C P Tyler	14 February 2020	SAYE	6,312	240p	715p
	17 February 2020	2008	53,500	2p	680p

The table below sets out the options exercised during 2019:

	Date of exercise	Scheme	Number	Exercise price	Share price on date of exercise
B D W Stocks	27 June 2019	2008	96,700	2p	582p
C P Tyler	27 June 2019	2008	67,900	2p	582p

The Executive Directors' total gain on the exercise of options in 2020 was £909,348 before deduction of income tax and national insurance. On exercise, the Executive Directors sold all these shares. In addition, during the year Ben Stocks sold 95,330 (2019: nil) and Chris Tyler sold 59,970 (2019: nil) from their shareholdings.

The Executive Directors' total gain on the exercise of options in 2019 was £954,680 before deduction of income tax and national insurance. On exercise, the Executive Directors sold some shares to fund the option acquisition costs and the related PAYE and national insurance costs and certain other personal financial commitments. The remaining shares were retained. As a result of these option exercises, Ben Stocks and Chris Tyler's holdings in shares in the Company increased by 20,000 shares and 15,000 shares, respectively.

Non-Executive Directors

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

	Basic salary and fees £'000
2020	
P Dean (resigned on 3 February 2020)	6
J H Halai	38
S J Martin	38
J E Nicholas	93
	175
2019	
P Dean	38
J H Halai (appointed on 18 June 2019)	18
S J Martin	38
J E Nicholas	91
	185

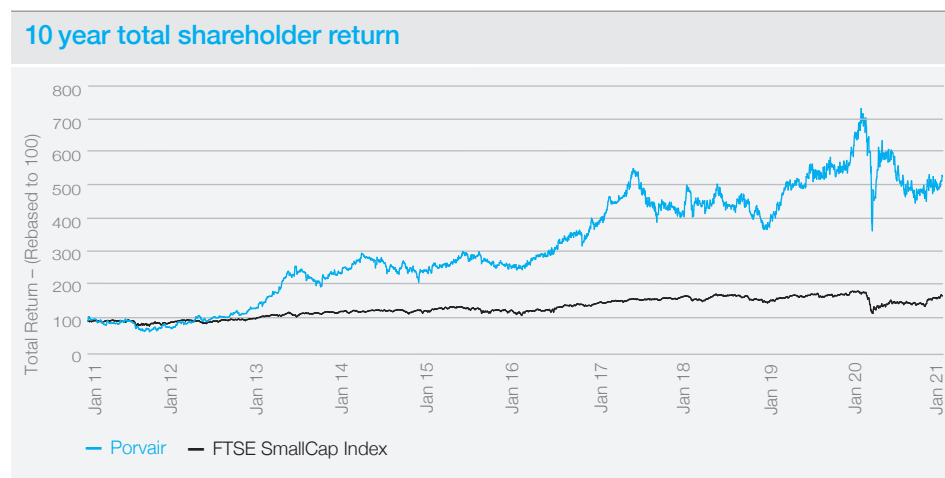
Payments to Directors leaving the Group

No payments (2019: £nil) were made during the year ended 30 November 2020 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 ten years. Given the size and nature of the Group, the FTSE SmallCap Index is the logical comparator index.



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

Year	CEO	Single figure total remuneration £'000	Annual variable element % of max	Long term incentives % of max
2020	Ben Stocks	429	0%	0%
2019	Ben Stocks	996	57%	100%
2018	Ben Stocks	1,078	83%	100%
2017	Ben Stocks	1,029	87%	87.5%
2016	Ben Stocks	991	90%	95%
2015	Ben Stocks	1,151	97%	100%
2014	Ben Stocks	1,298	100%	100%
2013	Ben Stocks	1,169	97%	100%
2012	Ben Stocks	927	93%	92%
2011	Ben Stocks	518	100%	100%

The table below shows the percentage change in remuneration of the Chief Executive Officer and the Group's UK employees as a whole between 2019 and 2020.

	Percentage increase/(decrease) in remuneration in 2020 compared with 2019	
	Chief Executive Officer	UK employees
Salary and fees	2.5%	2.5%
Taxable benefits	1%	0%
Annual bonuses	(100)%	(66)%
Total	(57)%	0%

The UK employees are considered a suitable comparator group because the Chief Executive Officer is UK based and subject to the same macro-economic conditions as other UK employees.

Remuneration report continued

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 investments made by the Group for capital expenditure, acquisitions, and research and development.

	2020 £'000	2019 £'000	Difference £'000
Total spend on pay	44,800	47,338	(2,538)
Dividends paid	2,253	2,146	107
Investments: Capital expenditure, acquisitions, and research and development	7,728	18,233	(10,505)

Statement of voting at the Annual General Meeting

A resolution to approve the Report of the Remuneration Committee included in the 2019 Report and Accounts was passed by the shareholders at the AGM on 21 April 2020. 97.2% of votes were cast in favour of the resolution. 2.8% of votes were cast against the resolution and 20,188 votes were withheld.

A resolution to approve the Report of the Remuneration Committee included in the 2018 Report and Accounts was passed by the shareholders at the AGM on 11 April 2019. 96.0% of votes were cast in favour of the resolution. 4.0% of votes were cast against the resolution and 10,002 votes were withheld.

A resolution to approve the Remuneration Policy included in the 2017 Report and Accounts was passed by the shareholders at the AGM on 17 April 2018. 98.2% of votes were cast in favour of the resolution. 1.8% of votes were cast against the resolution and 41,908 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. In the year, the Committee took independent advice from Alvarez & Marsal on the remuneration of Directors and the preparation of the revised remuneration policy. Alvarez & Marsal were appointed to advise the Committee following a tender process. The fee was £15,000 based on the time involved. In 2019 the Committee took advice from MM&K, remuneration consultants, in formulating its approach to the remuneration requirements included in the 2018 UK Corporate Governance Code. The fee was £6,000 based on the time involved.

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

A revised Remuneration Policy, set out on pages 81 to 89, will be put to the shareholders for approval at the Annual General Meeting on 20 April 2021. The Remuneration Policy, which was approved at the Annual General Meeting held on 17 April 2018, remains in force until then.

On behalf of the Board

Sally Martin

Chairman of the Remuneration Committee

29 January 2021

REMUNERATION POLICY SUBJECT TO APPROVAL AT THE GROUP'S 2021 AGM

Introduction

The Group's policy is to provide remuneration packages for its senior executives that reflect their contribution to the business, the performance of the Group, and the need to attract and retain executives of the highest quality.

The Remuneration Committee ("the Committee") seeks to provide straightforward and easily understood remuneration packages, which align the interest of the Directors with those of shareholders. The Committee seeks to set remuneration guidelines that incentivise management to deliver on the Group's long term strategy and short term goals with an appropriate mix of fixed and variable pay. The Committee aims to provide remuneration packages that:

- are competitive, but not excessive;
- are designed to attract, retain and motivate managers of high quality;
- are aligned with shareholders' interests;
- include an element of the potential reward linked to personal performance; and
- encourage the Executive Directors to accumulate shares in the Company.

The policy set out below is expected to be approved by shareholders at the April 2021 Annual General Meeting and will remain in force until the Annual General Meeting in 2024.

Changes from the previous policy

The Committee believes that the two previous remuneration policies have served the Group and its shareholders well. However, certain new "best practice" features have developed since the last approval of our policy and the Committee has decided that these should be adopted.

Changes in the 2021 Policy are:

- Reduce Executive Director pensions to the UK workforce level by 1 December 2022;
- Introduce formal bonus deferral options;
- Remove the discretion to grant exceptional LTSP awards of 250% of base salary;
- Amend the clawback and malus provisions to introduce the additional triggers of miscalculation, serious reputational damage and corporate failure;
- Increase the shareholding requirement from 1x to 2x base salary; and
- Introduce a post-employment shareholding requirement.

These changes, together with some minor changes to help the implementation of the policy, are reflected in the new policy set out overleaf.

The policy

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.

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.

Remuneration report continued

The table below summarises the main components of the proposed remuneration package for Executive Directors:

Fixed remuneration components

Remuneration component	How the component operates	Maximum payouts
Base salary Purpose: 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 year. The rate of increase is influenced by: - The annual increase given to other UK employees. - The current rate of UK CPI inflation. - Market comparators for similar roles in similar sized quoted businesses.	Current salary levels are disclosed in the Remuneration report. Salary increases will normally be in line with those awarded in the UK operations of 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; or changes to the remit or responsibilities of the executive.
Pensions Purpose: 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.	The current level of contribution provided to the Executive Directors is disclosed in the Remuneration report. The maximum Company contribution will not exceed 25% of base salary. By 1 December 2022, the level of contribution provided to the Executive Directors will be in line with that offered to other UK staff. Thereafter, Executive Director pension contributions will be adjusted in line with any adjustments to the pension contribution rate for UK staff. The Committee may change the Directors' pension arrangements in response to new legislation or regulations provided that any changes do not materially increase the cost to the Company.
Benefits Purpose: To provide a competitive package for Executive Directors.	Benefits comprise: - A company car or allowance, including car insurance. - Medical insurance and health benefits. - Life insurance/spouse's pension. - Permanent health insurance. - Certain professional and membership fees. - Relocation allowances.	The Committee reserves the power to deliver benefits which, in aggregate, have a cost of up to 25% of base salary. The Committee may exceed this limit in exceptional circumstances, 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 or location).

Performance conditions

No performance measures apply to the fixed elements of remuneration; however the performance of the Group and the individual are taken into account in determining annual pay and benefit awards.

Variable remuneration components

Remuneration component	How the component operates	Maximum payouts
Annual bonus Purpose: To encourage and reward actions consistent with the near term (annual) priorities of the Group.	Executive Directors are eligible to participate in an annual bonus scheme. Participation in each annual scheme and the objectives set are entirely at the discretion of the Committee. The Committee administers the scheme, which is governed by terms set out in the minutes of the Committee's meetings. The performance targets for the year are set following the Group's annual strategy review and their delivery is assessed after the Group's financial year end. The final determination of awards is based on the Group's audited financial statements. The principal elements of the scheme are: - The Committee determines the maximum potential annual award at the start of each financial year. - An element of the annual bonus is based on the financial performance of the Group in the year and an element is based on the delivery of strategic objectives, which may be financial or non-financial. - The annual bonus is not pensionable. - The bonus is paid after the announcement of the Group's annual results. - The payment for achievement of the threshold performance target is no greater than 35% of the maximum annual bonus opportunity. - The bonus is normally paid in cash. However, the Deferred Share Bonus Plan will allow deferral of 25% of any bonus payable to the Executive Directors if both of the following apply: - If the shareholding requirement has not been met; and - If the annual bonus maximum has been set above 75% of base salary. - Bonus deferral may also be operated under the Deferred Share Bonus Plan in other circumstances in agreement with the Executive Directors.	The Committee determines, at the start of each year, the maximum amount that the Executives may earn under the annual bonus scheme. The maximum that the Executives can earn in annual bonuses in each year is disclosed in the Remuneration report. The Committee may not offer an annual bonus scheme with the potential to earn more than 100% of base salary.

Performance conditions

At the start of each financial year, the Committee sets performance targets based on Group financial operating expectations and strategic objectives designed to reward the Executives for delivering near term priorities of the Group. At the same time, the Committee determines the ratio of awards between each element of the bonus.

Performance targets, set with reference to the Group's annual operating plan and strategic priorities for the year, are disclosed in the Remuneration report. The Group's annual operating performance targets, which typically relate to adjusted annual operating profit, annual operating cash flow, or similar annual operating measure, are measured on a sliding scale with the maximum payout reserved for significant outperformance compared to plan. The strategic targets are typically based on achievement of specific identified objectives critical to the delivery of the Group's annual or three-year operating plans; their achievement is based on the judgement of the Committee.

Remuneration report continued

Variable remuneration components (continued)

Remuneration component	How the component operates	Maximum payouts
Long term share plan and share options Purpose: To motivate and incentivise Executive Directors to deliver sustained performance over the longer term in line with shareholder interests.	Awards under the LTSP are generally made in the form of 2 pence options but may also be made as direct awards of shares under the LTSP 2018. The scheme is operated by the Committee under the specific scheme rules. Each year the Committee determines: - The period of time over which performance will be judged, which may not be shorter than three years under the scheme rules. - That there will be a holding period of up to two years following the end of the performance period, such that the period from the date of grant to the first time that awards may be realized will be five years. - The number of shares to be awarded as options and to whom. - The performance criteria. - The level of vesting for threshold performance, which cannot exceed 30% of the shares under award. Vested awards may be settled by the issue of new shares or from shares held by an Employee Benefit Trust ("EBT"). Shares awarded under the LTSP 2018 are subject to malus and clawback provisions as described below. For options issued under the LTSP 2018, after the vesting period but before the end of the holding period the Executive may exercise the options and sell only sufficient shares to settle the option price and tax liability arising on the exercise. The remaining shares must be held until the end of the holding period. For shares awarded under the LTSP 2018, the Executive may sell sufficient shares on vesting to settle any tax liability arising but must hold the remainder until the end of the holding period. Shares or options that vest are eligible for dividend equivalent payments for the period from award to the end of the holding period at the discretion of the Committee.	The Committee determines, at the start of each year, the amount of option or award shares that the Executives will be granted in the year. This amount is disclosed in the Remuneration report each year. The Committee may offer awards up to 150% of base salary in any one year, based on the average share price of the Group over the final quarter of the preceeding financial year.

Performance conditions

The scheme rules require the Remuneration Committee to set performance criteria for vesting each LTSP award. The Committee aims to set stretching vesting criteria based on achievement of financial goals set out in the Group's three year strategic plan. It seeks to set criteria that are simple to manage and understand and which are, if applied consistently, aligned over the longer term with the delivery of value to shareholders. The Committee discloses in the Remuneration report the performance criteria for each unvested award including those awards to be made in the coming year.

There is generally a minimum metric below which there is no vesting and a maximum metric which earns 100% of the award. A sliding scale of vesting operates between the maximum and minimum.

The Remuneration Committee has adopted stretching EPS growth as the performance criteria for the LTSP as it believes that this provides a reliably measurable target in line with the Group's medium and long term objectives. As part of its annual awards process, the Committee considers each year whether this basis remains appropriate. Each year the Remuneration report discloses the prospective awards and performance conditions that will apply. The Committee has discretion to adopt alternative performance metrics should it conclude that alternative targets better align the Executive performance with the long term delivery of value to shareholders.

Variable remuneration components (continued)

Remuneration component	How the component operates	Maximum payouts
Save as you earn scheme Purpose: - To encourage and incentivise regular saving for all UK employees. - To allow UK employees to benefit from tax efficient HMRC approved gains from any growth in the Group's share price. - To encourage ownership of the Group's shares.	UK employees are entitled to subscribe for options under the Group's three and five year Save As You Earn Schemes. The scheme is governed by the rules set out in the Porvair plc SAYE Share Options Plan 2014. The Group offers new SAYE schemes to coincide with the maturity of previous SAYE schemes. This means that schemes generally commence on 1 October in years when a scheme matures. The scheme rules allow the options to be issued at up to a 20% discount to the prevailing market price, which is determined at the time the offer is made to employees, generally approximately two months before the start of the scheme. At the end of the savings period, provided the employee has maintained the monthly savings plan, the option shares vest and the employee has the choice of a return of the cash saved in the building society account or to use the savings to acquire the option shares. The options must be exercised within six months of the date of vesting. Vested awards may be settled by the issue of new shares or, for issues made after 2015 Annual General Meeting, from shares held by an Employee Benefit Trust ("EBT"). Non-Executive Directors may not join the scheme.	SAYE schemes allow a maximum of £500 per month to be saved. The Group offers three and five year saving schemes. The number of shares under option is determined by the amount saved in an authorized building society account plus interest over the vesting period divided by the option price determined at the date of subscription to the scheme.
Performance conditions The scheme has no performance conditions.		

Shareholding requirement

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

A post-employment shareholding requirement is also in place and will apply to all shares vesting from incentive awards granted after the adoption of this policy. In the first year post-employment, executive directors will normally be required to hold the lower of their applicable shareholding on leaving employment or 200% of their final base salary. In the second year post-employment they will normally be required to hold the lower of their applicable shareholding on leaving employment or 100% of final base salary.

External appointments

Executive Directors are able to undertake one Non-Executive Directorship outside the Company with the consent of the Board. Any fees received may be retained by the Director.

Discretions

The Committee retains certain discretions over the management and operation of the variable elements of the Executive Directors' remuneration. The annual bonus scheme is discretionary and therefore the Committee retains full authority to vary its terms and its payouts in each financial year. Its powers are limited by the maxima set out in this policy and by the limits it sets for the Executives within the Committee minutes. The limits for each annual bonus are published in advance in the Remuneration report.

The long term share plans are governed by the scheme rules approved by shareholders. The rules of the scheme allow for the fair operation of the scheme through discretions delegated to the Committee. Under these discretions the Committee may:

- waive the requirement for the employee to pay the employer's National Insurance.
- grant options with a shorter life than 10 years.
- award the option holder with additional shares equivalent to the dividends that the option holder would have earned if the shares had been held throughout the option period.
- increase the number of shares that can be exercised by a good leaver or the personal representatives of an employee dying in service, which would normally be based on the proportion of the performance period that has elapsed prior to their cessation of employment, having due regard for the likelihood that the performance conditions will be met.
- allow an employee leaving for reasons other than as a good leaver to be able exercise their options after the date that they have given notice to leave employment.

Remuneration report continued

- amend the performance conditions if an event has occurred such that the performance of the Company should be measured by a fairer measure affording a more effective incentive to the employee.
- in determining whether a performance condition has been met, make such adjustments as they consider necessary to take account of underlying performance.
- determine whether performance conditions have been met in the event of a corporate event such as change of control or demerger.
- in the event of a change of control, in exceptional circumstances, permit more award shares or options to become vested than would be calculated by the proportion of the performance period that has elapsed.
- in the event of a rights issue or capitalisation issue, make such adjustments as it considers appropriate to the number of shares under option.
- make minor amendments to the plan to improve its administration, reflect changes in legislation, or to maintain favourable tax treatment for the participants or the Company.

Long Term Share Plan – Performance adjustment (malus)

The Committee may, at its absolute discretion, require an Executive Director to forfeit all or a proportion of his unvested award shares and/or all or a proportion of the vested award shares in respect of which the option award has not otherwise been settled, in the exceptional circumstances of corporate failure, reputational damage, misconduct or misstatement by the Executive Director (or for which the Executive Director is determined, in the Committee's absolute discretion, to be solely or jointly accountable). The terms of any forfeiture shall be determined by the Committee.

Long Term Share Plan – Forfeiture of vested awards (clawback)

At the award date, the Committee determines whether an award should be granted subject to clawback. If it is decided that the award should be subject to clawback then in the exceptional circumstances of corporate failure, reputational damage, misconduct or misstatement by the Executive Director (or for which the Executive Director is determined, in the Committee's absolute discretion, to be solely or jointly accountable); which had it been known at the time of vesting would have caused the Committee to take a different decision regarding the vesting of the award shares; the Committee may, in its absolute discretion, take any or all of the following steps in respect of the vested award shares:

- reduce the number of unvested award shares to which the Executive Director is entitled under any other award and/or proportion of the vested award shares in respect of which the Executive Director has not exercised an option award (or in respect of which the option award has not otherwise been settled);
- require the Executive Director to transfer any vested award shares back to the Company, or to such other person or persons as the Company shall nominate, for nil consideration;
- reduce the amount of any further awards to be granted to the Executive Director;
- reduce the amount of any cash bonus or shares payable to the Executive Director under any other plan operated by the Company; and/or
- require the Executive Director to pay to the Company or any Group company an amount equal to the amount of any or all of the proceeds the Executive Director realised on the disposal of any of the shares acquired pursuant to the award.

When enforcing the clawback terms, the Committee shall take into account:

- the amount (if any) paid by the Executive Director to acquire any shares in relation to the award;
- the amount of tax and national insurance contributions actually paid or still to be paid by the Executive Director in relation to the award or the sale of any of the shares acquired in relation to the award (after taking account of any relief available); and
- the number of shares subject to the award that would have vested (if any) had the misconduct or misstatement been known by the Remuneration Committee at the time.

If the Committee wishes to exercise its right to enforce clawback in respect of any award (or part of an award) in accordance with its powers it shall communicate the clawback terms to the Executive Director in writing on or around the time that the misconduct or misstatement is discovered.

Clawback ceases to apply to any award (or part of an award) after three years from the date on which the award shares became vested award shares.

Annual Bonus – Malus and Clawback

The annual bonus is discretionary and therefore the Committee retains full authority to vary its terms each year within the framework set out in this policy. In the exceptional circumstances of corporate failure, reputational damage, misconduct or misstatement by the Executive Director, the Committee may take any, or all, of the following steps:

- Cancel or reduce the bonus earned by the Executive Director in the year in which the misconduct or misstatement comes to light.
- Reduce the amount of awards in future years.
- Require the Executive Director to repay bonuses and deferred bonuses relating to the financial years affected by the misconduct or misstatement.

When enforcing any clawback of bonus the Committee will take into account amounts of tax and national insurance paid or still to be paid in relation to previously awarded bonuses, which cannot be recovered.

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 their remuneration packages for the year ending 30 November 2021, using the LTSP awards to be made in 2021 to calculate the variable element of pay. The assumptions included in each scenario are described below:

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 2020.
- Pensions are assumed to be in line with current practice.

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

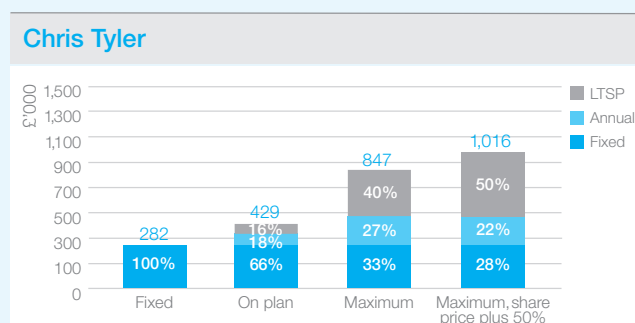
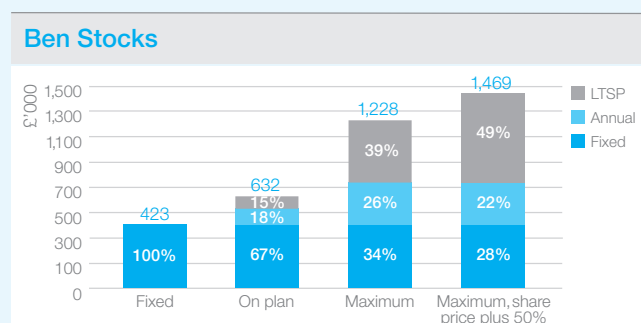
- Annual bonus of 35% of salary.
- Long term share plan ('LTSP') award of 20% of maximum.
- Share price based on the final quarter of the financial year ended 30 November 2020 (521 pence).

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

- Annual bonus of 100% of salary.
- LTSP award of 150% of salary.
- Share price based on the final quarter of the financial year ended 30 November 2020 (521 pence).

For the maximum award assuming a 50% increase in the share price the calculation is based on:

- Annual bonus for 100% of salary.
- LTSP award of 150% of salary.
- A share price of 780 pence.



Policy on Non-Executive Directors

The Non-Executive Directors receive letters of appointment with a maximum notice of three months. They 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. In the event that a Non-Executive Director fails to be re-elected at the Annual General Meeting they are required to resign with immediate effect. The remuneration policy for Non-Executive Directors is set out below.

Remuneration component	How the component operates	Maximum payout
Fees	Cash fees normally paid on a monthly basis. Fees are reviewed annually. Non-Executive Directors receive a fixed annual fee plus expenses reimbursement, which reflects their time commitment to the business and comparatives from similar sized quoted companies. Non-Executives are not eligible for any bonus or incentive or pension schemes. No additional fees are paid for acting as Senior Non-Executive Director or for chairing committees but the Board reserves the right to introduce these in appropriate circumstances.	There is no prescribed maximum individual fee or fee increase, but fees are subject to the cap set out in the Articles of Association which may be revised from time to time but only with shareholder approval. Current fee levels are set out below for information.

Remuneration report continued

The current scale of remuneration is:

	£'000
Chairman	93
Other Non-Executive Directors	38

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. 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 make material changes to the remuneration policy or the way that it is implemented or to introduce a new long term incentive plan, the Committee seeks the views of major shareholders prior to seeking, where required, general shareholder approval at a general meeting.

Discussions were held with a number of shareholders prior to the 2021 AGM to explain some of the terms of the proposed remuneration policy.

Relationship with employees' pay

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

The Committee takes into account proposed or agreed changes to employees' pay and conditions as part of its review of the remuneration of Executive Directors. Except in exceptional circumstances, this results in the percentage annual pay increases awarded to Executive Directors being broadly in line with the percentage 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 appoints a new director, in 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 82 to 85.

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 82 to 85.

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 incentives would normally be made under the LTSP 2018, and therefore subject to the rules of that scheme, but may be made outside of the LTSP 2018 using exemptions permitted under the Listing Rules.
- an award made under the LTSP 2018 in the first financial year of service which would be limited to a maximum of 250% of basic salary on joining, subject to suitably stretching performance criteria and a minimum vesting period of three years. An award in excess of the normal annual limit would only be made in exceptional circumstances; 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 by either party giving twelve months' notice. This is considered to be an appropriate balance between flexibility and commitment by both parties.

Executive Directors' employment contracts provide for the Executive to receive salary; private medical insurance; use of a company car; and participate in the Group's annual bonus, share option plans and pension scheme.

Payments for loss of office are determined by the Committee based on the contractual entitlements of the Director concerned under service contracts and the terms of the Porvair plc Long Term Share Plan 2008 and 2018 and Porvair plc SAYE share option plan 2014.

Service contracts do not provide explicitly for termination payments or damages but the Company may make payments in lieu of notice. For this purpose, pay in lieu of notice would normally consist of base salary and other relevant emoluments for the relevant notice period but would always exclude any bonus or incentive payments. In addition, the Company has discretion in certain circumstances to pay certain fees relating to the termination; for example, fees for legal advice received by the Executive Director and fees for outplacement services. The Committee may pay any statutory entitlements or settle or compromise claims in connection with a termination of employment where considered in the best interests of the Company.

Annual bonus payments are normally only payable to Executives that are in employment and not in a notice period at the date when the bonuses are approved by the Committee. However, an annual bonus may be payable with respect to the proportion of a financial year served, although it would be pro-rated for time and paid at the normal payment date. Any deferred share element could be paid in cash. Any outstanding deferred bonus may be released or paid in cash subject to the terms of the relevant plan rules.

The LTSP and SAYE plans have normal good leaver and bad leaver provisions which determine the extent to which options and awards may be vested and exercised in the event of the Executive leaving the Group. The schemes also include provisions to determine the extent that options may be exercised or award shares received in the event of a change in control of the Group.

For good leavers under the LTSP, awards will usually vest at the normal vesting date, subject to the satisfaction of any performance conditions and will be reduced pro-rata in accordance with the plan rules. However, the Remuneration Committee has discretion to allow awards to vest at an earlier date and discretion to disapply the normal pro-rata reduction.

When making decisions regarding the treatment of remuneration at the date of termination, the particular circumstances of the Executive Director's loss of office will be taken into account by the Committee to determine the extent to which mitigation of payments should apply; LTSP and SAYE options can be vested and exercised; and the extent to which payments under the discretionary annual bonus plan would be paid.

Independent auditor's report to the members of Porvair plc

Opinion

We have audited the financial statements of Porvair plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 November 2020 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, parent company balance sheet, parent company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 November 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS regulations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 32 to 38 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 32 in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;

- the directors' statement set out on page 39 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 39 in the annual report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Summary of our audit approach

Key audit matters	Group
	• Impact of Covid-19 • Provisions for gasification contracts
	Parent Company
	• None
Materiality	Group
	• Overall materiality: £577,000 • Performance materiality: £433,000
	Parent Company
	• Overall materiality: £246,000 • Performance materiality: £184,000
Scope	Our audit procedures covered 94% of revenue, 94% of total assets and 100% of profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impact of Covid-19

Key audit matter description

The Group, along with other businesses and the UK and global economy, has been impacted by the Covid-19 pandemic, with the impact varying across the group's divisions. The impact of Covid-19 was a consideration of the audit team across several areas of audit focus and it is considered to be a Key Audit Matter based on the allocation of audit resources and the judgements made.

Covid-19 has impacted audit strategy and execution in the following specific areas:

- Impairment and going concern – management has updated its forecasts to reflect the estimated effect of the pandemic and an increased level of uncertainty.
- Alternative performance measures – the Group incurred restructuring costs and made use of government support schemes available to UK and US businesses in the year. The classification, presentation and disclosure of these items as “adjusting items” and in the narrative reporting involves a degree of management judgement.

How the matter was addressed in the audit

Our response to the risk included:

- Discussion with management of the impact of Covid-19 and audit of the narrative reporting for consistency;
- Discussion with management of the nature and extent of government grants obtained and the relative significance and impact on the divisions of the Group;
- Audit of updated cashflow forecasts in the context of impairment and going concern;
- Audit of the disclosures in the financial statements and consideration of their completeness, accuracy and appropriateness, including challenge of management on whether items are appropriately presented as “adjusting items” in the context of alternative performance measures.

Key observations

Disclosure of the impact of Covid-19 on the group is included in the Strategic Report and based on the results of the audit procedures outlined above, we have no observations to report.

Provisions for gasification contracts

Key audit matter description

The Group had significant long-term gasification contracts with two parties which contain warranties. Management have recognised a provision of £4.4 million as at 30 November 2020, £4 million of which specifically relates to warranties with one of the parties. In calculating this, management have exercised a high degree of judgement.

As shown in note 21, the provision has reduced from £9.5 million as at 30 November 2019, with the main movement being the release of £5.1 million on the resolution reached during the year with one of the parties.

Due to the high degree of judgement and estimation involved, as well as the quantum of the provisions, these provisions are considered to be a key audit matter.

How the matter was addressed in the audit

Our response to the risk included:

- Reading and challenging management's paper and assessing the recognition of provisions in the context of IAS 37;
- Discussion of the latest position with management, including discussion with individuals in the operational team;
- Corroboration of the release of the provision relating to the settlement agreement as well as the payment of the performance bond;
- Audit of the inputs to the calculations to supporting evidence and checking the arithmetic accuracy of the calculations;
- Obtaining and reviewing recent correspondence regarding the matter; and
- Auditing the presentation and disclosures in the financial statements.

Key observations

Based on the results of the audit procedures outlined above, we concur with management's assessment of the existence and valuation of provisions for gasification contracts.

Disclosure of the estimates and judgements made by management in respect of the provisions and the changes in the provisions since the previous year is included in note 1 (Key sources of estimation uncertainty) and in note 21 of the consolidated financial statements.

Independent auditor's report to the members of Porvair plc continued

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£577,000	£246,000
Basis for determining overall materiality	5% of profit before tax	0.4% of net assets
Rationale for benchmark applied	Profit before tax is considered to be the most appropriate benchmark as it is a key performance metric for the users of the consolidated financial statements.	Net assets is considered to be the most appropriate benchmark for the parent company as it is primarily a holding company.
Performance materiality	£433,000	£184,000
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £29,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £12,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Porvair plc is a multi-national group operating across the UK, Europe, the US, and Asia. Its key operations are located in the UK and the US, with its headquarters in the UK. The group consists of 17 components, located in the following countries;

- UK
- USA
- The Netherlands
- Germany
- China
- India

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Based on our assessment of the Group, we focused our group audit scope primarily on group businesses within the UK and the significant operations in the US. These components were subject to a full scope audit performed by the group auditors.

In addition, five other components were subject to specific audit procedures on material account balances, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those businesses. Our audit work for each component was executed at levels of materiality applicable to each individual component, which did not exceed Group materiality.

The table below shows the coverage of the group achieved by components subject either to a full scope audit or specified audit procedures.

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	6	47%	60%	65%
Specific audit procedures	5	46%	35%	35%
Total	11	94%	94%	100%

Analytical procedures at group level were performed for the remaining 6 components.

At the group level we also tested the consolidation process.

The group audit team performed all audit procedures and no component auditors were used.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** set out on page 65 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** set out on page 70 to 71 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 66 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- 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 and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- Information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 64, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Porvair plc continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit, we will consider the susceptibility of the group and parent company to fraud and other irregularities, taking account of the business and control environment established and maintained by the directors, as well as the nature of transactions, assets and liabilities recorded in the accounting records. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. However, the principal responsibility for ensuring that the financial statements are free from material misstatement, whether caused by fraud or error, rests with management who should not rely on the audit to discharge those functions.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the board on 15 September 2020 to audit the financial statements for the year ending 30 November 2020 and subsequent financial periods.

The period of total uninterrupted engagement is 1 year, commencing for the year ending 30 November 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Graham Ricketts (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants

25 Farringdon Street
London EC4A 4AB

29 January 2021

Consolidated income statement

For the year ended 30 November	Note	2020 £'000	2019 £'000
Continuing operations			
Revenue	3	135,011	144,932
Cost of sales		(91,469)	(97,505)
Gross profit		43,542	47,427
Distribution costs		(2,373)	(2,259)
Administrative expenses		(28,612)	(30,381)
Adjusted operating profit		13,571	15,592
Adjustments			
Amortisation of acquired intangible assets	2	(611)	(588)
Other acquisition related adjustments	2	442	(217)
Restructuring	2	(2,246)	–
Settlement of project related warranties	2	4,005	–
Impairment of tangible assets	2	(2,604)	–
Operating profit	3	12,557	14,787
Finance income	6	1	7
Finance costs	6	(1,001)	(809)
Profit before income tax	3,4	11,557	13,985
Adjusted income tax expense		(2,642)	(3,220)
Adjustments			
Tax effect of adjustments to operating profit	2	(472)	–
Income tax expense	7	(3,114)	(3,220)
Profit for the year		8,443	10,765
Profit attributable to:			
– Owners of the parent		8,443	10,768
– Non-controlling interests		–	(3)
Profit for the year		8,443	10,765
Earnings per share (basic)	8	18.4p	23.6p
Adjusted earnings per share (basic)	8	21.6p	25.3p
Earnings per share (diluted)	8	18.4p	23.5p
Adjusted earnings per share (diluted)	8	21.6p	25.3p

Consolidated statement of comprehensive income

For the year ended 30 November	2020 £'000	2019 £'000
Profit for the year	8,443	10,765
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Actuarial loss in defined benefit pension plan net of tax	(1,334)	(2,278)
Items that may be subsequently reclassified to profit or loss		
Exchange losses on translation of foreign subsidiaries	(1,713)	(1,212)
Tax relating to components of other comprehensive income	–	149
Changes in fair value of foreign exchange contracts held as a cash flow hedge	(35)	35
	(1,748)	(1,028)
Other comprehensive income for the year	(3,082)	(3,306)
Total comprehensive income for the year attributable to the owners of Porvair plc	5,361	7,459
Comprehensive income attributable to:		
– Owners of the parent	5,361	7,462
– Non-controlling interests	–	(3)
Total comprehensive income for the year	5,361	7,459

Consolidated balance sheet

Company registered number 01661935

As at 30 November	Note	2020 £'000	2019 £'000
Non-current assets			
Property, plant and equipment	10	20,716	22,779
Right of use assets	11	12,762	–
Goodwill and other intangible assets	12	70,039	71,512
Deferred tax asset	19	2,614	2,360
Other receivable	15	–	1,048
		106,131	97,699
Current assets			
Inventories	14	23,355	23,197
Trade and other receivables	15	20,674	24,153
Derivative financial instruments	13	23	48
Cash and cash equivalents	16	15,563	12,889
		59,615	60,287
Current liabilities			
Trade and other payables	17	(20,197)	(25,989)
Current tax liabilities		(192)	(564)
Borrowings	18	(1,379)	–
Lease liabilities	11	(2,007)	–
Provisions	21	(4,365)	(9,526)
		(28,140)	(36,079)
Net current assets		31,475	24,208
Non-current liabilities			
Borrowings	18	(9,303)	(8,875)
Deferred tax liability	19	(2,839)	(2,588)
Retirement benefit obligations	20	(15,395)	(14,450)
Other payables	25	–	(417)
Lease liabilities	11	(11,609)	–
Provisions	21	(268)	(242)
		(39,414)	(26,572)
Net assets		98,192	95,335
Capital and reserves			
Share capital	22	923	921
Share premium account	22	36,927	36,504
Cumulative translation reserve		7,645	9,358
Retained earnings		52,697	48,552
Equity attributable to owners of the parent		98,192	95,335
Total equity		98,192	95,335

The financial statements on pages 95 to 135 were approved by the Board of Directors on 29 January 2021 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	2020 £'000	2019 £'000
Cash flows from operating activities			
Cash generated from operations	24	13,220	16,758
Interest paid		(347)	(343)
Tax paid		(2,551)	(3,256)
Net cash generated from operating activities		10,322	13,159
Cash flows from investing activities			
Interest received		1	7
Acquisition of subsidiaries (net of cash acquired)	25,26	(588)	(9,761)
Purchase of property, plant and equipment	10	(3,458)	(3,943)
Purchase of intangible assets	12	(166)	(363)
Net cash used in investing activities		(4,211)	(14,060)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	22	425	550
Purchase of EBT shares		(726)	(623)
Receipt of Paycheck Protection Plan loan		1,507	–
Increase in revolving credit facility borrowings		–	4,648
Dividends paid to shareholders	9	(2,253)	(2,146)
Repayments of lease liabilities		(2,297)	–
Net cash (used in)/from financing activities		(3,344)	2,429
Net increase in cash and cash equivalents		2,767	1,528
Exchange losses on cash and cash equivalents		(93)	(131)
		2,674	1,397
Cash and cash equivalents at 1 December		12,889	11,492
Cash and cash equivalents at 30 November	16	15,563	12,889

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

	2020 £'000	2019 £'000
Net funds at 30 November 2019	4,014	6,625
IFRS 16 adjustment for lease liabilities	(15,218)	–
Net (debt)/funds at 1 December 2019	(11,204)	6,625
Increase in borrowings	(1,507)	(4,648)
Net increase in cash and cash equivalents	2,767	1,528
Decrease in lease liabilities	1,778	–
Effects of exchange rate changes	(569)	509
Net (debt)/funds at 30 November 2020	(8,735)	4,014

Consolidated statement of changes in equity

	Note	Share capital £'000	Share premium account £'000	Cumulative translation reserve £'000	Retained earnings £'000	Equity attributable to owners of the parent £'000	Non-controlling interest £'000	Total equity £'000
Balance at 30 November 2018		917	35,958	10,570	42,024	89,469	3	89,472
IFRS 15 adjustment		–	–	–	(57)	(57)	–	(57)
Balance at 1 December 2018		917	35,958	10,570	41,967	89,412	3	89,415
Profit for the year		–	–	–	10,768	10,768	–	10,768
Other comprehensive income		–	–	(1,212)	(2,094)	(3,306)	–	(3,306)
Total comprehensive income for the year		–	–	(1,212)	8,674	7,462	–	7,462
Consideration paid for purchase of own shares (held in trust)		–	–	–	(623)	(623)	–	(623)
Employee share option schemes:								
– value of employee services net of tax		–	–	–	680	680	–	680
Proceeds from shares issued	22	4	546	–	–	550	–	550
Dividends paid	9	–	–	–	(2,146)	(2,146)	–	(2,146)
Total transactions with owners recognised directly in equity		4	546	–	(2,089)	(1,539)	–	(1,539)
Adjustment arising from change in non-controlling interest		–	–	–	–	–	(3)	(3)
Balance at 30 November 2019		921	36,504	9,358	48,552	95,335	–	95,335
Profit for the year		–	–	–	8,443	8,443	–	8,443
Other comprehensive expense		–	–	(1,713)	(1,369)	(3,082)	–	(3,082)
Total comprehensive income for the year		–	–	(1,713)	7,074	5,361	–	5,361
Consideration paid for purchase of own shares (held in trust)		–	–	–	(726)	(726)	–	(726)
Employee share option schemes: –								
– value of employee services net of tax		–	–	–	50	50	–	50
Proceeds from shares issued	22	2	423	–	–	425	–	425
Dividends paid	9	–	–	–	(2,253)	(2,253)	–	(2,253)
Total transactions with owners recognised directly in equity		2	423	–	(2,929)	(2,504)	–	(2,504)
Adjustment arising from change in non-controlling interest		–	–	–	–	–	–	–
Balance at 30 November 2020		923	36,927	7,645	52,697	98,192	–	98,192

Notes to the consolidated financial statements

1 Summary of significant accounting policies

Porvair plc is a public company limited by shares incorporated in the UK under the Companies Act and listed on the London Stock Exchange. The Company is registered in England and Wales and its registered office is 7 Regis Place, Bergen Way, King's Lynn, PE30 2JN.

The principal activities of the Group and the nature of the Group's operations are set out in the Strategic Report.

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 applicable laws and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The Company has elected to prepare its entity accounts in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101), and these are presented on pages 136 to 146.

The financial statements have been prepared on a going concern basis and under the historical cost convention as modified by the recognition of certain 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 IFRS 9 either in profit or loss. 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.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. They continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the viability statement included in the Strategic Report on page 39.

Critical accounting judgements and key sources of estimation uncertainty

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

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

(a) Critical judgements in applying the Group's accounting policies

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations, that have had a significant effect on the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

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 key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

- Pension obligation

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 and is closed to new entrants. The present value of the obligations of this scheme is subject to financial assumptions and management contracts external actuarial guidance on this. Sensitivities in the principal assumptions on valuing the Plan's defined benefit obligation at 30 November 2020 have been calculated and are given in note 20.

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

- Provisions for gasification project filtration systems

The Group has a large gasification project ongoing in its commissioning phase, a process which is taking several years. Note 21 outlines management's best estimate of the amount of any potential loss arising from rectification and claims arising on this contract. Note 27 details the maximum potential exposure under these contracts.

- Estimation of LTSP share option charge

The long term share plan share options (LTSPs) have vesting conditions, as outlined in the Remuneration report, which can result in the vesting of between 0% to 100% of each LTSP grant. One element of the share based payment charge calculation of these LTSPs relies on management's best estimate forecast of the performance of the Group, which is a critical assumption. As an example, if the success rate of the unvested share options were increased/decreased by 10% then the share option charge would be £36,000 higher/lower.

- Impairment assumptions

An impairment review of the Group's Chinese assets was performed during the year due to the continuation of tariff barriers between China and the USA. In this impairment review, the recoverable amount of the Chinese assets was compared to the book value of these assets, and the assets impaired to the lower of these values. The recoverable amount is the higher of the value-in-use and the fair value of the assets.

For value-in-use, a discounted net present value of the forecast cash flows of the Chinese operations was calculated using the local weighted average cost of capital (WACC) and forecast cash flows, both of which are estimates. If the WACC is increased or decreased by 10% (management's assessment of the recent historical movement in WACC values), then this makes no material difference to the impairment recognised in the accounts. If the cashflows are increased or decreased by 5% (based on historical variance of actual cashflows to forecast), then this makes no material difference to the impairment recognised in the accounts.

The fair value of the assets was determined using estimates of the resale value of the assets less resale costs. As a result of this exercise, as stated in note 2 and note 10, property, plant and equipment of £1.9 million was impaired and inventory of £0.3 million was written down in line with IAS36.

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.

Revenue recognition

Revenue is recognised at a point in time for all standard revenue transactions when control of the goods provided is transferred to the customer according to the International Commercial Terms of each contract. Revenue is also recognised at a point in time for contracts that contain multiple elements ("service contracts") when the agreed output is provided to the customer, unless there are specific performance obligations to deliver other services over time. The revenue on such service contracts is not material.

Revenue is measured as the fair value of the consideration received or receivable for goods and services supplied to customers, after deducting sales discounts and value-added taxes; revenue receivable for services supplied to customers, as opposed to goods, is close to 1% of Group revenue. Under IFRS15, each customer contract is assessed to identify the performance obligation. An assessment of the timing of revenue recognition is made for each performance obligation. The transaction price is allocated to each performance obligation based on the relative stand-alone selling prices of the goods or services provided. If a stand-alone selling price is not available, the Group will estimate the selling price with reference to the price that would be charged for the goods or services if they were sold separately. There are no contracts with variable consideration. Provision is made for returns and in the few instances where rebates are provided.

Interest income

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

Leasing

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, being the initial amount of the lease liability adjusted for any lease payments made at or before commencement date.

Lease liabilities are recorded at the present value of lease payments. Leases are discounted at the Group's incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right-of-use assets are depreciated on a straight-line basis over the lease term, or useful life if shorter. Interest is recognised on the lease liability, resulting in a higher finance cost in the earlier years of the lease term.

1 Summary of significant accounting policies continued

Lease payments relating to low value assets or to short-term leases are recognised as an expense on a straight-line basis over the lease term. Short-term leases are those with 12 months or less duration. Low value assets are those below a cost of £4,000.

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.

Government grants received in respect of the furlough of staff over the period of the Covid-19 pandemic are taken in the period when the related salary costs are incurred.

The US Paycheck Protection Program (PPP) loan is recognised as a liability until such time as the loan is waived, when it would be credited to the income statement.

Retirement benefit costs

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

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

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

Taxation

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

Current tax is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that are relevant to the period. Tax provisions are based on management's interpretation of country specific tax laws and the likelihood of any tax risks. Management uses professional firms, in-house knowledge and previous experience when calculating tax and assessing these risks.

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.

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

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

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

Property, plant and equipment

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

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

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

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

Freehold land is not depreciated.

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

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

Internally generated intangible assets – research and development expenditure

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

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

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

Internally generated intangible assets are stated 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 3-10 years. Other patents, trademarks and know-how are measured at cost and amortised over their estimated useful lives of 3-10 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.

1 Summary of significant accounting policies continued

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 (excluding derivative financial assets) are recognised at cost less allowances for estimated irrecoverable amounts to align their cost to fair value. The provision is based on the Group's expected credit loss. When a trade receivable is uncollectible, it is written off to the provision for impairment. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, and 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.

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

Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments in the form of forward foreign exchange contracts to hedge its foreign currency exposure. These derivatives are designated as cash flow hedges. The Group has elected to continue to apply the hedge accounting requirements of IAS39, as allowed under IFRS9.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequent changes in the fair value of foreign currency derivatives which are designated and effective as hedges of future cash flows are recognised in equity in the hedging reserve and in Other Comprehensive Income and are reclassified to profit or loss on maturity of the derivative. Changes in the fair value of foreign currency derivatives which are ineffective or do not meet the criteria for hedge accounting in accordance with IAS39 (specifically, being outside the 80% to 125% effective range) are recognised immediately in the Consolidated Income Statement.

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 cash flows of hedged items.

Outstanding fixed price contracts for future purchase of commodities are not valued in the accounts, as the commodities are used in full by the Group.

Provisions

A provision is recognised when there is a present (legal or constructive) obligation as a result of a past event, and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions have been made for future dilapidation costs on leased property and for warranties on shipped goods sales, and warranty costs on relevant sale contracts. 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.

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

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

Share based payments

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

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

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

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

Adjusting items

When items of income or expense are material and they are relevant to an understanding of the entity's financial performance, they are disclosed separately within the financial statements. Such adjusting items include material costs or reversals arising from acquisitions or disposals of businesses, including acquisition costs, creation or reversals of provisions related to changes in estimates for contingent consideration on acquisition, amortisation of acquired intangible assets, and other one-off items that may arise.

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.

Cumulative translation reserve

The cumulative translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company itself, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Related party transactions

There are no related party transactions outside of the Group.

New standards, amendments and interpretations

(a) Standards, amendments and interpretations effective for the first time in the year ended 30 November 2020:

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 December 2019 have had a net material impact on the Group. The impact of IFRS 16 is given below:

IFRS 16 'Leases'

For the Group, transition to IFRS 16 was effective from 1 December 2019 and the year ending 30 November 2020 is its first Annual Report published in accordance with IFRS 16.

IFRS 16 replaces existing lease guidance, including:

- IAS 17 'Leases';
- IFRIC 4 'Determining whether an arrangement contains a lease';
- SIC 15 'Operating leases – Incentives'; and
- SIC 27 'Evaluating the substance of transactions involving the legal form of a lease'.

The Group adopted IFRS 16 'Leases' on 1 December 2019 using the modified retrospective approach, with any cumulative effect recognised at the date of initial application as an adjustment to the opening balance of retained earnings with no restatement of comparative information in the financial statements. The Group leases various offices, warehouses, equipment and motor vehicles. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until 1 December 2019, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

1 Summary of significant accounting policies continued

From 1 December 2019, leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated against the lease liability. The finance cost on the leases is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments which includes the fixed payments less any lease incentives. Right of use assets are measured at cost comprising the amount of the initial measurement of lease liability. The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months.

On implementation of IFRS 16 on 1 December 2019, the Group recognised right of use assets and corresponding lease liabilities of £14.6 million and £15.2 million, respectively. There was no impact on the Group's opening shareholders' funds as a result of adopting IFRS 16. The Group's most significant leases relate to property. The weighted average incremental borrowing rate applied to the Group's lease liabilities on transition ranged from 1.7% – 5.3%. The Group has used a portfolio approach by grouping assets into economic environments, assessed to be the territory where the leased asset is based.

The impact on the consolidated financial statements is as follows:

- Adjusted operating profit

	2020 £'000
Adjusted operating profit – post-IFRS 16	13,571
Operating lease rentals, removed from operating costs	(2,297)
Depreciation on leases – right of use assets, added to operating costs	2,055
Adjusted operating profit – pre-IFRS 16	13,329

- Adjusted profit before tax

	2020 £'000
Adjusted profit before tax – post-IFRS 16	12,571
Operating lease rentals, removed from operating costs	(2,297)
Depreciation on leases – right of use assets, added to operating costs	2,055
Add back interest on lease liabilities	437
Adjusted profit before tax – pre-IFRS 16	12,766

- Earnings per share

The impact of adopting IFRS 16 is to reduce basic earnings per share from 18.8 pence to 18.4 pence and reduce adjusted earnings per share from 22.0 pence to 21.6 pence for the year ended 30 November 2020.

- Cash flow

There is no impact of adopting IFRS 16 on free cash flow. However, in the Consolidated Cash Flow Statement, the repayments of the operating lease liabilities of £2.3 million are included within financing activities, whereas the operating lease rentals were previously presented within operating activities.

- Reconciliation of lease commitments to IFRS 16 lease liabilities

	£'000
Total operating lease commitments at 30 November 2019	14,609
Adjustments to commitment disclosure	2,827
Lease liabilities before discounting	17,436
Discounted using incremental borrowing rates	(2,218)
Lease liabilities recognised at 1 December 2019	15,218
Adjustments for prepaid rent at 1 December 2019	113
Adjustments for accrued rent at 1 December 2019	(742)
Right of use lease assets recognised at 1 December 2019	14,589

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

• Segmental reporting

The impact on the total assets and liabilities by division at 30 November 2020 is as follows:

Division	Assets		Liabilities	
	Post-IFRS 16 30 November 2020 £'000	Pre-IFRS 16 30 November 2020 £'000	Post-IFRS 16 30 November 2020 £'000	Pre-IFRS 16 30 November 2020 £'000
A&I	73,459	65,541	(22,013)	(13,982)
Laboratory	42,926	39,561	(11,775)	(8,434)
MMQ	30,860	29,642	(5,548)	(4,296)
Central	18,501	18,353	(28,218)	(27,968)
Total	165,746	153,097	(67,554)	(54,680)

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

The IASB has published a number of new IFRS standards, amendments and interpretations to existing standards which are not yet effective, but will be mandatory for the Group's accounting periods beginning on or after 1 December 2020. An assessment of the impact of these new standards and interpretations is set out below:

- Amendments to IFRS 3 'Business Combinations';
- Amendments to IFRS 9, IAS 39 and IFRS 7, with respect to interest rate benchmark reform;
- Amendments to IAS 1 and IAS 8, with respect to the definition of material; and
- Amendments to the Conceptual Framework for Financial Reporting.

The Group does not anticipate that the adoption of these standards and interpretations that are effective for the year ending 30 November 2021 will have a material effect on its financial statements.

2 Alternative performance measures

Alternative performance measures are used by the Directors and management to monitor business performance internally and exclude certain cash and non-cash items which they believe are not reflective of the normal course of business of the Group. The Directors believe that disclosing such non-IFRS measures enables a reader to isolate and evaluate the impact of such items on results and allows for a fuller understanding of performance from year to year. Alternative performance measures may not be directly comparable with other similarly titled measures used by other companies.

Alternative revenue measures	2020 £'000	2019 £'000	Growth %
Aerospace & Industrial			
Underlying revenue	48,474	60,036	(19)
Acquisitions	11,313	2,452	
Revenue at constant currency	59,787	62,488	(4)
Exchange	2,193	2,155	
Revenue as reported	61,980	64,643	(4)
Laboratory			
Revenue at constant currency	37,829	38,853	(3)
Exchange	2,298	2,427	
Revenue as reported	40,127	41,280	(3)
Metal Melt Quality			
Revenue at constant currency	30,020	35,377	(15)
Exchange	2,884	3,632	
Revenue as reported	32,904	39,009	(16)
Group			
Underlying revenue	116,323	134,266	(13)
Acquisitions	11,313	2,452	
Revenue at constant currency	127,636	136,718	(7)
Exchange	7,375	8,214	
Revenue as reported	135,011	144,932	(7)

2 Alternative performance measures continued

Revenue at constant currency is derived from translating overseas subsidiaries at budgeted fixed exchange rates in both years of US\$1.4:£1, €1.2:£1 and RMB10:£1, to provide comparable revenue figures without the fluctuations of foreign exchange rate changes.

Underlying revenue is revenue at constant currency adjusted for the impact of acquisitions made in the current and prior year. The acquisition line relates to the revenue of the Royal Dahlman Group which was acquired in September 2019.

Alternative profit measures

A reconciliation of the Group's adjusted performance measures to the reported IFRS measures is presented below:

	2020			2019		
	Adjusted £'000	Adjustment £'000	Reported £'000	Adjusted £'000	Adjustment £'000	Reported £'000
Operating profit	13,571	(1,014)	12,557	15,592	(805)	14,787
Finance income	1	–	1	7	–	7
Finance costs	(1,001)	–	(1,001)	(809)	–	(809)
Profit before income tax	12,571	(1,014)	11,557	14,790	(805)	13,985
Income tax expense	(2,642)	(472)	(3,114)	(3,220)	–	(3,220)
Profit for the year	9,929	(1,486)	8,443	11,570	(805)	10,765

An analysis of adjusting items is given below:

Affecting operating profit

	2020 £'000	2019 £'000
<i>Amortisation of acquired intangible assets</i>	(611)	(588)
<i>Other acquisition related adjustments</i>	442	(217)
<i>Restructuring</i>	(2,246)	–
<i>Settlement of project related warranties</i>	4,005	–
<i>Impairment of tangible assets</i>	(2,604)	–
	(1,014)	(805)

Affecting tax

– Tax effect of adjustments to operating profit	(472)	–
	(472)	–
Total adjusting items	(1,486)	(805)

Adjusted operating profit and adjusted profit before tax exclude items that are considered significant and where treatment as an adjusted item provides a more consistent assessment of the Group's trading:

- The impact of acquiring businesses:
 - The amortisation of intangible assets arising on acquisition of businesses was £0.6 million (2019: £0.6 million);
 - Other acquisitions related to adjustments to profit and loss related to acquiring businesses of £0.4 million credit (2019: £0.2 million charge). In 2020, the £0.4 million credit relates to the release of earnout contingent consideration (see note 25).
- Other items that are considered significant and where treatment as an adjusted item provides a more consistent assessment of the Group's trading:
 - Restructuring costs of £2.2 million (2019: £nil) included redundancy costs and plant reconfigurations related to the impact of the Covid-19 pandemic;
 - A net release of £4.0 million (2019: £nil) related to the large gasification projects. Settlement of outstanding warranty issues and the cancellation of performance bonds has allowed the Group to release £5.1 million (2019: £nil) from its provisions. Related to the release, the Group has written off a £1.1 million (2019: £nil) receivable due over the next five years; and
 - An impairment write down of tangible assets, totalling £2.6 million; £2.3 million results from the Board's review of Chinese operations and taking a more prudent view of asset values based on changing geopolitical and international trade assumptions. In addition, redundant assets of £0.3 million have been written off in the Aerospace & Industrial division.

A tax charge or credit has been calculated on each adjusting credit or charge using the Group tax rate prevailing in each of the local territories where it arises.

Notes to the consolidated financial statements continued

2 Alternative performance measures continued

Return on capital employed

The Group uses two return measures to assess the return it makes on its investments:

- Return on capital employed of 12% (2019: 14%) is the tax adjusted operating profit as a percentage of the average capital employed. Capital employed is the average of the opening and closing Group net assets less the average of the opening and closing net cash position; and
- Return on operating capital employed of 29% (2019: 36%) is calculated on the same basis except that the capital employed is adjusted to remove the average of the opening and closing goodwill and the opening and closing pension deficit to give a measure of the operating capital.

3 Segment information

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

At 30 November 2020, the Group is organised on a worldwide basis into three operating segments:

- (1) Aerospace & Industrial – principally serving the aviation, and energy and industrial markets;
- (2) Laboratory – principally serving the bioscience and environmental laboratory instrument and consumables market; and
- (3) Metal Melt Quality – principally serving the global aluminium, North American Free Trade Agreement (NAFTA) iron foundry and super-alloys markets.

Other Group operations' costs, assets and liabilities are included in the "Central" division. "Central" costs mainly comprise Group corporate costs, including new business development costs, some research and development costs and general financial costs. Central 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 2020 are as follows:

30 November 2020	Note	Aerospace & Industrial £'000	Laboratory £'000	Metal Melt Quality £'000	Central £'000	Group £'000
Total segment revenue		61,990	42,012	32,904	–	136,906
Inter-segment revenue		(10)	(1,885)	–	–	(1,895)
Revenue		61,980	40,127	32,904	–	135,011
Adjusted operating profit/(loss)		6,279	6,718	2,803	(2,229)	13,571
Adjustments						
Amortisation of acquisition intangible assets	2	(467)	(144)	–	–	(611)
Other adjustments	2	–	442	–	–	442
Restructuring	2	(1,566)	(55)	(625)	–	(2,246)
Settlement of project related warranties	2	4,005	–	–	–	4,005
Impairment of tangible assets	2	(267)	–	(2,337)	–	(2,604)
Operating profit/(loss)		7,984	6,961	(159)	(2,229)	12,557
Net finance costs	6	–	–	–	(1,000)	(1,000)
Profit/(loss) before income tax		7,984	6,961	(159)	(3,229)	11,557
Adjusted income tax expense		–	–	–	(2,642)	(2,642)
Tax effect of adjustments to operating profit	2	–	–	–	(472)	(472)
Income tax expense		–	–	–	(3,114)	(3,114)
Profit/(loss) for the year		7,984	6,961	(159)	(6,343)	8,443

3 Segment information continued

The segment results for the year ended 30 November 2019 are as follows:

30 November 2019	Note	Aerospace & Industrial £'000	Laboratory £'000	Metal Melt Quality £'000	Central £'000	Group £'000
Total segment revenue		64,696	43,654	39,011	–	147,361
Inter-segment revenue		(53)	(2,374)	(2)	–	(2,429)
Revenue		64,643	41,280	39,009	–	144,932
Adjusted operating profit/(loss)		8,527	6,597	2,845	(2,377)	15,592
Amortisation of acquisition intangible assets	2	(337)	(251)	–	–	(588)
Other adjustments	2	–	36	–	(253)	(217)
Operating profit/(loss)		8,190	6,382	2,845	(2,630)	14,787
Net finance costs	6	–	–	–	(802)	(802)
Profit/(loss) before income tax		8,190	6,382	2,845	(3,432)	13,985
Income tax expense		–	–	–	(3,220)	(3,220)
Profit/(loss) for the year		8,190	6,382	2,845	(6,652)	10,765

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

30 November 2020	Note	Aerospace & Industrial £'000	Laboratory £'000	Metal Melt Quality £'000	Central £'000	Group £'000
Depreciation – property, plant and equipment	10	1,372	703	721	3	2,799
Impairment – property, plant and equipment	10	257	–	2,004	–	2,261
Amortisation – intangible assets	12	633	274	–	–	907
Depreciation – right of use assets	11	1,198	548	263	46	2,055
		3,460	1,525	2,988	49	8,022

30 November 2019	Note	Aerospace & Industrial £'000	Laboratory £'000	Metal Melt Quality £'000	Central £'000	Group £'000
Depreciation – property, plant and equipment	10	1,223	646	1,061	–	2,930
Amortisation – intangible assets	12	592	221	–	–	813
		1,815	867	1,061	–	3,743

The segment assets and liabilities at 30 November 2020 are as follows:

30 November 2020	Note	Aerospace & Industrial £'000	Laboratory £'000	Metal Melt Quality £'000	Central £'000	Group £'000
Segmental assets		73,459	42,926	30,860	2,938	150,183
Cash and cash equivalents	16	–	–	–	15,563	15,563
Total assets		73,459	42,926	30,860	18,501	165,746
Segmental liabilities		(22,013)	(11,875)	(5,548)	(2,041)	(41,477)
Retirement benefit obligations	20	–	–	–	(15,395)	(15,395)
Borrowings	18	–	–	–	(10,682)	(10,682)
Total liabilities		(22,013)	(11,875)	(5,548)	(28,118)	(67,554)

Notes to the consolidated financial statements continued

3 Segment information continued

The segment assets and liabilities at 30 November 2019 are as follows:

30 November 2019	Note	Aerospace & Industrial £'000	Laboratory £'000	Metal Melt Quality £'000	Central £'000	Group £'000
Segmental assets		73,000	38,289	31,310	2,498	145,097
Cash and cash equivalents	16	–	–	–	12,889	12,889
Total assets		73,000	38,289	31,310	15,387	157,986
Segmental liabilities		(23,721)	(9,653)	(4,243)	(1,709)	(39,326)
Retirement benefit obligations	20	–	–	–	(14,450)	(14,450)
Borrowings	18	–	–	–	(8,875)	(8,875)
Total liabilities		(23,721)	(9,653)	(4,243)	(25,034)	(62,651)

Geographical analysis

	2020		2019	
	By destination £'000	By origin £'000	By destination £'000	By origin £'000
Revenue				
United Kingdom	13,990	41,343	16,394	50,058
Continental Europe	24,136	23,118	21,844	13,543
United States of America	54,121	63,811	67,214	75,336
Other NAFTA	5,296	–	2,310	–
South America	1,883	–	2,038	–
Asia	34,562	6,739	33,847	5,995
Africa	1,023	–	1,285	–
	135,011	135,011	144,932	144,932

Total revenue comprises sales of goods transferred at a point in time of £133,487,000 (2019: £143,511,000), sales of services transferred over time of £1,427,000 (2019: £1,314,000) and royalties of £97,000 (2019: £107,000).

	2020 £'000	2019 £'000
Non-current assets		
United Kingdom	22,229	21,494
Continental Europe	18,311	7,173
Americas	62,216	63,973
Asia	761	2,699
Unallocated deferred tax asset	2,614	2,360
	106,131	97,699

	2020 £'000	2019 £'000
Capital expenditure (including intangibles, excluding right of use assets)		
United Kingdom	1,108	1,728
Continental Europe	33	180
Americas	2,472	2,305
Asia	11	93
	3,624	4,306

4 Profit before income tax

	2020 £'000	2019 £'000
Staff costs (note 5)	44,800	47,338
Inventories – Cost of inventories recognised as an expense (included in cost of sales)	43,952	48,195
Net realised foreign exchange losses	388	161
Depreciation on property, plant and equipment – owned	2,799	2,930
Depreciation on property, plant and equipment – leased	2,055	–
Impairment charge on property, plant and equipment – owned	2,261	–
Amortisation of intangible assets	907	813
Loss on sale of property, plant and equipment and intangible assets	162	122
Other operating lease rentals payable:		
– Plant and machinery	9	175
– Property	4	1,713
Repairs and maintenance on property, plant and equipment	1,490	2,097
Trade receivables impairment	651	87
Research and development expenditure	3,516	4,166

The total remuneration of the Group's auditor, Deloitte LLP (resigned in September 2020) and RSM UK Audit LLP (appointed in September 2020) for services provided to the Group is analysed below:

	2020 £'000	2019 £'000
Deloitte LLP		
Fees payable to Company's auditor and its associates for audit of parent company and consolidated financial statements	–	90
Fees payable to Company's auditor and its associates for other services:		
– The audit of Company's subsidiaries	–	132
– Audit-related assurance services	–	23
RSM UK Audit LLP		
Fees payable to Company's auditor and its associates for audit of parent company and consolidated financial statements	110	–
Fees payable to Company's auditor and its associates for other services:		
– The audit of Company's subsidiaries	160	–
	270	245

5 Employee benefit expense

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

	2020 Average number	2019 Average number
Number		
Aerospace & Industrial	440	484
Laboratory	288	297
Metal Melt Quality	181	207
Central	7	7
	916	995

	2020 £'000	2019 £'000
Staff costs		
Wages and salaries	36,650	37,760
Social security costs	5,105	6,445
Other pension costs	2,956	2,548
Share based payments	89	585
	44,800	47,338

Detailed disclosures of Directors' emoluments and interests in share options are shown in the Remuneration Report on pages 72 to 80.

The key management comprise the Directors of Porvair plc and their remuneration is disclosed in note 29.

Notes to the consolidated financial statements continued

6 Finance income and costs

		2020 £'000	2019 £'000
Finance income			
Bank interest receivable		1	7
		1	7
		2020 £'000	2019 £'000
	Note		
Finance costs			
Interest payable on bank loans and overdrafts		276	344
Interest payable on lease liabilities		437	—
Unwinding of discount on provisions and contingent consideration		26	112
Pension scheme finance expense	20	262	353
		1,001	809
Net finance costs		1,000	802

7 Income tax expense

	Note	2020 £'000	2019 £'000
Current tax			
UK Corporation tax		1,290	838
Adjustment in respect of prior periods – UK		(21)	(29)
Overseas tax		1,075	1,902
Adjustment in respect of prior periods – US		(52)	(103)
		2,292	2,608
Deferred tax			
Origination and reversal of temporary differences – UK		488	255
Origination and reversal of temporary differences – Overseas		310	224
Adjustment in respect of prior periods – UK		5	133
Effect of change in deferred tax rates		19	–
	19	822	612
		3,114	3,220

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:

	2020 £'000	2019 £'000
Profit before tax	11,557	13,985
Tax at the UK Corporation tax rate of 19% (2019: 19%)	2,196	2,657
Current tax adjustments in respect of prior periods	(73)	(132)
Deferred tax adjustments in respect of prior periods	5	133
Deferred tax on share based payments within the income statement	132	10
Tax effect of expenses not deductible in determining taxable profit	549	151
Effect of change in deferred tax rates	19	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	286	401
Tax charge	3,114	3,220

7 Income tax expense continued

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

	2020 £'000	2019 £'000
Deferred tax on share based payments (direct to equity)	(82)	22
Deferred tax on actuarial losses on the pension fund (direct to comprehensive income)	(684)	(466)
Current tax on share based payments (direct to equity)	65	187
Current tax on exchange reserve movement (direct to comprehensive income)	–	149
	(701)	(108)

The standard rate of Corporation Tax in the UK was 19% during the year to 30 November 2020. Accordingly, the theoretical effective tax rate applied to the Group's profits for this accounting year is 19%. The UK deferred tax assets and liabilities at 30 November 2020 have been calculated based on the future UK corporation tax rate of 19.0% (2019: 17.0%), as substantively enacted at 30 November 2020.

The current tax provision includes £980,000 (2019: £1,167,000) for uncertainties relating to the interpretation of tax legislation in the Group's operating territories.

8 Earnings per share

	2020			2019		
	£'000	Weighted average number of shares	Per share amount (pence)	£'000	Weighted average number of shares	Per share amount (pence)
Profit for the year – attributable to ordinary shareholders	8,443			10,768		
Number of ordinary shares in issue		46,069,323			45,871,417	
Number of ordinary shares owned by the Employee Benefit Trust		(106,316)			(183,308)	
Basic EPS	8,443	45,963,007	18.4	10,768	45,688,109	23.6
Dilutive impact of share options outstanding	–	21,666	–	–	47,240	(0.1)
Diluted EPS	8,443	45,984,673	18.4	10,768	45,735,349	23.5

In addition to the above, the Group also calculates an earnings per share based on underlying profit as the Board believes this to be a better measure to judge the progress of the Group, as discussed in note 2.

The following table reconciles the Group's profit to underlying profit used in the numerator in calculating underlying earnings per share:

	2020			2019		
	£'000	Weighted average number of shares	Per share amount (pence)	£'000	Weighted average number of shares	Per share amount (pence)
Profit for the year – attributable to ordinary shareholders	8,443			10,768		
Adjusting items – see note 2	1,486			805		
Underlying profit – attributable to equity holders of the parent	9,929			11,573		
Basic EPS	9,929	45,963,007	21.6	11,573	45,688,109	25.3
Diluted EPS	9,929	45,984,673	21.6	11,573	45,735,349	25.3

Notes to the consolidated financial statements continued

9 Dividends per share

	2020		2019	
	Per share (pence)	£'000	Per share (pence)	£'000
Final dividend paid – in respect of prior year	3.20	1,472	3.00	1,368
Interim dividend paid – in respect of current year	1.70	781	1.70	778
	4.90	2,253	4.70	2,146

The Directors recommend a final dividend of 3.3 pence for the financial year ended 30 November 2020 to be paid on 4 June 2021 to shareholders on the register on 30 April 2021; the ex-dividend date is 29 April 2021. This makes a total dividend for the year of 5.0 pence per share (2019: 4.9 pence per share).

10 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 2018	11,206	2,178	38,807	52,191
Reclassification	378	(865)	487	–
Additions	500	83	3,360	3,943
Acquisitions	50	–	237	287
Disposals	(77)	–	(674)	(751)
Exchange differences	(120)	(8)	(408)	(536)
At 30 November 2019	11,937	1,388	41,809	55,134
Accumulated depreciation				
At 1 December 2018	(3,405)	–	(26,959)	(30,364)
Charge for year	(348)	–	(2,582)	(2,930)
Disposals	20	–	609	629
Exchange differences	39	–	271	310
At 30 November 2019	(3,694)	–	(28,661)	(32,355)
Net book value at 30 November 2019	8,243	1,388	13,148	22,779
	Land and buildings £'000	Assets in course of construction £'000	Plant, machinery and equipment £'000	Total £'000
Cost				
At 1 December 2019	11,937	1,388	41,809	55,134
Reclassification	–	(981)	981	–
Additions	854	466	2,138	3,458
Disposals	–	–	(1,355)	(1,355)
Exchange differences	(242)	(15)	(546)	(803)
At 30 November 2020	12,549	858	43,027	56,434
Accumulated depreciation				
At 1 December 2019	(3,694)	–	(28,661)	(32,355)
Charge for year	(401)	–	(2,398)	(2,799)
Impairment charge	–	–	(2,261)	(2,261)
Disposals	–	–	1,217	1,217
Exchange differences	73	–	407	480
At 30 November 2020	(4,022)	–	(31,696)	(35,718)
Net book value at 30 November 2020	8,527	858	11,331	20,716

The impairment charge of £2.3 million in the year ended 30 November 2020 (2019: £nil) relates to the impairment of Chinese plant, machinery and equipment as explained in note 2. The net assets of the Chinese operation were impaired in value to their recoverable amount, which was calculated as the higher of their value-in-use and their fair value, based on their estimated net proceeds from resale.

11 Leases – Right of use assets and Lease liabilities

Right of use assets

The movement in right of use assets is set out below:

	Land and buildings £'000	Plant, machinery and equipment £'000	Total £'000
Cost			
At 30 November 2019	–	–	–
IFRS 16 transition adjustment	14,055	534	14,589
At 1 December 2019	14,055	534	14,589
New leases	5	170	175
Exit from leases	(44)	(69)	(113)
Exchange differences	145	14	159
At 30 November 2020	14,161	649	14,810
Accumulated depreciation			
At 30 November 2019	–	–	–
Charge for year	(1,876)	(179)	(2,055)
Exit from leases	–	34	34
Exchange differences	(24)	(3)	(27)
At 30 November 2020	(1,900)	(148)	(2,048)
Net book value at 30 November 2020	12,261	501	12,762

Lease liabilities

The movement in the lease liability is set out below:

	Total £'000
At 30 November 2019	–
IFRS 16 transition adjustment	(15,218)
At 1 December 2019	(15,218)
New leases	(175)
Exit from leases	93
Lease repayments	2,297
Interest on lease liabilities	(437)
Exchange differences	(176)
At 30 November 2020	(13,616)

Analysed as:

	Total £'000
Repayable within one year	(2,007)
Repayable after one year	(11,609)
	(13,616)

Notes to the consolidated financial statements continued

11 Leases – Right of use assets and Lease liabilities continued

Lease liabilities mature as follows:

Minimum right of use liabilities falling due	Total £'000
Within one year – land and buildings	(2,075)
Within one year – property, plant and equipment	(176)
Total Within one year	(2,251)
Between one and five years – land and buildings	(7,074)
Between one and five years – property, plant and equipment	(265)
Total Between one and five years	(7,339)
Greater than five years – land and buildings	(5,834)
Greater than five years – property, plant and equipment	–
Total Greater than five years	(5,834)
Total commitment	(15,424)
Less: finance charges included above	1,808
Net present value of lease liabilities	(13,616)

The impact on the consolidated financial statements from the adoption of IFRS 16 is set out in note 1.

12 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 2018					
Cost	81,429	890	1,882	5,324	89,525
Accumulated amortisation and impairment	(18,668)	(682)	(1,143)	(2,031)	(22,524)
Net book amount	62,761	208	739	3,293	67,001
Net book amount at 30 November 2018	62,761	208	739	3,293	67,001
Additions	–	16	163	184	363
Acquisitions	3,888	–	39	2,194	6,121
Disposals cost	–	–	(4)	–	(4)
Disposals amortisation	–	–	4	–	4
Amortisation charges	–	(69)	(110)	(634)	(813)
Exchange differences	(981)	(1)	(26)	(152)	(1,160)
Net book amount at 30 November 2019	65,668	154	805	4,885	71,512
At 30 November 2019					
Cost	84,326	903	2,047	7,516	94,792
Accumulated amortisation and impairment	(18,658)	(749)	(1,242)	(2,631)	(23,280)
Net book amount	65,668	154	805	4,885	71,512
Net book amount at 30 November 2019	65,668	154	805	4,885	71,512
Additions	–	–	166	–	166
Disposals	–	–	(434)	–	(434)
Disposals amortisation	–	–	434	–	434
Amortisation charges	–	(70)	(166)	(671)	(907)
Exchange differences	(797)	(2)	13	54	(732)
Net book amount at 30 November 2020	64,871	82	818	4,268	70,039
At 30 November 2020					
Cost	83,509	894	1,803	7,484	93,690
Accumulated amortisation and impairment	(18,638)	(812)	(985)	(3,216)	(23,651)
Net book amount	64,871	82	818	4,268	70,039

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 £907,000 (2019: £813,000) is included in 'cost of sales' in the income statement.

Intangible assets are comprised of development expenditure, software and trademarks, know-how and other intangibles. Within these balances individually, material balances relate to:

- Customer list of Keystone – £1,510,000 (2019: £1,774,000) – with a remaining amortisation period of 7 years.
- Customer list of the Royal Dahlman Group – £1,039,000 (2019: £1,066,000) – with a remaining amortisation period of 13 years.

Notes to the consolidated financial statements continued

12 Goodwill and other intangible assets continued

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.

	2020				2019			
	Aerospace & Industrial £'000	Laboratory £'000	Metal Melt Quality £'000	Total £'000	Aerospace & Industrial £'000	Laboratory £'000	Metal Melt Quality £'000	Total £'000
Net book amount of Goodwill	29,041	18,909	16,921	64,871	29,171	19,062	17,435	65,668

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:	Aerospace & Industrial			Laboratory			Metal Melt Quality
	US	UK	Continental Europe	US	UK	Continental Europe	US
Budgeted gross margin	30%	30%	30%	40%	40%	35%	20%
Growth rate used to extrapolate cash flows beyond the budget period	2%	2%	2%	2%	2%	2%	2%
Weighted average cost of capital (pre-tax)	9.6%	8.7%	7.2%	10.2%	9.3%	8.0%	9.6%

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

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs, and the effects of Covid-19.

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value and the Group of units' carrying value. The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of goodwill is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

Based on the results of the current year impairment review, no impairment charges have been recognised by the Group in the year ended 30 November 2020. Having assessed the anticipated future cash flows, the Directors do not currently foresee any reasonable changes in assumptions that would have led to such an impairment charge in the year ended 30 November 2020.

13 Derivative financial instruments

	2020		2019	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward foreign exchange contracts – current	23	–	13	–
Forward foreign exchange contracts – cash flow hedge – current	–	–	35	–
	23	–	48	–

The gain recognised in the income statement in the year for non-hedged derivatives amounted to £23,000 (2019: gain £13,000).

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 2020 is US\$1.3 million (2019: US\$9.9 million).

14 Inventories

	2020 £'000	2019 £'000
Raw materials	6,222	6,894
Work in progress	8,939	9,435
Finished goods	8,194	6,868
	23,355	23,197

The Group has recognised a charge in the income statement of £856,000 (2019: £492,000) for the write-down of its inventories during the year ended 30 November 2020. The Group has utilised provisions of £88,000 (2019: £56,000) during the year ended 30 November 2020.

15 Trade and other receivables

	2020 £'000	2019 £'000
Non-current		
Trade receivables	819	1,048
Less: provision for impairment	(819)	–
Trade receivables – net	–	1,048
	2020 £'000	2019 £'000
Current		
Trade receivables	20,184	22,145
Less: provision for impairment	(890)	(245)
Trade receivables – net	19,294	21,900
Other debtors	748	1,612
Prepayments	632	641
	20,674	24,153

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

Included in non-current trade receivables and current trade receivables is a total gross balance of £1,072,000, which has been impaired to £nil. The total trade receivable balance relates to an outstanding balance due from one customer which is contracted to be paid in full in the period up to 2024. However, as explained in note 2, management has fully provided for this trade receivable, and so the outstanding balance has been impaired to £nil.

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.

Trade and other receivables are non-interest bearing and generally on terms between 30 to 90 days. Trade receivables are provided for based on estimated irrecoverable amounts determined either by specific circumstances or by reference to historical default experience as described in note 1.

The Group does not hold any collateral or other credit enhancements over its trade receivables, nor does it have a legal right to offset against any amounts owed to the counterparty, so was exposed to credit risk in respect of the net trade receivables balance of £19,294,000 (2019: £21,900,000).

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables.

Notes to the consolidated financial statements continued

15 Trade and other receivables continued

To measure the expected credit losses, trade receivables have been grouped based on their industry, territory and the days past due. On that basis, the loss allowance as at 30 November 2020 was determined as follows for trade receivables:

	2020			2019		
	Not yet due £'000	Past due not impaired £'000	Impaired £'000	Not yet due £'000	Past due not impaired £'000	Impaired £'000
Trade receivables (current):						
Not yet due	12,593	–	–	17,282	–	–
0-3 months overdue	–	5,716	130	–	4,138	42
3-6 months overdue	–	287	250	–	480	183
>6 months overdue	–	698	510	–	–	20
Total	12,593	6,701	890	17,282	4,618	245

In addition to the current trade receivables stated above, a £819,000 non-current trade receivable is fully impaired to £nil at 30 November 2020.

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

	2020 £'000	2019 £'000
At 1 December	245	227
Provision for receivables impairment	651	87
Receivables written off during the year as uncollectable	–	(67)
Exchange differences	(6)	(2)
At 30 November	890	245

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

16 Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank and in hand	15,563	12,889
Cash and cash equivalents	15,563	12,889

The credit risk associated with cash and cash equivalents is mitigated by holding funds with banks with high credit ratings from AA- to A (2019: AA- to A) as assigned by international credit rating agencies.

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

	2020 £'000	2019 £'000
Pound Sterling	4,577	3,166
US dollar	4,840	6,073
Euro	5,339	3,191
Other	807	459
	15,563	12,889

17 Trade and other payables

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Trade payables	10,353	14,728
Taxation and social security	1,060	1,016
Other payables	950	897
Accruals and contract liabilities	7,834	9,348
	20,197	25,989

Included within the balance of 'Accruals and contract liabilities' are contract liabilities of £2,407,000 (2019: £1,542,000).

18 Borrowings

	2020 £'000	2019 £'000
US Paycheck Protection Program	1,379	–
Secured multi-currency revolving credit facility of €23 million (2019: €23 million) maturing in May 2022 with an interest rate at 1.5% (2019: 1.5%) above LIBOR	9,303	8,875
	10,682	8,875
Bank loans of the Group are repayable as follows:		
Within one year	1,379	–
Two to five years	9,303	8,875
	10,682	8,875

The Group has a five year banking facilities agreement (started on 24 May 2017), sufficient for its foreseeable needs, which comprises of a €23 million revolving credit facility and a £2.5 million multi-currency overdraft facility. The multi-currency revolving credit facility expires in May 2022.

The loans are shown net of issue costs of £nil (2019: £167,000) which are being amortised over the life of the loan arrangements.

At 30 November 2020, the Group had €12.6 million/£11.3 million (2019: €13.3 million/£11.4 million) of unused credit facility and an unutilised £2.5 million (2019: £2.5 million) overdraft facility.

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

In May 2020 the Group received loan proceeds of US\$1,841,000 from the Truist Bank, North Carolina under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loan bears an interest rate of 1% with a deferral of payments until the US Small Business Administration, implementing the Paycheck Protection Program, has made a final decision on the forgiveness of the loan, as set out in the "Flexibility Act", an amendment to the CARES Act.

The PPP loan and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels.

The Group has not taken forgiveness and the loan is treated as current borrowings in these accounts. The Group applied for forgiveness of the total PPP loan of US\$1,841,000 in December 2020, after the year end.

Notes to the consolidated financial statements continued

19 Deferred tax

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

	Accelerated capital allowances £'000	Other short term timing differences £'000	Intangibles £'000	Share based payments £'000	Retirement obligations £'000	Total £'000
At 1 December 2018	(2,663)	587	(79)	244	2,183	272
Acquisitions	–	215	(531)	–	–	(316)
(Charged)/credited to income statement	(431)	(85)	23	(10)	(109)	(612)
Charged to equity in respect of share options	–	–	–	(22)	–	(22)
Credited to comprehensive income	–	–	–	–	466	466
in respect of pension liabilities	–	–	–	–	–	–
Exchange differences	(28)	(17)	29	–	–	(16)
At 30 November 2019	(3,122)	700	(558)	212	2,540	(228)
(Charged)/credited to income statement	(639)	242	121	(132)	(236)	(644)
Other	–	(178)	–	–	–	(178)
Credited to equity	–	–	–	82	–	82
Credited to comprehensive income	–	–	–	–	684	684
Exchange differences	97	(9)	(29)	–	–	59
At 30 November 2020	(3,664)	755	(466)	162	2,988	(225)

The net deferred tax liability balance of £225,000 (2019: £228,000) comprises £2,292,000 deferred tax liabilities (2019: £2,102,000) of Group entities based in the USA, £547,000 deferred tax liabilities (2019: £486,000) of Group entities based in Continental Europe, and £2,614,000 deferred tax assets (2019: £2,360,000) of Group entities based in the UK.

At the balance sheet date, the Group has unused tax losses of £6,347,000 (2019: £6,120,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £467,000 (2019: £1,056,000) of such losses. No tax asset has been recognised in respect of the remaining losses of £5,880,000 (2019: £5,064,000), as it is not considered probable that there will be taxable profits available to offset in the reasonably foreseeable future.

20 Retirement benefit obligations

	2020 £'000	2019 £'000
Defined benefit scheme deficit	15,119	14,344
Additional pension commitments	276	106
	15,395	14,450

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 2020, this amounted to £542,000 (2019: £556,000). In 2020, the Group also made payments of £564,000 (2019: £587,000) to designated US 401k schemes on behalf of its employees. In the UK, after the closure of the defined benefit plan to new members, the Group introduced a stakeholder plan to be offered to all new employees. Total employer contributions in the UK paid to defined contribution schemes were £1,116,000 (2019: £935,000).

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 a final salary scheme and is financed through a separate trust fund administered by Trustees with an independent Chairman. The Plan was closed to new entrants in October 2001. The defined benefit scheme exposes the Group to actuarial risks, such as longevity risk, inflation risk, interest rate risk and market (investment) risk. The Group is not exposed to any unusual, entity specific or scheme specific risks.

Formal valuations of the Plan by a professionally qualified actuary are carried out at least every three years using the projected unit method. Under this method, the current service cost will increase in relation to the salaries of the members in future years as those members approach retirement. The latest available full actuarial valuation was at 31 March 2018.

The principal actuarial assumptions adopted in the 2018 valuation were:

2018 valuation
assumptions%

Past service investment return:	
Pre-retirement discount rate	3.55
Post-retirement discount rate	1.80
Salary increases	3.00

20 Retirement benefit obligations continued

A full triennial actuarial valuation of the assets and liabilities of the defined benefit scheme was completed in 2019, based on data at 31 March 2018. The actuarial value of the assets on the funding basis was sufficient to cover 64% of the benefits that had accrued to members after allowing for expected increases in pensionable remuneration, and the current funding deficiency amounted to £16.6 million. As a result of the review, the Group and the Trustees agreed to alter the employer's contributions from 18.9% of salary to 20.9% of salary. A £215,000 annual cash contribution towards the running costs of the scheme started in April 2016, increasing by 3.5% per annum; this changed to £238,000 from March 2019, increasing by 3.5%. The Group also committed to make an increased annual contribution to cover the past service deficit of £1,600,000 per annum commencing in December 2019. The funding shortfall is expected to be eliminated by December 2028. The next full actuarial valuation of the scheme will be based on the pension scheme's position at 31 March 2021 and is expected to be completed before June 2022.

The pension charge for the year was £740,000 (2019: £642,000) and the funding via employer contributions was £2,245,000 (2019: £1,637,000). The Group expects to make contributions of £2,253,000 to the Plan in the next financial year.

The valuation of the deficit in the balance sheet is based on the most recent actuarial valuation of the Plan as updated by a qualified actuary to take account of the market value of the assets and the present value of the liabilities of the Plan at 30 November 2020.

Balance sheet

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

	2020	2019
	Projected Unit	Projected Unit
Valuation method		
Discount rate	1.5%	2.0%
RPI inflation rate	2.9%	3.0%
CPI inflation rate	2.2%	2.0%
General salary increases	2.0%	3.0%
Rate of increase of pensions in payment:		
– pre 6 April 1997	0.0%	0.0%
– post 5 April 1997 to Pre 6 April 2005	2.2%	2.0%
– post 5 April 2005	1.8%	1.7%
Rate of increase for deferred pensioners	2.2%	2.0%

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 122% multiplier allowing for future improvements of 1.25% per annum (2019: 1.25% per annum). These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2020 Years	2019 Years
Retiring at the end of the reporting period:		
– Male	20.1	20.0
– Female	22.1	21.9
Retiring 15 years after the end of the reporting period:		
– Male	21.0	20.9
– Female	23.2	23.0

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

	2020 Number of members	2019 Number of members
Active	37	39
Deferred	227	237
Pensioner	256	248
	520	524

Notes to the consolidated financial statements continued

20 Retirement benefit obligations continued

Sensitivities have been calculated by valuing the Plan's defined benefit obligation at 30 November 2020 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 1.7%	Increase of 1.8%
Inflation rate	0.1%	Increase of 0.8%	Decrease of 1.2%
Life expectancy	1 year	Increase of 4.6%	Decrease of 4.8%

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

	Value at 30 November 2020 £'000	Value at 30 November 2019 £'000
Equities	16,884	16,380
Bonds	2,471	2,241
Gilts	8,082	8,846
Liability driven investment	5,246	3,248
Other	754	92
Fair value of Plan assets	33,437	30,807
Present value of unfunded obligations	(48,556)	(45,151)
Deficit in the Plan (excluding deferred tax)	(15,119)	(14,344)

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

	2020 £'000	2019 £'000
Deficit at 1 December	(14,344)	(12,242)
Contributions paid	2,245	1,637
Current service cost	(404)	(318)
Administration expense	(336)	(324)
Other finance expense	(262)	(353)
Actuarial loss	(2,018)	(2,744)
Deficit at 30 November	(15,119)	(14,344)

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

	2020 £'000	2019 £'000
Plan assets at the start of the year	30,807	26,953
Benefit payments	(1,517)	(1,569)
Company contributions	2,245	1,637
Administration expense	(336)	(324)
Member contributions	89	95
Interest income on plan assets	605	820
Return on Plan assets (excluding interest income)	1,544	3,195
Plan assets at 30 November	33,437	30,807

The actual return on Plan assets was £2,149,000 (2019: £4,015,000).

20 Retirement benefit obligations continued

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

	2020 £'000	2019 £'000
Plan liabilities at the start of the year	(45,151)	(39,195)
Current service cost	(404)	(318)
Interest cost	(867)	(1,173)
Member contributions	(89)	(95)
Benefits paid	1,517	1,569
Loss on change in financial and demographic assumptions	(3,562)	(4,980)
Experience losses on the defined benefit obligation	–	(959)
Plan liabilities at 30 November	(48,556)	(45,151)

The Plan liabilities by participant member status are as follows:

	2020 £'000	2019 £'000
Active	(11,420)	(10,464)
Deferred	(21,203)	(18,700)
Pensioner	(15,933)	(15,987)
Plan liabilities at 30 November	(48,556)	(45,151)

The weighted average duration of the Plan scheme liabilities at the end of the reporting period is 20 years (2019: 20 years).

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

	2020 £'000	2019 £'000
Income statement		
Analysis of amounts chargeable to operating profit:		
Current service cost	(404)	(318)
Administration expense	(336)	(324)
Amount chargeable to operating profit	(740)	(642)
Analysis of amounts (charged)/credited to other finance income and costs:		
Interest on Plan liabilities	(867)	(1,173)
Expected return on assets in the Plan	605	820
Net amount charged to other finance income and costs	(262)	(353)
Total chargeable to the income statement before deduction of tax	(1,002)	(995)
Other items		
Analysis of amounts recognised in the consolidated statement of comprehensive income:		
Actual return on assets in excess of expected return	1,544	3,195
Loss on change in financial and demographic assumptions	(3,562)	(4,980)
Experience gains on the defined benefit obligation	–	(959)
Total actuarial loss recognised in the consolidated statement of comprehensive income	(2,018)	(2,744)
Cumulative actuarial loss recognised in the consolidated statement of comprehensive income	(10,834)	(8,816)

Notes to the consolidated financial statements continued

21 Provisions

	Dilapidations £'000	Warranty £'000	Total £'000
At 30 November 2019	242	9,526	9,768
Charged to the consolidated income statement:			
– Unwinding of discount	26	–	26
– Warranty release	–	(5,091)	(5,091)
– Warranty charge	–	652	652
Utilised:			
– Warranty	–	(720)	(720)
Exchange movement	–	(2)	(2)
At 30 November 2020	268	4,365	4,633

	Dilapidations £'000	Warranty £'000	Total £'000
At 30 November 2018	219	506	725
Recognised on adoption of IFRS 15	–	8,187	8,187
At 1 December 2018	219	8,693	8,912
Acquired:	–	136	136
Charged to the consolidated income statement:			
– Unwinding of discount	23	–	23
– Warranty charge	–	801	801
Utilised:			
– Warranty	–	(96)	(96)
Exchange movement	–	(8)	(8)
At 30 November 2019	242	9,526	9,768

Provisions arise from potential claims arising from major contracts, discounted dilapidations provision for leased property, which is expected to be required in 2023 and sale warranties which expire by 2021. The amount charged in the year of £652,000 arose on additional sales made in the year. Also see note 27.

In December 2019, a US\$0.9 million (£0.7 million) performance bond was called by the customer, the amount was paid and charged to provisions. Subsequently progress has been made on resolving warranty risks and US\$5.0 million of performance bonds have lapsed. Consequently £5.1 million of provisions are no longer considered necessary and have been released.

Analysis of total provisions	2020 £'000	2019 £'000
Current	4,365	9,526
Non-current	268	242
	4,633	9,768

22 Share capital and share premium account

	Number of shares	Share capital £'000	Share premium account £'000	Total £'000
At 1 December 2018	45,843,599	917	35,958	36,875
Issue of shares on exercise of share options	197,600	4	546	550
At 30 November 2019	46,041,199	921	36,504	37,425
At 1 December 2019	46,041,199	921	36,504	37,425
Issue of shares on exercise of share options	114,501	2	423	425
At 30 November 2020	46,155,700	923	36,927	37,850

The Company has one class of ordinary shares which carry 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.

In October and November 2019, 197,600 ordinary shares of 2 pence each were issued on the exercise of Save As You Earn share options for cash consideration of £550,000.

In February, June, September, October and November 2020, 114,501 ordinary shares of 2 pence each were issued on the exercise of Save As You Earn share options for cash consideration of £425,000.

The Group uses an Employee Benefit Trust (EBT) to purchase shares in the Company to satisfy entitlements, granted since the Company's AGM in 2015, under the Group's Long Term Incentive Plan. The EBT has waived its rights to dividends. During the year the Group purchased 120,000 ordinary shares of 2 pence each (2019: 114,000) for a total consideration of £728,000 (2019: £623,000). During the year the EBT issued 129,700 ordinary shares of 2 pence each (2019: 164,600) to satisfy the exercise of Long Term Share Plan share options. The cost of the shares held by the EBT is deducted from retained earnings. The EBT is financed by a repayable-on-demand loan from the Group of £2,317,000 (2019: £1,592,000). As at 30 November 2020 the EBT held a total of 135,700 ordinary shares of 2 pence each (2019: 145,400) at a cost of £772,000 (2019: £773,000) and a market value of £733,000 (2019: £878,000).

23 Share options and share based payments

Share options are granted to Executive Directors and to selected employees. Details of the share options awarded to the Executive Directors, including exercise price and performance conditions, are disclosed in the Remuneration report on pages 72 to 80.

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	2020 Number of shares	2019 Number of shares
2014 5yr Save As You Earn Scheme	2014	2019 - 2020	240.00	–	16,412
2016 3yr Save As You Earn Scheme	2016	2019 - 2020	300.00	–	1,800
2016 5yr Save As You Earn Scheme	2016	2021 - 2022	300.00	36,000	41,000
2008 Long term share plan	2017	2020 - 2027	2.00	–	129,700
2017 3yr Save As You Earn Scheme	2017	2020 - 2021	398.00	4,113	96,487
2017 5yr Save As You Earn Scheme	2017	2022 - 2023	398.00	58,182	58,182
2008 Long term share plan	2018	2021 - 2028	2.00	–	109,500
2018 Long term share plan	2019	2022 - 2029	2.00	113,400	113,400
2019 3yr Save As You Earn Scheme	2019	2022 - 2023	470.00	127,633	135,480
2019 5yr Save As You Earn Scheme	2019	2024 - 2025	470.00	26,804	26,804
2018 Long term share plan	2020	2023 - 2030	2.00	92,000	–
At 30 November				458,132	728,765

Notes to the consolidated financial statements continued

23 Share options and share based payments continued

Movements in share options during the year were:

	2020 Weighted average exercise price pence	2019 Weighted average exercise price pence	2020 Number of shares	2019 Number of shares
At 1 December	213.12	167.44	728,765	827,619
Options granted	2.00	279.34	92,000	278,362
Options forfeited	34.56	376.25	(118,432)	(15,016)
Options exercised	172.02	152.87	(244,201)	(362,200)
At 30 November	237.03	213.12	458,132	728,765
Options exercisable at 30 November	398.00	245.93	4,113	18,212
Options not exercisable at 30 November	235.57	212.28	454,019	710,553
Total	237.03	213.12	458,132	728,765

	Year of grant	Scheme	Exercise price pence	2020 Number of shares	2019 Number of shares
Options granted during the year were:					
	2019	2018 LTSP	2.00	–	113,400
	2019	3yr SAYE	470.00	–	138,158
	2019	5yr SAYE	470.00	–	26,804
	2020	2018 LTSP	2.00	92,000	–
Total				92,000	278,362

	Year of grant	Scheme	Exercise price pence	2020 Number of shares	2019 Number of shares
Options forfeited during the year were:					
	2016	3yr SAYE	300.00	–	3,300
	2016	5yr SAYE	300.00	1,250	2,000
	2017	3yr SAYE	398.00	1,557	7,038
	2019	3yr SAYE	470.00	6,125	2,678
	2018	2008 LTSP	2.00	109,500	–
Total				118,432	15,016

	Year of grant	Scheme	Exercise price pence	2020 Number of shares	2019 Number of shares
Options exercised during the year were:					
	2014	5yr SAYE	240.00	16,412	73,093
	2016	2008 LTSP	2.00	–	164,600
	2016	3yr SAYE	300.00	1,800	123,000
	2016	5yr SAYE	300.00	3,750	–
	2017	3yr SAYE	398.00	90,817	1,507
	2017	2008 LTSP	2.00	129,700	–
	2019	3yr SAYE	470.00	1,722	–
Total				244,201	362,200

For options exercised in the year, the weighted average share price at the date of exercise was 618 pence (2019: 594 pence).

23 Share options and share based payments continued

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

Grant date	01/10/16 SAYE 2016 5 year	01/10/17 SAYE 2017 3 year	01/10/17 SAYE 2017 5 year	01/02/18 Porvair 2008 LTSP 2008	31/01/19 Porvair 2018 LTSP 2018	01/10/19 SAYE 2019 3 year	01/10/19 SAYE 2019 5 year	07/02/20 Porvair 2018 LTSP 2018
Scheme								
Share price at grant date	373.00p	498.75p	498.75p	530.00p	460.00p	586.00p	586.00p	770.00p
Exercise price	300.00p	398.00p	398.00p	2.00p	2.00p	470.00p	470.00p	2.00p
Shares under option	53,700	120,494	67,227	109,500	113,400	138,158	26,804	92,000
Vesting period (years)	5	3	5	3	3	3	5	3
Expected volatility	30%	30%	30%	30%	30%	30%	30%	37%
Expected life (years)	5	3	5	3	3	3	5	3
Risk free rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Dividend yield	0.97%	0.78%	0.78%	0.79%	1.00%	0.80%	0.78%	0.64%
Fair value per option (£)	1.19660	1.44287	1.64167	5.15637	4.44493	1.96535	2.28535	7.53527

The expected volatility is based on historic share price movements. The Directors anticipate it is possible the performance criteria in relation to certain share options may not be met.

Share based payments	2020 £'000	2019 £'000
Charge for the year	89	585

24 Notes of the cashflow statement

Cash generated from operations	2020 £'000	2019 £'000
Operating profit	12,557	14,787
Adjustments for:		
– Post-employment benefits	(1,288)	(1,003)
– Fair value movement of derivatives through profit and loss	(10)	(52)
– IFRS15 adjustment	–	(88)
– Share based payments	89	585
– Depreciation of property, plant, equipment and amortisation of intangibles	3,706	3,743
– Depreciation of right of use assets	2,055	–
– Impairment of property, plant, equipment	2,261	–
– Loss on disposal of property, plant and equipment and intangibles	162	122
Operating cash flows before movement in working capital	19,532	18,094
Changes in working capital (excluding the effects of exchange differences on consolidation):		
– Increase in inventories	(276)	(2,351)
– Decrease/(increase) in trade and other receivables	4,139	(707)
– Decrease in trade and other payables	(5,084)	(7,209)
– (Decrease)/increase in provisions	(5,091)	8,931
Decrease in working capital	(6,312)	(1,336)
Cash generated from operations	13,220	16,758

Notes to the consolidated financial statements continued

24 Notes of the cashflow statement continued

Reconciliation of the movement of liabilities to cash flows arising from financing activities is as follows:

	Liabilities		Equity		
	Loans £'000	Share capital/ premium £'000	Cumulative translation reserve £'000	Retained earnings £'000	Total £'000
At 30 November 2019	8,875	37,425	9,358	48,552	104,210
Changes from financing cash flows:					
– Proceeds from issue of share capital	–	425	–	–	425
– Purchase of EBT shares	–	–	–	(726)	(726)
– Dividends paid to shareholders	–	–	–	(2,253)	(2,253)
Total changes from financing cash flows	–	425	–	(2,979)	(2,554)
The effect of changes in foreign exchange rates	496	–	–	–	496
Changes in fair value	–	–	–	–	–
Liability related changes					
– Loan drawn down	1,311	–	–	–	1,311
Total liability-related changes	1,311	–	–	–	1,311
Total equity-related other changes	–	–	(1,713)	7,124	5,411
At 30 November 2020	10,682	37,850	7,645	52,697	108,874

25 Acquisitions

Summary of deferred and contingent consideration on acquisitions

	Rohasys B.V. £'000	Total £'000
At 1 December 2019	948	948
Cash paid in year	(588)	(588)
Release of contingent consideration	(442)	(442)
Release of discount	43	43
Exchange movement	39	39
At 30 November 2020	–	–

No contingent consideration remains outstanding at 30 November 2020.

	2020 Total £'000	2019 Total £'000
Included within other payables:		
– Contingent consideration – current	–	531
– Contingent consideration – non-current	–	417
At 30 November	–	948

26 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate cash flow risk), credit risk and liquidity risk. The Group's overall risk management programme is disclosed on page 32 of the Strategic report and page 64 of the Directors' report. The Group uses derivative financial instruments to hedge certain risk exposures.

Foreign exchange risk

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

(i) US dollar

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

The UK operations generate significant US dollar revenue and forward contracts are used to reduce the impact of movements in the US dollar exchange rate.

The Group has the following outstanding US dollar forward contracts:

	2020 \$'000	2019 \$'000
Outstanding forward contracts	1,300	9,900

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

	2020 \$'000	2019 \$'000
Trade receivables	12,707	16,231
Cash balances	6,461	7,855
Other current assets	8,307	12,299
Trade payables	(5,970)	(6,907)
Other current liabilities	(10,416)	(15,319)
	11,089	14,159

The US dollar weakened by 3% over the year to 30 November 2020 (2019: weakened by 1%) compared to Sterling. For illustrative purposes, if the US dollar exchange rate were to move by 10% against Sterling, the Group would make the following gains/(losses):

	2020 £'000	2019 £'000
US dollar strengthens	923	1,216
US dollar weakens	(754)	(994)

(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:

	2020 €'000	2019 €'000
Trade receivables	5,755	5,035
Cash balances	5,959	3,743
Other current assets	5,684	5,871
Trade payables	(3,603)	(4,371)
Other current liabilities	(8,156)	(3,431)
	5,639	6,847

Notes to the consolidated financial statements continued

26 Financial risk management continued

The Euro strengthened by 5% over the year to 30 November 2020 (2019: weakened by 4%) compared to Sterling. For illustrative purposes, if the Euro exchange rate were to move by 10% against Sterling, the Group would make the following gains/(losses):

	2020 £'000	2019 £'000
Euro strengthens	561	648
Euro weakens	(458)	(530)

Cash flow interest rate risk

The Group is exposed to cash flow risk. For illustrative purposes, if interest rates had been 0.5% higher/lower on borrowings throughout the year with all other variables held constant, the post tax profit for the year would have been £50,000 (2019: £41,000) lower/higher, respectively.

Credit risk

Credit risk is disclosed in notes 15 and 16.

Liquidity risk

Banking facilities, including a maturity profile, are disclosed in note 18. 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	Greater than 5 years £'000
Borrowings	145	9,631	–	–
Lease liabilities	2,007	2,007	5,332	5,834
Trade and other payables	17,790	–	–	–
At 30 November 2020	19,942	11,638	5,332	5,834

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Greater than 5 years £'000
Borrowings	182	182	9,133	–
Trade and other payables	24,447	417	–	–
At 30 November 2019	24,629	599	9,133	–

26 Financial risk management continued

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

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets/(liabilities) at fair value through profit or loss:				
– Trading derivatives	–	23	–	23
Contingent consideration	–	–	–	–
Foreign exchange contracts used for hedging	–	–	–	–
At 30 November 2020	–	23	–	23
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets/(liabilities) at fair value through profit or loss:				
– Trading derivatives	–	13	–	13
Contingent consideration	–	–	(948)	(948)
Foreign exchange contracts used for hedging	–	35	–	35
At 30 November 2019	–	48	(948)	(900)

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. There have been no movements between levels in the year. See note 25 for movement in level 3 liabilities.

The tables below analyse financial instruments by category:

	2020				2019			
	Other financial assets at amortised cost £'000	Financial assets at fair value through profit and loss £'000	Financial assets at fair value through comprehensive income £'000	Total £'000	Other financial assets at amortised cost £'000	Financial assets at fair value through profit and loss £'000	Financial assets at fair value through comprehensive income £'000	Total £'000
Assets as per the balance sheet								
Foreign exchange contracts	–	23	–	23	–	13	35	48
Trade and other receivables excluding prepayments	20,042	–	–	20,042	23,512	–	–	23,512
Cash and cash equivalents	15,563	–	–	15,563	12,889	–	–	12,889
At 30 November	35,605	23	–	35,628	36,401	13	35	36,449
	2020				2019			
	Other financial liabilities at amortised cost £'000	Financial liabilities at fair value through profit and loss £'000	Financial liabilities at fair value through comprehensive income £'000	Total £'000	Other financial liabilities at amortised cost £'000	Financial liabilities at fair value through profit and loss £'000	Financial liabilities at fair value through comprehensive income £'000	Total £'000
Liabilities as per the balance sheet								
Borrowings	(10,682)	–	–	(10,682)	(8,875)	–	–	(8,875)
Trade and other payables excluding non-financial liabilities	(17,790)	–	–	(17,790)	(24,447)	–	–	(24,447)
At 30 November	(28,472)	–	–	(28,472)	(33,322)	–	–	(33,322)

Notes to the consolidated financial statements continued

26 Financial risk management continued

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

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 cash or net debt (excluding right of use lease liabilities) divided by total capital. Net cash or 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 2020 was not applicable because the Group had a net cash position excluding right of use lease liabilities (2019: not applicable).

The Group's borrowings are subject to certain covenant restrictions imposed by the banks. These covenants have been fully complied with during the year ended 30 November 2020. The multi-currency facility is secured by fixed and floating charges against certain of the Group's assets in Europe.

27 Contingent liabilities

At 30 November 2020, the Group had the following advanced payment bonds (relating to monies received in advance on contracts) and performance bonds:

	\$'000	€'000
Advanced payment bonds	–	162
Performance bonds	2,549	842
At 30 November 2020	2,549	1,004
	\$'000	€'000
Advanced payment bonds	–	–
Performance bonds	8,534	638
At 30 November 2019	8,534	638

US\$2,520,000 (2019: US\$8,478,000) of the performance bonds relate to the contracts for filtration systems provided for gasification projects. These projects are being commissioned, a process which is taking several years. The Group has provided its best estimate of the amount of any potential loss arising from rectification and claims arising on these contracts within the £4.4 million warranty provisions disclosed in note 21. In December 2019, a US\$930,000 performance bond was called by the customer, paid and cancelled. The maximum potential unprovided exposure under these contracts is limited to £9.7 million. The uncalled performance bonds are expected to be called or released no later than March 2023.

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 2020 were £1,229,000 (2019: £811,000).

Operating lease commitments – minimum lease payments

	2020		2019	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Future aggregate minimum lease payments in respect of leases expiring in:				
No later than one year	3	10	1,892	174
Later than one year and no later than five years	2	26	5,413	284
Later than five years	–	–	6,846	–
At 30 November	5	36	14,151	458

On 1 December 2019, the Group adopted IFRS 16, which has had the effect of reclassifying the majority of the operating leases shown in 2019 as finance leases (see note 11). The remaining leases in 2020 relate to the leasing of low value assets.

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.

	2020 £'000	2019 £'000
Salaries and other short term employee benefits	756	999
Post employment benefits	137	115
Share based payments	(15)	507
	878	1,621

30 Subsidiary undertakings

The Group's ultimate parent company is Porvair plc which is incorporated in England.

Details of the Group's subsidiary undertakings at 30 November 2020 are as follows:

Subsidiary name	Subsidiary registered address	Activity	Country of incorporation and operation	% holding in ordinary shares
<i>Held directly:</i>				
Porvair Corporation	700 Shepherd Street, Hendersonville, NC 28792, USA	Holding	USA	100%
Porvair Filtration India Private Limited	401 Centrum IT Park, Thane MH 400604, India	Trading	India	65%
Porvair Filtration Limited	7 Regis Place, Bergen Way, King's Lynn, UK	Holding	England	100%
Porvair Holdings B.V.	Gustav Mahlerplein 3, 1082MS, Amsterdam, Netherlands	Holding	Netherlands	100%
Porvair Selee Filtration Technology (Hubei) Company Limited	Square Industrial Park, Xiaogan 432000, China	Trading	China	100%
Seal Analytical Limited	7 Regis Place, Bergen Way, King's Lynn, UK	Trading	England	100%
Seal Analytical Shanghai Company Limited	128 Xiangyin Road, Shanghai 200433, China	Trading	China	100%
<i>Held indirectly:</i>				
Dahlman Industrial Group B.V.	PO Box 438, 3140 AK, Maassluis, Netherlands	Holding	Netherlands	100%
Dahlman Filter Services B.V.	PO Box 438, 3140 AK, Maassluis, Netherlands	Trading	Netherlands	100%
Dahlman Filter Services GmbH	Boxgraben 38, 52064 Aachen, Nord Rhein-Westphalia, Germany	Trading	Germany	100%
J G Finneran Associates, Inc.	3600 Reilly Court, Vineland, NJ 08360, USA	Trading	USA	100%
Microfiltrex Limited	7 Regis Place, Bergen Way, King's Lynn, UK	Dormant	England	100%
Platex, Plaat- en Constructiewerken B.V.	PO Box 438, 3140 AK, Maassluis, Netherlands	Dormant	Netherlands	100%
Porvair Filtration Group Inc.	301 Business Lane, Ashland, VA 23005, USA	Trading	USA	100%
Porvair Filtration Group Limited	7 Regis Place, Bergen Way, King's Lynn, UK	Trading	England	100%
Porvair Sciences Limited	7 Regis Place, Bergen Way, King's Lynn, UK	Trading	England	100%
Pulse Instrumentation GmbH	Werkstrasse 5, 22844 Norderstedt, Germany	Trading	Germany	100%
Rohasys B.V.	Provinciënbaan 4, 5121 DL Rijen, Netherlands	Trading	Netherlands	100%
Seal Analytical GmbH	Werkstrasse 5, 22844 Norderstedt, Germany	Trading	Germany	100%
Seal Analytical Inc.	6501 W. Donges Bay Road, Mequon, WI 53092, USA	Trading	USA	100%
Selee Corporation	700 Shepherd Street, Hendersonville, NC 28792, USA	Trading	USA	100%
Technisch Bureau Dahlman B.V.	PO Box 438, 3140 AK, Maassluis, Netherlands	Trading	Netherlands	100%

Porvair plc Parent Company – Balance Sheet

Company registered number 01661935

As at 30 November

	Note	2020 £'000	2019 £'000
Non-current assets			
Property, plant and equipment	4	5	3
Right of use assets	5	152	–
Investments	6	55,506	55,407
Deferred tax	12	3,806	3,360
		59,469	58,770
Current assets			
Amounts receivable from Group undertakings	7	21,476	25,563
Other receivables	8	67	87
Income tax receivable		315	290
Derivative financial instruments	13	23	48
Cash and cash equivalents	9	278	36
		22,159	26,024
Current liabilities			
Trade and other payables	10	(1,045)	(1,290)
Lease liabilities	5	(46)	–
Borrowings	11	–	(3,575)
		(1,091)	(4,865)
Net current assets		21,068	21,159
Non-current liabilities			
Borrowings	11	(9,303)	(8,875)
Lease liabilities	5	(104)	–
Retirement benefit obligations	14	(15,395)	(14,450)
		(24,802)	(23,325)
Net assets		55,735	56,604
Capital and reserves			
Share capital	15	923	921
Share premium account		36,927	36,504
Retained earnings		17,885	19,179
Total equity		55,735	56,604

The financial statements on pages 136 to 146 were approved by the Board of Directors on 29 January 2021 and were signed on its behalf by:

B D W Stocks

C P Tyler

Parent Company – Profit for the financial year

As permitted by Section 408 of the Companies Act 2006, no income statement is presented for the parent company.
The profit for the financial year is £2,963,000 (2019: £4,107,000).

Parent Company – Statement of changes in equity

	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
Balance at 1 December 2018		917	35,958	19,498	56,373
Profit for the year		–	–	4,107	4,107
Other comprehensive income/(expense)					
Changes in fair value of foreign exchange contracts held as a cash flow hedge		–	–	35	35
Actuarial loss in defined benefit pension plans net of tax		–	–	(2,278)	(2,278)
Total comprehensive income for the year		–	–	1,864	1,864
Transactions with owners:					
Employee share options scheme					
– Value of employee services net of tax		–	–	586	586
Purchase of own shares held in trust		–	–	(623)	(623)
Proceeds from shares issued	15	4	546	–	550
Dividends paid		–	–	(2,146)	(2,146)
Total transactions with owners recognised directly in equity		4	546	(2,183)	(1,633)
Balance at 30 November 2019		921	36,504	19,179	56,604
Profit for the year		–	–	2,963	2,963
Other comprehensive income/(expense):					
Changes in fair value of foreign exchange contracts held as a cash flow hedge	13	–	–	(35)	(35)
Actuarial loss in defined benefit pension plans net of tax		–	–	(1,334)	(1,334)
Total comprehensive income for the year		–	–	1,594	1,594
Transactions with owners:					
Employee share options scheme					
– Value of employee services net of tax		–	–	91	91
Purchase of own shares held in trust		–	–	(726)	(726)
Proceeds from shares issued	15	2	423	–	425
Dividends paid		–	–	(2,253)	(2,253)
Total transactions with owners recognised directly in equity		2	423	(2,888)	(2,463)
Balance at 30 November 2020		923	36,927	17,885	55,735

Parent Company – Notes to the financial statements

1 Summary of significant accounting policies

Basis of accounting

The Company financial statements are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard (“FRS”) 100 issued by the Financial Reporting Council. Accordingly, the financial statements have been prepared in accordance with FRS 101 “Reduced Disclosure Framework” as issued by the Financial Reporting Council.

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

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, ‘Share-based payment’ (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, ‘Financial Instruments: Disclosures’.
- Paragraphs 91 to 99 of IFRS 13, ‘Fair value measurement’ (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, ‘Presentation of financial statements’ comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 ‘Property, plant and equipment’;
 - (iii) paragraph 118(e) of IAS 38 ‘Intangible assets’ (reconciliations between the carrying amount at the beginning and end of the period).

The following paragraphs of IAS 1, ‘Presentation of financial statements’:

- 16 (statement of compliance with all IFRS),
- 38A (requirement for minimum of two primary statements, including cash flow statements),
- 38B-D (additional comparative information),
- 111 (cash flow statement information), and
- 134-136 (capital management disclosures).
- IAS 7, ‘Statement of cash flows’.
- Paragraph 30 and 31 of IAS 8 ‘Accounting policies, changes in accounting estimates and errors’ (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, ‘Related party disclosures’ (key management compensation).
- The requirements in IAS 24, ‘Related party disclosures’ to disclose related party transactions entered into between two or more members of a group.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgements in applying the Company’s accounting policies

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company’s accounting policies, other than those involving estimations, that have had a significant effect on the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

Material estimates and assumptions are made in particular with regard to: establishing uniform depreciation periods for the Company, 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 key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

- Pension obligation

The Company 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 and is closed to new entrants. The present value of the obligations of this scheme is subject to financial assumptions and management contracts external actuarial guidance on this. Sensitivities in the principal assumptions on valuing the Plan’s defined benefit obligation at 30 November 2020 have been calculated and are given in note 20 of the Group financial statements.

1 Summary of significant accounting policies continued

• Impairment of Chinese investment

An impairment review of the Group's Chinese assets was performed during the year due to the continuation of tariff barriers between China and the USA. In this impairment review, the recoverable amount of the Chinese assets was compared to the book value of these assets, and the assets impaired to the lower of these values. The recoverable amount is the higher of the value-in-use and the fair value of the assets.

For value-in-use, a discounted net present value of the forecast cash flows of the Chinese operations was calculated using the local weighted average cost of capital (WACC) and forecast cash flows, both of which are estimates. If the WACC is increased or decreased by 10% (management's assessment of the recent historical movement in WACC values), then this makes no material difference to the impairment recognised in the accounts. If the cashflows are increased or decreased by 5% (based on historical variance of actual cashflows to forecast), then this makes no material difference to the impairment recognised in the accounts. The fair value of the assets was determined using estimates of the resale value of the assets less resale costs.

• Estimation of LTSP share option charge

The long term share plan share options (LTSPs) have vesting conditions, as outlined in the Remuneration report, which can result in the vesting of between 0% to 100% of each LTSP grant. One element of the share based payment charge calculation of these LTSPs relies on management's best estimate forecast of the performance of the Group, which is a critical assumption. As an example, if the success rate of the unvested share options were increased/decreased by 10% then the share option charge would be £36,000 higher/lower.

Property, plant and equipment

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

Fixed asset investments

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

Interest income

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

Dividends

Dividends received from subsidiaries are recognised when received. Dividends paid to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

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 income statement during the year.

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.

Foreign exchange differences are taken to the income statement in the year in which they arise.

Taxation

Current tax is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that are relevant to the period.

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

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

Pensions

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

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

Parent Company – Notes to the financial statements continued

1 Summary of significant accounting policies continued

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

Share based payments

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

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

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

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

Operating leases

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

Borrowing costs

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

Equity instruments

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

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

Retained earnings

The retained earnings account represents the distributable reserves of the Company.

1 Summary of significant accounting policies continued

Leasing

The Company recognises a right of use asset and a lease liability at the lease commencement date. The Right of use asset is initially measured at cost, being the initial amount of the lease liability adjusted for any lease payments made at or before commencement date.

Lease liabilities are recorded at the present value of lease payments. Leases are discounted at the Company's incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right of use assets are depreciated on a straight-line basis over the lease term, or useful life if shorter. Interest is recognised on the lease liability, resulting in a higher finance cost in the earlier years of the lease term.

Lease payments relating to low value assets or to short-term leases are recognised as an expense on a straight-line basis over the lease term. Short-term leases are those with 12 months or less duration. Low value assets are those below a cost of £4,000.

Adoption of IFRS 16

The Company adopted IFRS 16 'Leases' on 1 December 2019 using the modified retrospective approach. Until 1 December 2019, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1 December 2019, leases are recognised as a Right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

On implementation of IFRS 16 on 1 December 2019, the Company recognised Right of use assets and corresponding lease liabilities of £198,000 and £194,000, respectively. There was no impact on the Company's opening shareholders' funds as a result of adopting IFRS 16.

• Reconciliation of closing and opening lease position at 1 December 2019

	£'000
Total operating lease commitments disclosed at 30 November 2019	210
Adjustments to commitment disclosures	(4)
Lease liabilities before discounting	206
Discounted using incremental borrowing rate	(12)
Lease liabilities recognised at 1 December 2019	194
Adjustments for prepaid rent at 1 December 2019	4
Adjustments for accrued rent at 1 December 2019	–
Right of use lease assets recognised at 1 December 2019	198

• Effect on profit of adoption of IFRS 16

	12 months to 30 November 2020 £'000
Rental lease charges under previous accounting standard	49
Depreciation of Right of use assets	(46)
Increase in operating profit due to adoption of IFRS 16	3
Interest charge from lease liabilities	(5)
Decrease in profit before tax due to adoption of IFRS 16	(2)

Parent Company – Notes to the financial statements continued

2 Profit before income tax

During the year the Company obtained the following services from the Company's auditor, Deloitte LLP (who resigned in September 2020) and RSM UK Audit LLP (who were appointed in September 2020):

	2020 £'000	2019 £'000
Deloitte LLP		
Fees payable to Company's auditor for audit of parent company financial statements	–	26
RSM UK Audit LLP		
Fees payable to Company's auditor for audit of parent company financial statements	28	–
	28	26

3 Employees and Directors

The staff cost, including Executive Directors, for the year is shown below:

	2020 £'000	2019 £'000
Staff costs		
Wages and salaries	1,140	1,498
Social security costs	146	488
Other pension costs	113	109
Share based payments	(8)	514
	1,391	2,609

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

	2020 Average Number	2019 Average Number
Administration	11	11
	11	11

The number of directors to whom retirement benefits are accruing under a defined contribution pension scheme is 1 (2019: 1).

The number of directors to whom retirement benefits are accruing under a defined benefit pension scheme is 1 (2019: 1).

Detailed disclosures of Directors' individual remuneration and share options are given in the Remuneration report on pages 72 to 80, and in note 29 of the Group financial statements.

4 Property, plant and equipment

	Plant, machinery and equipment £'000
Cost	
At 1 December 2019	164
Additions	5
At 30 November 2020	169
Accumulated depreciation	
At 1 December 2019	(161)
Charge for year	(3)
At 30 November 2020	(164)
Net book value	
At 30 November 2020	5
At 30 November 2019	3

5 Leases – Right of use assets and Lease liabilities

Right of use assets

The movement in Right of use assets is set out below:

	Leasehold buildings £'000	Plant, machinery and equipment £'000	Total £'000
Cost			
At 30 November 2019	–	–	–
Adoption of IFRS 16	193	5	198
At 1 December 2019	193	5	198
At 30 November 2020	193	5	198
Accumulated depreciation			
At 30 November 2019	–	–	–
Adoption of IFRS 16	–	–	–
At 1 December 2019	–	–	–
Charge for year	(45)	(1)	(46)
At 30 November 2020	(45)	(1)	(46)
Net book value			
At 30 November 2020	148	4	152
At 30 November 2019	–	–	–

Lease liabilities

The movement on the lease liability is set out below:

	2020 £'000	2019 £'000
At 30 November 2019	–	–
Recognition of finance leases on adoption of IFRS 16	194	–
At 1 December 2019	194	–
Repayments of lease liabilities	(49)	–
Interest on lease liabilities	5	–
At 30 November 2020	150	–

Lease liabilities mature as follows:

	2020 £'000	2019 £'000
Minimum Right of use liabilities falling due		
Within one year – land and buildings	48	–
Within one year – property, plant and equipment	1	–
	49	–
Between one and five years – land and buildings	105	–
Between one and five years – property, plant and equipment	3	–
	108	–
Total commitment	157	–
Less: finance charges included above	(7)	–
Net present value of lease liabilities at 30 November 2020	150	–
Current	46	–
Non-current	104	–
Total at 30 November 2020	150	–

The impact on the financial statements from the adoption of IFRS 16 is set out in note 1.

Parent Company – Notes to the financial statements continued

6 Fixed asset investments

Investments in subsidiary undertakings

	2020 £'000	2019 £'000
Cost		
At 1 December	55,407	50,725
Additions in the year	2,000	7,010
Impaired in the year	(2,000)	(2,400)
Capital contributions arising from share based payments charge	99	72
At 30 November	55,506	55,407
Net book value		
At 30 November	55,506	55,407
At 1 December	55,407	50,725

The capital contributions arising from the share based payment charge represent the Company granting rights over its equity instruments to the employees of subsidiary undertakings. This results in a corresponding increase in investments in subsidiary undertakings.

Apart from the impairment explained below, the Directors believe that the carrying value of the investments is supported by their underlying net assets.

Following recent losses, the Company's investment in Porvair Selee Filtration Technology (Hubei) Company Limited was impaired by £2.0 million (2019: £2.4 million) in the year, following further share capital investment of £2.0 million in the year. At 30 November 2020, the investment in Porvair Selee Filtration Technology (Hubei) Company Limited is valued at a fair value of £nil (2019: £nil).

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

7 Amounts receivable from Group undertakings

	2020 £'000	2019 £'000
Loans to subsidiary undertakings	21,476	25,563
	21,476	25,563

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

8 Other receivables

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Prepayments	67	87
	67	87

9 Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank and in hand	278	36

10 Trade and other payables

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Trade creditors	256	136
Taxation and social security	122	119
Accruals and deferred income	667	1,035
	1,045	1,290

11 Borrowings

	2020 £'000	2019 £'000
Bank overdraft offset against cash balances in other Group companies under a Group banking offset arrangement	–	3,575
Secured multi-currency revolving credit facility of €23 million (2019: €23 million) maturing in May 2022 with interest at 1.5% (2019: 1.5%) above LIBOR	9,303	8,875
	9,303	12,450

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

	2020 £'000	2019 £'000
Within one year	–	3,575
Two to five years	9,303	8,875
	9,303	12,450

On 24 May 2017, the Company entered into a five year banking facilities agreement, sufficient for its foreseeable needs, comprising a €23 million revolving credit facility and a £2.5 million multi-currency overdraft facility.

The loans are shown net of issue costs of £nil (2019: £167,000) which are being amortised over the life of the loan arrangements. The multi-currency revolving credit facility expires in May 2022.

At 30 November 2020, the Company had €12.6 million/£11.3 million (2019: €13.3 million/£11.4 million) of unused credit facility and an unutilised £2.5 million (2019: £2.5 million) overdraft facility.

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

12 Deferred tax asset

The movement of deferred tax assets during the year is as follows:

	Accelerated capital allowances £'000	Other short term timing differences £'000	Share based payments £'000	Retirement obligations £'000	Total £'000
At 1 December 2018	8	17	708	2,183	2,916
Charged to the income statement	–	–	–	(109)	(109)
Credited to equity in respect of share options	–	–	87	–	87
Credited to comprehensive income in respect of pension liabilities	–	–	–	466	466
At 30 November 2019	8	17	795	2,540	3,360
Charged to the income statement	–	–	–	(236)	(236)
Charged to equity in respect of share options	–	–	(2)	–	(2)
Credited to comprehensive income in respect of pension liabilities	–	–	–	684	684
At 30 November 2020	8	17	793	2,988	3,806

There were no unrecognised deferred tax amounts at 30 November 2020 (2019: £nil).

13 Derivative financial instruments

	2020 £'000	2019 £'000
Forward foreign exchange contract assets		
Forward foreign exchange contracts – current	23	13
Forward foreign exchange contracts – cash flow hedge – current	–	35
	23	48

The gain recognised in the income statement in the year for non-hedged derivatives amounted to £10,000 (2019: gain of £13,000).

Parent Company – Notes to the financial statements continued

14 Retirement benefit obligations

	2020 £'000	2019 £'000
Defined benefit scheme deficit	15,119	14,344
Additional pension commitments	276	106
	15,395	14,450

The Group operates a defined benefit pension scheme, The Porvair plc Pension and Death Benefit Plan (the 'Plan'), covering a number of employees in the UK. The pension scheme is financed through a separate trust fund administered by Trustees with an independent Chairman. The Plan was closed to new entrants in October 2001. Further details of the retirement benefit obligations are disclosed in note 20 of the Group financial statements.

The Group operates a money purchase pension scheme for a certain number of its employees. As at 30 November 2020, £1,000 (2019: £1,000) in relation to this pension scheme was outstanding to be paid.

15 Called up share capital

	2020 £'000	2019 £'000
Allotted and fully paid:		
46,155,700 ordinary shares of 2 pence each (2019: 46,041,199)	923	921

Details of shares issued and share options are disclosed in notes 22 and 23 of the Group financial statements, respectively.

16 Share based payments

Details of share options of the Company and the share based payments charge during the year are given in note 23 of the Group financial statements.

17 Dividends

Details of dividends paid in the year and final dividends recommended to be paid after the year end are disclosed in note 9 of the Group financial statements.

18 Contingent liabilities

The Company has no contingent liabilities at 30 November 2020 (2019: none).

19 Financial Commitments

At 30 November 2020 the Company has future aggregate minimum lease payments under non-cancellable operating leases expiring as follows:

	2020			2019		
	Land and buildings £'000	Other £'000	Total £'000	Land and buildings £'000	Other £'000	Total £'000
Within one year	–	–	–	48	1	49
Later than one year and less than five years	–	–	–	157	4	161
	–	–	–	205	5	210

Shareholder information

Registrar services

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

Link can be contacted at:

Link Asset Services

Central Square
29 Wellington Street
Leeds LS1 4DL

 www.linkassetservices.com

Telephone: 0371 664 0300 if calling from the United Kingdom, or +44 (0) 371 664 0391 if calling from outside the United Kingdom. Calls are charged at the standard geographical rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales; E-mail: enquiries@linkgroup.co.uk.

In addition, Link 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 Link 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.linksharedeal.com – online dealing

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

Email: info@linksharedeal.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 2021

30 November 2020

Financial year end 2020

1 February 2021

Full year 2020 results

20 April 2021

AGM

29 April 2021

Ex-dividend date

30 April 2021

Record date for dividend

31 May 2021

Half year 2021 period end

4 June 2021

Payment date for dividend

5 July 2021

Half year 2021 results announcement

22 July 2021

Ex-dividend date

23 July 2021

Record date for dividend

27 August 2021

Payment date for dividend

30 November 2021

Financial year end 2021

31 January 2022

Full year 2021 results

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Find out more about Porvair and its latest financial information, results, presentations, reports and shareholder services or view and download a pdf version of the 2020 Annual Report and ESG Report:

www.porvair.com



Annual Report 2020



ESG Report 2020

Forward-looking statement

This Annual Report contains forward-looking statements with respect to the financial condition, operations and performance of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.



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