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Porvair plc Annual Report & Accounts 2006

Ideas
Expertise
Solutions

porvair

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About Porvair

Porvair is a specialist filtration and environmental technology group, with operations in both the UK and US.

The Group develops, designs and manufactures specialist filtration and separation equipment. We serve a range of market segments of which aviation, molten metal and life science filtration are the three largest.

At the heart of what we do is the filtration and engineering expertise which allows us to solve customer problems across all the markets we serve.

Porvair aims to develop and exploit its expertise in specialist filtration and environmental technologies for the sustainable benefit of its shareholders, staff and other stakeholders.

Key highlights in 2006

- Profit before tax up 12% to £3.1 million (2005: £2.7 million);
- Operating profits up 11% to £3.7 million (2005: £3.3 million),
- Earnings per share up 40% to 5.2 pence (2005: 3.7 pence);
- Demonstrable progress again made in key development projects: more orders for coal and biomass gasification filters; first orders for bi-polar plates; and encouraging developments in bioscience components;
- The acquisition in January 2007 of the business and assets of Omnifilter, a US filter business, opens the way for further Microfiltration growth.

Porvair's strategy

Porvair looks for opportunities to grow its business where technically challenging applications and design expertise can give us a competitive edge. We seek to acquire businesses that complement our existing skills and invest in projects that offer the prospect of attractive growth. We see significant potential in environmental technologies and our current development portfolio includes:

- filters to clean gasified coal and biomass;
- substrates to reduce diesel exhaust emissions;
- fuel cell components,
- bioscience components and devices;
- plates to improve gas combustion efficiency,
- high-value metal alloys filters to reduce process waste;
- aviation air-cleaning filters for fuel tank inerting.

Product fact file – Key development projects

Clean coal technology

Porvair is a leading provider of high temperature filters to the coal gasification industry Coal gasification plants convert coal or petroleum coke into synthetic gas which is then used to fuel gas fired power stations Porvair specialist filters are an integral part of the gas production process operating at high temperatures to remove particulate from the gas stream Coal gasification plants enable coal to be used as a fuel with minimal environmental impact compared with traditional coal fired power plants

Key developments

- A further suite of filters delivered as part of the SG Solutions US$20 0 million supply agreement
- Joint development agreement signed with a major oil company and leading gasification technology provider
- Trial and pilot plant orders delivered to a range of customers

Diesel emission technology

Porvair is developing a unique range of porous metals Metpore™ can be made in many alloys in many shapes and with a variety of densities and porosities It is ideal for use in diesel exhausts because it is robust carries a catalyst well and exhibits excellent deep bed filtration characteristics

Key developments

- Laboratory trials using Porvair metal foam successful
- Field trials with Deutz AG to run throughout 2007
- Several exhaust specialists evaluating metal foam as part of complex solutions to meet the next generation of emissions standards

Fuel cell technology

Porvair produces high performance low cost bi polar plates for the fuel cell industry The Porvair plate material is unique in the industry and offers fuel cell manufacturers outstanding electrical properties low density and a compact design for static and vehicle fuel cells A typical Porvair plate has in-plane conductivity exceeding 600S/cm and through plane contact resistance of less than 10mohms-cm² is 30% lighter than competitive materials and can be manufactured with a web thickness of less than 0 4mm

Key developments

- Successful qualification trials for latest generation plates and tight manufacturing process control demonstrated
- First order for latest generation of plates received
- Qualification trials for next design specification throughout 2007

Bioscience devices

Porvair s specialist laboratory filter systems are approved for use in the pharmaceutical and drug industries Porvair s treated porous plastic products are used in a diverse range of applications including diagnostic devices laboratory testing kits, medical devices and pharmaceutical production

Key developments

- First pharmaceutically approved component in commercial production
- Beta test launch of bioscience separation device planned for Q1 2007
- Several separation devices in prototype development

Infra-red combustion plates

Porvair s Metflame™ metal foam is a highly efficient infra-red emitter that is capable of reaching uniform temperatures of 1150°C nearly instantaneously When compared with alternative materials Metflame is more energy efficient robust and corrosion resistant It is suitable for industrial drying cooking and heating applications

Key developments

- Introduction of an atmospheric burner for use in residential and commercial grilling and space and patio heating

Molten metals filtration

Porvair s ceramic filters offer a cost effective way to remove small inclusions from molten metal and so produce high purity metals Porvair Selee pioneered the development of ceramic foam filters for this use and is the world leader in the filtration of cast house aluminium Metal filtered through Selee filter systems is used in applications ranging from automotive parts to beverage cans and aerospace turbine blades

Key developments

- Agreement reached with a major precision investment casting company to supply a new range of metal alloy handling equipment
- Engineered Ceramics makers of molten metal handling equipment had a second successive record year

Aerospace filtration systems

Porvair designs and manufactures specialist filtration components and assemblies for contamination control in hydraulic fuel lubrication and air systems to the exacting technological and quality specifications set by the aerospace and defence industries Porvair's filters protect vital sub-systems such as flight controls fuel management thrust reversers braking and steering power generation and air intakes in aircraft helicopters military vehicles and spacecraft

Key developments

- US$5 0 million 5 year contract signed for a filter system for Airbus
- US$1 0 million aircraft retrofit programme won in the year
- Aircraft fuel tank inerting system developed in association with Parker Hannifin for Boeing expected to start in Spring 2007

Chairman and Chief Executive's statement

Charles Matthews
Chairman

Ben Stocks
Group Chief Executive

Overview of 2006
It is a pleasure to report on another good set of results at Porvair for the year ended 30 November 2006, of which the highlights were

- Profit before tax up 12% to £3 1 million (2005 £2 7 million),
- Operating profits up 11% to £3 7 million (2005 £3 3 million),
- Earnings per share up 40% to 5 2 pence (2005 3 7 pence),
- Demonstrable progress again made in key development projects more orders for coal and biomass gasification filters, first orders for bi-polar plates, and encouraging developments in bioscience components,
- The acquisition in January 2007 of the business and assets of Omnifilter, a US filter business, opens the way for further Microfiltration growth

Business overview – focus on specialist filtration and environmental technologies
Porvair aims to develop and exploit its expertise in specialist filtration and environmental technologies for the sustainable benefit of its shareholders, staff and other stakeholders

The Company develops, designs and manufactures specialist filtration and separation equipment We serve a range of market segments of which aviation, molten metal and life science filtration are the three largest

Specialist filters share several common characteristics They typically protect larger and more costly systems from break-down Consequently, product performance is often more important than unit price Specialist filters tend to be consumable and replaced as part of a maintenance or production routine They are often bespoke designs which, once approved, are used by customers for many years In our view these are attractive characteristics that we aim to foster in our business wherever possible At the heart of what we do is the filtration and engineering expertise which allows us to solve customer problems across all the markets we serve

Porvair's strategy
Porvair looks for opportunities to grow its business where technically challenging applications and design expertise can give us a competitive edge We seek to acquire businesses that complement our existing skills and invest in projects that offer the prospect of attractive growth We see significant potential in environmental technologies and our current development portfolio includes

- filters to clean gasified coal and biomass,
- substrates to reduce diesel exhaust emissions,
- fuel cell components,
- bioscience components and devices,
- plates to improve gas combustion efficiency,
- high-value metal alloys filters to reduce process waste,
- aviation air-cleaning filters for fuel tank inerting

Our development projects are funded from core business cash flows, and for some years this has had a considerable impact on cash flow and Group profits The Board expects the scale of this investment to start reducing in 2007 as projects come to fruition across the Group

Trading summary
Overall we were pleased with the 2006 result, the first under International Financial Reporting Standards ('IFRS') Profit before tax grew 12% to £3 1 million (2005 £2 7 million) on Group sales up 3% to £46 2 million (2005 £44 9 million) Operating profits rose by 11% to £3 7 million (2005 £3 3 million) These figures include the losses associated with the Group's Advanced Materials division which were £1 3 million (2005 £1 7 million) Net borrowings were £8 4 million (2005 £8 5 million) Interest cover remained at 6 times (2005 6 times)

The prior year's results included two exceptional items which are described in full in the Finance Director's review Throughout this statement the comparisons of divisional performance with the prior year excludes these exceptional items We believe that this analysis allows for greater clarity of actual performance

Bioscience devices

Innovative ideas
Part of the Porvair Filtration Group's R&D investment in recent years has been spent developing porous plastics capabilities by physically and chemically altering the surface properties of the plastics to broaden their range of applications These proprietary capabilities are opening up promising opportunities in medical diagnostics and pharmaceutical research

Porvair uses its engineering and materials science capabilities in collaboration with bioscience companies and universities to design and develop novel diagnostic devices

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Chairman and Chief Executive's statement continued

Divisional performance Microfiltration
The Microfiltration division, which comprises the Porvair Filtration Group and Porvair Sciences, had an excellent year with operating profit growth of 14% to £5 5 million (2005 £4 8 million) on sales up 4% to £26 4 million (2005 £25 4 million) The prospects for many parts of this division are encouraging and during the year additional staff were recruited into the commercial and engineering teams Aviation sales were particularly strong during the year Several notable account wins contributed to revenue, including a 5 year, US$5 0 million sales revenue programme for a filter system for Airbus aircraft, and a US$1 0 million commercial aircraft filter retrofit programme A previously announced aviation project, the fuel tank inerting system developed in association with Parker Hannifin for Boeing, underwent several unforeseen design changes and associated delays This is one of the Group's key development projects and so was a concern, but we now expect to start production in the Spring of 2007 Encouraging developments late in 2006 are opening the way for further adoption of this product by other commercial fleets

The filtration of gasified coal and biomass – one of the Group's key development projects – is undertaken in this division and had another year of exciting progress In the first half we signed a joint development agreement with a major oil company and leading provider of gasification technology under which we are able to develop new products in an existing gasification power plant This will add further to our proven expertise in this fast growing area The amount of engineering design, sales proposals, and prototype filter sales grew steadily throughout the year A further suite of filters was delivered to SG Solutions LLC (owners of the Wabash River IGCC power plant) as part of the US$20 0 million supply agreement signed with them in 2005

Our focus in the bioscience field is on proprietary processes, which change the surface properties of a material We have a range of projects using this technology at beta and development trial stages The first of these, a filter for an inhaling device, began commercial sales during the year

Divisional performance Metals Filtration
As reported at the Interim stage, Metals Filtration had a challenging start to the year and management took action to reduce costs and pass on input cost rises Encouragingly, the benefit of these actions came through in the second half, in which Metals Filtration returned to profitability and the operating profit margin recovered to more normal levels with several parts of the organisation finishing strongly For the full year, sales grew to £19 1 million (2005 £18 9 million) and operating profits were £0 4 million (2005 £1 0 million)

Engineered Ceramics, a part of Metals Filtration which makes molten metal handling equipment, had a second successive record year The iron foundry product line also did well, particularly in the final quarter, and sales into the specialist alloy market were strong throughout Sales into the aluminium cast shop industry were marginally down on the prior year as US based customers held back on production in the face of their own rises in input costs Export sales however finished the year strongly, helped in part by the weaker US dollar Late in the year, an agreement was reached with Howmet, a major precision investment casting company, to supply them with a new range of high-value metal alloy handling equipment This will become a key growth project for the Group Sales will start early in 2007 and will help to secure a strong rebound by Metals Filtration in the year ahead

Divisional performance: Advanced Materials
Porvair Advanced Materials is developing several of the Group's key projects Operating losses in this division were £1 3 million (2005 £1 7 million) As noted in previous results' statements, this sort of work is complex and determining when new products will generate commercial revenues is difficult 2006 demonstrated this well Our diesel exhaust substrate underwent successful development trials, but commercial sales have not yet been forthcoming Towards the end of 2006 we switched partners on our most near term project and are now working directly with Deutz AG, an international diesel engine manufacturer, who are conducting the primary trials We expect these trials to finish towards the end of 2007 We have also begun to work with several other exhaust specialists who are evaluating metal foam as part of their solution in the more complex exhaust systems required to meet the next generation of emission standards

The Advanced Materials division made great strides in its bi-polar plate development Qualification trials of our low cost bi-polar plate finished successfully in the early part of the year and we received our first order for the new plates in May Production began in September and we are now shipping plates regularly Sales are modest at this stage, but the income nonetheless contributes to the technical expenditure of the division After five years of development it was a real pleasure to see a demonstration of our latest low cost bi-polar plates installed in a 2007 fuel cell car They outperform previous generations of plates while offering substantial cost savings The development team on this project has done a terrific job Our principal customer, United

Clean coal technology

Know-how & expertise

In April we signed a joint development agreement with a major oil company and leading provider of gasification technology, under which we will design and test the next generation of filters for hot gas This agreement follows the long term, successful operation of Porvair filters in a commercial coal gasification environment and confirms our growing reputation and track record in this market segment

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Chairman and Chief Executive's statement continued

Technologies Power, anticipates growth in 2007 and beyond Our next objective is to achieve qualification on a second plate design This design work will finish in early 2008

Acquisitions
In January 2007, we announced the acquisition of the business and assets of OmniFilter and Manufacturing Inc ('Omnifilter'), based in Richmond, Virginia Omnifilter's product range is complementary to that of the Porvair Filtration Group ('PFG'), of which it will become a part Its US location will help PFG with its trans-Atlantic customer base, which has been growing for the last few years The acquisition was made for cash and is expected to be immediately earnings enhancing We are pleased to welcome the Omnifilter staff to Porvair and offer our thanks to the Gerschick family – Omnifilter's founders – for their help and support through the transition process

Earnings per share and dividend
Earnings per share increased 40% to 5 2 pence (2005 3 7 pence) Growth in profit after tax and the benefit of acquiring the minority interest in the Porvair Filtration Group in 2005 account for the growth in earnings per share The Directors recommend a final dividend of 1 1 pence (2005 1 05 pence) per share for 2006 The Directors see this progressively increasing dividend as appropriate, given the Group's growth prospects

Employees and the Board
Charles Matthews took over from John Morgan as Chairman of Porvair plc earlier in the year John had been with the Group for 25 years and guided it from its debut as a public company in 1988 Porvair evolved under John's stewardship from a single product polymer business to today's filtration and environmental technologies group He was a much valued colleague, and we were pleased to pass on the many expressions of gratitude we received from staff and shareholders on his retirement in April

We are pleased to welcome Dr John Sexton to the Board as an Executive Director from 29 January 2007 Dr Sexton joined the Group with its acquisition of Filters for Industry in 2001, and since then he has been very successful in his leadership of the Porvair Filtration Group He will bring thirty years of filtration and engineering experience to the Board, and we look forward to his contribution both in the further development of the Porvair Filtration Group and in wider technology and engineering projects

On behalf of the Board, we would like to thank our excellent staff for their hard work in 2006 We have a talented workforce, which has risen to the challenges of continuing to develop the business

Outlook
The Board believes that after several years of investment, Porvair is ready to move to the next stage of its development in 2007

The Microfiltration division has delivered steady growth since its formation in 2002 Its development will continue in 2007 both organically and, where appropriate, by acquisition The weaker US dollar may provide a headwind in the short term, but the opportunities to manufacture in the US offered by the acquisition of Omni will help to mitigate this We are excited by prospects in the pipeline for sales of filters into coal and biomass gasification, for bioscience diagnostic components, and for aviation filters We expect these to contribute in 2007 and grow further thereafter

Towards the end of 2006 an extensive review was undertaken at the Metals Filtration division A restructuring programme was completed early in the new financial year The business enters 2007 with a greater focus on its core markets and a lower cost base This will help the business rebound from a challenging 2006, as will export prospects enhanced by the weaker US dollar and recent contract wins in high-value metal alloys filtration

The same strategic review addressed the Advanced Materials division It has also been restructured to concentrate on its two most promising development projects – diesel exhaust substrates and bi-polar plates We expect to complete diesel exhaust field trials with Deutz towards the end of 2007 Bi-polar plates have already generated initial commercial sales and we will build on the recent encouraging progress

The Board believes that Porvair has reached the point where its current business and future prospects are attractively set 2007 trading has started well and the Board believes that Porvair is well positioned for the future

Charles Matthews, Chairman
Ben Stocks, Chief Executive Officer

29 January 2007

Aerospace filtration systems

Bespoke solutions

The elimination of flammable fuel vapours in commercial aircraft is one of the US National Transportation Safety Bureau's top priorities Porvair has been working closely with Parker Hannifin to develop the filtration system for on board fuel tank inerting systems that address this issue Parker's lightweight on board fuel tank inerting system removes oxygen from its source of engine bleed air and delivers nitrogen enriched air into the aircraft's fuel tanks

The Porvair filtration system ensures that the source of engine bleed air delivered into the inerting system is free from particulate and any liquid droplets The system is expected to be fitted to Boeing production aircraft from Spring 2007

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Finance Director's review

Christopher Tyler
Group Finance Director

Adoption of International Financial Reporting Standards

The Group has adopted International Financial Reporting Standards ('IFRS') with effect from 1 December 2005 In adopting the new requirements, the Group has restated the comparatives for the year ended 30 November 2005 A reconciliation of the differences between UK GAAP and IFRS is given in note 28 to the accounts

Key performance indicators

The Group considers its key performance indicators to be the sales and operating profit performance of its principal operations, the profit before tax, operating cash flow and earnings per share of the Group measured against a predetermined budget, and the development progress towards commercialisation of its key growth opportunities These indicators are discussed in detail throughout the Chairman and Chief Executive's statement and the Finance Director's review

Group operating performance

Group sales were £46 2 million (2005 £44 9 million) and operating profits rose by 11% to £3 7 million (2005 £3 3 million) The operating performance of the Microfiltration, Metals Filtration and Advanced Materials Division are described in detail in the Chairman and Chief Executive's statement The operating loss associated with the Other Unallocated segment was £0 9 million (2005 £1 0 million before exceptional items, £1 6 million including exceptional items) The Other Unallocated segment mainly comprises Group corporate costs, some research and development costs, new business development costs and general financial services The unallocated loss before tax in 2006 includes provisions written back of £0 3 million, principally related to a reduced expected onerous lease cost arising on a building that was refurbished and sublet in 2006

Exceptional items

In 2005, the Group benefited from a net £0 1 million exceptional credit This comprised an exceptional credit of £0 7 million arising on a collection of a debt in Microfiltration which was written off prior to the acquisitions of 2001 and a charge of £0 6 million principally relating to additional property costs associated with buildings retained following the disposals of 2003

Finance costs

Net interest payable increased by 8% to £0 6 million (2005 £0 6 million) The Group holds a significant amount of its borrowings in US dollars (US$14 0 million at 30 November 2006) and interest rates on US borrowings have more than doubled in the past two years The additional cost of the US dollar borrowing has been offset by the finance costs in relation to the closed defined benefit pension scheme reducing to zero (2005 £0 2 million) Interest cover was 6 times (2005 6 times)

Tax

The Group tax charge of £1 0 million (2005 £0 8 million) represents an effective tax rate of 32% on profits before tax The tax charge comprises current tax of £0 9 million (2005 £1 0 million) and a deferred tax charge of £0 1 million (2005 £0 2 million credit) The Group carries a deferred tax asset in relation to the past losses in its US operations The tax credits associated with this year's losses in the US have not been recognised as their recoverability is considered uncertain

Shareholders' funds

Shareholders' funds at 30 November 2006 of £31 5 million were £1 4 million higher than at 30 November 2005 Shareholders' funds were increased by profit after tax of £2 1 million, actuarial gains net of deferred tax added £1 6 million and £0 1 million was added as a consequence of issuing new shares on the exercise of share options Shareholders' funds were reduced by exchange losses on retranslation of foreign currencies of £1 6 million and dividends paid of £0 8 million

Cash flow

Net cash generated from operating activities was £2 3 million (2005 £4 5 million) Higher working capital requirements to service the growth in Microfiltration and the payment of certain provisions and accruals in 2006 reduced the cash generated compared with the prior year Net interest paid was £0 7 million (2005 £0 3 million) The higher interest charge principally arises as a result of the increase in US interest rates over the previous two years Capital expenditure was £1 0 million (2005 £0 9 million plus goodwill of £0 5 million) and the Group paid £0 8 million (2005 £0 7 million) in dividends

The Group's increase in borrowings was offset by the currency translation effects of the US dollar denominated borrowings, resulting in an overall reduction in net debt of £0 1 million

At the year end, the Group had net borrowings of £8 4 million (2005 £8 5 million) comprising gross borrowings of £10 2 million offset by cash balances of £1 8 million The Group had unutilised borrowing facilities of £2 0 million (2005 £4 5 million) and an unutilised overdraft facility of £3 0 million (2005 £3 0 million)

The Group's gearing (net debt as a percentage of shareholders' funds) reduced to 27% (2005 28%)

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

At the year end, the Group had US$14 0 million (2005 US$18 1 million) of US dollar borrowings exposure which hedged underlying US net tangible assets on the balance sheet of US$18 6 million (2005 US$17 1 million) In addition, the Group has a Euro 1 6 million interest bearing debtor that was fully hedged by borrowings in Euros

The Group finances its operations by a combination of share capital and retained profits and short and long term loans Borrowings are principally at floating rate

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

During the year, the Group made a £550,000 payment to the defined benefit pension fund in addition to its ongoing funding commitments, bringing the total contributions to the fund, in excess of ongoing funding, over the last three years to £1 4 million

The Group recorded a retirement benefit obligation of £4 3 million (2005 £7 0 million) The reduction arose from an actuarial gain in the year of £2 3 million and contributions to the scheme in excess of the service charge of £0 4 million

Risks and uncertainties
There are a number of risks and uncertainties, described below, which could have a material impact on the Group's long term performance and prospects

Existing market risk
The Group's strategy is to serve the needs of a range of specialist filtration markets, such that it is not dependent upon any one market No single market segment represents more than 17% of sales However, three key segments aluminium filtration, aviation filtration, and foundry products, contribute more than 10% of the Group's revenue and the Group is exposed to a significant decline in any of these segments

Aluminium is currently in a high demand phase The production of aluminium is, however, gradually moving to larger smelters in regions of low cost energy The Group is actively engaged in developing its overseas markets for its aluminium cast shop business to reduce its reliance on the US market

The Aerospace market has traditionally been a very steady business as the product cycles are very long and the Group offers a broad range of products There is unlikely to be such a rapid decline in the aerospace market that the Group could not manage the consequences over time

The foundry filter business is being enhanced by developments of innovative products and improved overseas distribution has broadened the Group's ability to access markets outside the US Both these actions will reduce the business's reliance on existing products in the US market

New markets risk
The Group invests significant amounts into the development of new products for new markets Many of these new markets are at an early stage of development and are driven either by environmental imperatives or legislation There is a risk that the products that the Group is developing will either not be adopted as part of the potential solutions or that the legislation or regulation will not develop in the way that the Group anticipates

The Group maintains a portfolio of potential products addressing different market segments and recognises that not all of its potential products will become significant revenue generators The Group maintains a close review of each of its major developments and is not significantly exposed if the market for any one product does not develop

Finance Directors' review continued

Financing risk
The Group maintains a level of borrowing to finance its operations Damage to, or loss of, its banking relationships could have a material impact on the profitability of the Group To mitigate this risk, the Group has sufficient long term facilities in place for its expected requirements It maintains a close relationship with its bankers and carefully monitors the restrictions on its borrowings

Treasury and exchange rate risk
The Group has operations in the UK and US and sells its products throughout the world and as a result, the Group is exposed to fluctuations in exchange rates The Group maintains certain of its borrowings in US dollars to hedge its investments in the US and enters into forward sales of its principal foreign currency revenues to reduce the impact of exchange rate movements

Competitive risk
Porvair operates in competitive global markets The Group's achievement of its objectives is reliant on its ability to respond to many competitive factors including, but not limited to, pricing, technological innovations, product quality, customer service, manufacturing capabilities and the employment of qualified personnel If the Group does not continue to compete in its markets effectively by developing innovative solutions for its customers, it could lose them and its results could be adversely affected

Technological risk
Porvair has a broad portfolio of products delivered to a diverse range of markets The Group's business could be affected if it does not

- continue to develop new designs for its customers that provide technical or cost advantages over its competitors,

- develop new technologies and materials that are adopted by its customers to provide improved performance

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, than the Group

The Group carefully selects its development prospects and monitors their progress carefully to maintain a range of potential opportunities The nature of the Group's development projects means that their potential commercial or technical success cannot be assessed with certainty throughout the development process The ultimate commercial success of a project can often only be judged when the development cycle is close to completion

Raw materials and resources risk
The Group uses raw materials in its production processes Prices for these raw materials can be volatile and are affected by the cyclical movement in commodity prices such as oil, alumina, silicon carbide and steel The Group's ability to pass on these price fluctuations to its customers is to some extent dependent on the contracts it has entered into and the prevailing market conditions There may be times when the Group's results are adversely affected by an inability to recover increases in raw material prices

Liability risk
The Group manufactures products that are potentially vital to the safe operation of its customers' products or processes A failure of the Group's products could expose the Group to loss as a result of claims made by the Group's customers or users of their products The Group seeks to minimise this risk through limitations of liability in its contracts and carries insurance cover in the event that claims are made

Global and regional economic, political and environmental risk
The Group sells its products throughout the world and derives a substantial portion of its revenue and earnings from outside the UK The Group's ability to achieve its financial objectives could be impacted by risks and uncertainties associated with local legal requirements, the enforceability of laws and contracts, changes in the tax laws and economic conditions, political instability, war, terrorist activity, natural disasters or health epidemics

Christopher Tyler
Group Finance Director

29 January 2007

Board of Directors

1 2 3

4 5 6

Executive Directors

1 Ben Stocks (44), Group Chief Executive
Joined the Group as Chief Executive in February 1998. He was previously UK Managing Director of the Speciality Packaging Division of Carnauld Metal Box. He has an MBA from INSEAD.

2 Christopher Tyler (44), Group Finance Director
Appointed to the Board in September 2004. He had previously held a number of senior financial positions at Cable & Wireless, latterly as Chief Financial Officer of Cable & Wireless in the Caribbean. He is a chartered accountant.

3 Dr John Sexton (55)
Dr John Sexton is the Managing Director of the Porvair Filtration Group. He joined the Group with its acquisition of Filters for Industry Ltd in 2001, and has since then led the Porvair Filtration Group. He is a Chartered Engineer and a Fellow of The Institute of Mechanical Engineers.

Non-Executive Directors

4 Charles Matthews* (53) Chairman
Appointed to the Board in January 2005 and became Chairman on 12 April 2006. He is the Founder and Chairman of Sigma QC Limited, a Non-Executive Director of FKI plc, Chairman of Axeon plc, and Chairman of Zeroshift Ltd. He was previously Chief Executive of Cosworth, Managing Director of Rolls Royce Motor Cars and a member of the Vickers Group plc Executive Board.

5 Michael Gatenby* (62), Senior Non-Executive Director
Appointed to the Board in June 2002. He is Chairman of Alliance Pharma PLC and is a Non-Executive Director of Johnson Service Group PLC and Cobra Biomanufacturing plc. He is a chartered accountant.

6 Andrew Walker* (55)
Appointed to the Board in January 2005. He is a Non-Executive Director of API Group plc, Manganese Bronze Holdings plc, Halma plc, Ultra Electronic Holdings plc, Delta plc, Fountains Plc and Brintons Limited. He is Chairman of Bioganix Limited. He was previously Chief Executive of McKechnie plc and South Wales Electricity plc.

* denotes independent Non-Executive Director

Board committees, Secretary and advisers

Members of the Audit Committee
Michael Gatenby (Chairman)
Charles Matthews
Andrew Walker

Members of the Remuneration Committee
Andrew Walker (Chairman)
Charles Matthews
Michael Gatenby

Members of the Nomination Committee
Charles Matthews (Chairman)
Michael Gatenby
Andrew Walker

Secretary and registered office
Christopher Tyler
Brampton House
50 Bergen Way
King's Lynn PE30 2JG

Company registration number
1661935

Auditors
PricewaterhouseCoopers LLP
Abacus House
Castle Park
Cambridge CB3 0AN

Principal bankers
Barclays Bank plc
Corporate Banking Centre
PO Box 729
1 Capability Green
Luton
Bedfordshire LU1 3US

Investment bankers
Close Brothers
10 Crown Place
London EC2A 4FT

Registrars and transfer office
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0DA

Solicitors
Travers Smith
10 Snow Hill
London EC1A 2AL

Stockbrokers
Altium Securities
30 St James's Square
London SW1 4AL

Directors' report

The Directors are pleased to present their Annual Report and the audited accounts of the Group for the year ended 30 November 2006

Principal activities and results
The Group's principal activities are in the areas of specialist filtration and environmental technologies in the UK and US The profit for the financial year was £2 1 million (2005 profit of £1 9 million)

Business review
The business is reviewed in the Chairman and Chief Executive's statement on pages 4 to 8 and the Finance Director's review on pages 10 to 12 The Group's strategy and objectives are discussed in detail in the Chairman and Chief Executive's statement
The key performance indicators are defined in the Finance Director's review and discussed throughout the Chairman and Chief Executive's statement and Finance Director's review Likely future developments in the business are also to be found in those sections The risks and uncertainties facing the business are described in the Finance Director's review on pages 11 and 12 and in the financial risk management section below

Post balance sheet events
On 19 January 2007, the Group acquired the business and assets of Omnifilter and Manufacturing Inc for a cash consideration of US$2 06 million plus expenses It is a profitable business and in 2006 achieved sales of US$2 0 million The acquisition has been made for cash and is expected to be immediately earnings enhancing The gross assets acquired excluding goodwill, are approximately US$0 6 million

Dividends
An interim dividend of 1 0 pence per share was paid on 15 September 2006 The Directors recommend the payment of a final dividend of 1 1 pence per share (2005 1 05 pence per share) on 16 May 2007 to shareholders on the register on 13 April 2007 the ex-dividend date is 11 April 2007 This makes a total dividend for the year of 2 1 pence per share (2005 2 05 pence)

Directors and their interests
The names and biographical details of the Directors are set out on page 13 John Morgan retired as Chairman and from the Board on 12 April 2006 Charles Matthews was appointed Chairman from 12 April 2006 Dr John Sexton joined the Board on 29 January 2007 and offers himself for election

In accordance with the Articles of Association Charles Matthews and Andrew Walker retire by rotation and offer themselves for re-election

During the year, 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 Report of the Remuneration Committee on pages 18 to 20 None of the Directors had a material interest in any contract of significance in relation to the Company or its subsidiaries during the year

Research and development
The Group continues to undertake a research and development programme with the objective of identifying and developing new materials and products which have the potential to transform the growth of the Group The cost to the Group in the year under review was £2 9 million (2005 £3 3 million) £2 7 million (2005 £3 3 million) was written off to the profit and loss account and £0 2 million (2005 £nil) was capitalised as an intangible fixed asset The expenditure is of a development nature and is largely undertaken in-house rather than by third parties In accordance with International Accounting Standard (IAS) 38 'Intangible Assets' development expenditure is largely written off as incurred but where a product has been shown to be technically feasible and the Group can demonstrate through customer acceptance or otherwise, that there is a market for the product then further development expenditure is capitalised and written off over the expected life of the product

Substantial shareholders
As at 29 January 2007 the Company has been notified of the following substantial shareholdings comprising 3% or more of the issued share capital of the Company

	Ordinary shares	Percentage
Schroder Investment Management Ltd	9,107,643	22 5
M&G Group Limited	5 320 632	13 1
F & C Asset Management plc	4 893 142	12 1
Impax Environmental plc	2,081 000	5 1
Insight Investment	1,972 679	4 9
Cavendish Asset Management	1 846 673	4 6

Employment policies
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 Employee consultative committees regularly meet to ensure that management obtain representative views of employees concerning any decisions that affect them Information relating to trading, company strategy and any other matters of significance are communicated to all employees through local briefings

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

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

Health, safety and the environment
The Group recognises its clear responsibilities for the health and safety of its employees and to the communities in which the Group operates A health and safety committee comprising representatives from management and employees regularly reviews and inspects the conditions in which our employees work The Group consistently considers methods of improving safety and its environmental responsibilities The Group Environmental Health & Safety Policy is published at **www porvair.com** We are proud that many of the products sold and under development by Porvair are used to the benefit of the environment

Donations
The Group made a number of charitable donations totalling £15,000 (2005 £14,000) during the year Substantially all charitable donations were made to local charities operating in Hendersonville North Carolina There were no political donations (2005 £nil)

Annual General Meeting
The Annual General Meeting of the Company is to be held on Tuesday 17 April 2007 The notice for this meeting is set out at the end of this document

Resolution 4 and 5 – Re-election of Charles Matthews and Andrew Walker as Directors
The Articles of Association of the Company require certain of the Directors to retire by rotation at each Annual General Meeting At the meeting, Charles Matthews and Andrew Walker will retire and offer themselves for re-election Resolutions 4 and 5 propose their re-election Brief biographies of the Directors are set out on page 13

Resolution 6 – Election of Dr John Sexton as a Director
Dr John Sexton has been appointed as a Director since the last Annual General Meeting and offers himself for election as a Director A brief biography is given on page 13

Resolution 8 and 9 – Directors' authority to allot shares (ordinary resolution) and disapply pre-emption rights (special resolution)
Resolution 8 gives the Directors authority to allot ordinary shares up to an aggregate nominal amount of £294 334 The authority will expire at the end of five years from the date of the passing of the resolution

If the Directors wish to allot unissued shares or other equity securities for cash or sell any shares which the Company holds in treasury following a purchase of its own shares pursuant to the authority in Resolution 10 the Companies Act 1985 requires that such shares or other equity securities are offered first to existing shareholders in proportion to their existing holding Resolution 9 asks shareholders to grant the Directors authority to allot equity securities or sell treasury shares for cash up to an aggregate nominal value of £40 575 (being 5% of the Company's issued ordinary share capital as at 29 January 2007) without first offering the securities to existing shareholders The resolution also disapplies the statutory pre-emption provisions in connection with a rights issue and allows the Directors in the case of a rights issue, to make appropriate arrangements in relation to fractional entitlements or other legal or practical problems which might arise The authority will expire at the end of five years from the date of the passing of the resolution

In addition there are two items of special business

Resolution 10 – Purchases of own shares by the Company (Special resolution)
Resolution 10 to be proposed at the Annual General Meeting seeks authority from shareholders for the Company to make market purchases of its own ordinary shares, such authority being limited to the purchase of 10% of the ordinary shares in issue as at 29 January 2007 The maximum price payable for the purchase by the Company of its own ordinary shares will be limited to 5% above the average of the middle market quotations of the Company's ordinary shares, as derived from the Daily Official List of the London Stock Exchange, for the five business days prior to the purchase The minimum price payable by the Company for the purchase of its own ordinary shares will be 2 pence per share (being the nominal value of an ordinary share) The authority to purchase the Company's own ordinary shares will only be exercised if the Directors consider that there is likely to be a beneficial impact on earnings per ordinary share and that it is in the best interests of the Company at the time The resolution renews a similar resolution passed at the Annual General Meeting of the Company held on 12 April 2006 Any ordinary shares so purchased by the Company will be held in treasury by the Company and will remain in issue and be capable of being re-sold by the Company or used in connection with certain of its share schemes

Options to subscribe for up to 1,406 175 ordinary shares have been granted and are outstanding as at 29 January 2007 (being the latest practicable date prior to publication of this document) representing 3 5% of the issued ordinary share capital at that date (excluding shares held in treasury) If the Directors were to exercise in full the power for which they are seeking authority under Resolution 10 the options outstanding as at 29 January 2007 would represent 3 8% of the ordinary share capital (excluding shares held in treasury) in issue following such exercise

Resolution 11 – Amendment to the Articles of Association (Special resolution)
Resolution 11 to be proposed at the Annual General Meeting proposes changes to certain statutory references in the Company's Articles of Association to reflect certain provisions of the Companies Act 2006 which come into force on 20 January 2007 and 6 April 2007 Section 212 and Section 216 of the Companies Act 1985, which both related to company investigations into interests in its shares were repealed with effect from 20 January 2007 and have been replaced in substantially the same form by Section 793 and Section 794 respectively of the Companies Act 2006 Part VI of the Companies Act 1985 which related to disclosure of interests in shares of a company was repealed with effect from 20 January 2007 and has been replaced in part by Part 22 of the Companies Act 2006 Section 293 of the Companies Act 1985 which related to the age limit for directors was repealed with effect from 6 April 2007

Directors' report

Full details of all the Resolutions to be proposed are set out on pages 61 and 62 of this document

Creditor payment policy
The individual operating companies are responsible for agreeing the terms and conditions under which they conduct transactions with their suppliers It is Group policy that payments to suppliers should be made in accordance with these terms provided that the supplier is also complying with all relevant terms and conditions The trade creditor days of the Company at 30 November 2006 were 44 days (2005 45 days)

Statement of Directors' responsibilities in respect of the Annual Report, the Report of the Remuneration Committee and the financial statements
The Directors are responsible for preparing the Annual Report the Report of the Remuneration Committee and the Group and the parent company 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 (IFRS) as adopted by the European Union and the parent company financial statements and the Report of the Remuneration Committee in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period

In preparing those financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently

- make judgements and estimates that are reasonable and prudent,

- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements,

- prepare the Group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business in which case there should be supporting assumptions or qualifications as necessary

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements and the Report of the Remuneration Committee comply with the Companies Act 1985 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

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

Financial risk management
The Group's operations expose it to a variety of financial risks that include the effects of changes in debt market prices credit risk liquidity risk and interest rate risk The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs

The Group maintains all of its borrowings at floating rates of interest and is therefore exposed to movements in the interest rates of both the US dollar and Sterling The Group seeks to minimise its exposure to the impact of exchange rate movements on its net investments and seeks to maintain borrowings in US dollars equivalent to at least 70% of the carrying value of its US dollar net tangible assets in its US operations

The UK operations of the business generate significant revenues in US dollars and the Group seeks to minimise the impact of movements in the US dollar exchange rate on the value of these US dollar flows by using financial instruments to fix the future value of the US dollars The Group does not apply hedge accounting to these transactions

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 The department has a policy and procedures manual that sets out specific guidelines to manage interest rate risk credit risk and circumstances where it would be appropriate to use financial instruments to manage these

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

Credit risk
The Group has implemented policies that require appropriate credit checks on potential customers before sales are made Debt finance is very rarely used and is reviewed on a case by case basis by the Board of Directors

Liquidity risk
The Group actively maintains a mixture of long term and short term debt finance that is designed to ensure the Group has sufficient available funds for operations and planned expansions

Interest rate cash flow risk
The Group has both interest bearing assets and interest bearing liabilities Interest bearing assets include only a commercial loan which earns interest at a fixed rate
The Group has a policy of maintaining its debt at a floating rate as it considers the cost of switching into fixed rates to outweigh the advantages The Directors will revisit the appropriateness of this policy should the Group's operations change in size or nature

Going concern
After having made appropriate enquiries, including a review of the Group's budget for 2007 and its medium term plans, the Directors of Porvair plc have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future Accordingly they continue to adopt the going concern basis in preparing these accounts

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

By order of the Board

Christopher Tyler
29 January 2007

Report of the Remuneration Committee

The Committee has given full consideration when implementing remuneration policy to the provisions in section 1 B of the best practice provisions annexed to the Listing Rules prepared by the Financial Services Authority as the competent authority for listing in the United Kingdom

The Committee
During the year the Committee comprised Michael Gatenby Charles Matthews (Chairman of the Committee until 12 April 2006), and Andrew Walker (Chairman of the Committee from 12 April 2006) The Committee determines the pay and benefits of the Executive Directors, whilst the remuneration of the Non-Executive Directors is determined by the Executive Directors

Remuneration policy
The remit of the Committee is to ensure that the remuneration packages of the Executive Directors are competitive and designed to attract retain and motivate managers of high quality These consist of a base salary a discretionary annual cash bonus, the grant of share options and the provision of other benefits including pension arrangements, life insurance health insurance and company car

Service contracts
The Executive Directors have rolling contracts with the Company which can be terminated on giving twelve months' notice This is considered to be an appropriate balance between flexibility and commitment on both parties The Non-Executive Directors receive letters of appointment and are subject to periodic re-election in accordance with the Articles of Association at the Annual General Meeting in common with the Executive Directors They do not participate in any share option scheme bonus or pension arrangements

Annual bonus
Bonus payments to Executive Directors are made at the discretion of the Committee with reference to individual performance, the achievement of Group profit targets and total shareholder returns When triggered they are cash payments made annually in arrears and are not pensionable Awards are capped at 50% of base salary There will be bonuses paid in 2007 relating to the achievements of the Group's profit targets in 2006 which are disclosed in the table of Directors' remuneration

Pension entitlements
The Porvair plc Pension and Death Benefit Plan is a contributory 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 were provided in the period for Ben Stocks by the Plan Ben Stocks receives the same pension benefits from the Plan as all other members Only basic salary is pensionable

Ben Stocks also receives a 15% contribution to a Self Invested Pension Plan ("SIPP") on the difference between his full salary and the capped limit covered by The Porvair plc Pension and Death Benefit Plan Pension benefits are provided for Christopher Tyler by a contribution of 15% of full salary to a stakeholder scheme funded by the Company

Life assurance benefits covering a lump sum of four times salary on death in service and a 20% spouse's pension are provided for Ben Stocks and Christopher Tyler by the Porvair plc Pension and Death Benefit Plan Ben Stocks and Christopher Tyler are covered by the Group's permanent health insurance scheme

The accumulated total accrued pension figures shown in the table below represent the annual amount of accrued pension payable from the Porvair plc Pension and Death Benefit Plan on retirement at normal retirement age based on Ben Stocks' service to, and pensionable earnings at the relevant year end The increase in transfer value of the pensions is calculated on the basis of actuarial advice and is net of Directors' contributions in the year

	Accrued pension at 30 November 2006 £ per annum	Increase in accrued pension during the year £ per annum	Increase in accrued pension during the year net of inflation £ per annum	**Transfer value of accrued pension at 30 November 2006 £**	Transfer value of accrued pension at 30 November 2005 £	Increase in transfer value over the year net of Directors contributions £
B D W Stocks	**12,735**	1 795	1 500	**63,356**	50 131	1 006

The Company paid £16 936 (2005 £16 590) to a SIPP for Ben Stocks and £22 790 (2005 £20 880) to a stakeholder pension plan for Christopher Tyler in respect of the financial year 2006

Directors' remuneration – audited
The following table shows the total remuneration of the Directors for the year

2006	Basic salary & fees £'000	Bonus £'000	Benefits £'000	Total 2006 £'000
Executive Directors				
B D W Stocks	225	50	53	**328**
C P Tyler	157	40	20	**217**
Non-Executive Directors				
M R B Gatenby	24			**24**
C L Matthews (Chairman from 12 April 2006)	47			**47**
J M Morgan (Retired 12 April 2006)	25		12	**37**
A J Walker	24			**24**
	502	90	85	**677**

2005	Basic salary & fees £'000	Bonus £'000	Benefits £'000	Relocation £'000	Total 2005 £'000
Executive Directors					
B D W Stocks	214	75	30		**319**
C P Tyler	150	53	11	67	**281**
Non-Executive Directors					
M R B Gatenbv	22				**22**
C L Matthews (appointed 24 January 2005)	21				**21**
J M Morgan	69				**69**
M S Ost (retired 24 January 2005)	2				**2**
A J Walker (appointed 24 January 2005)	21				**21**
	499	128	41	67	**735**

Benefits include company cars medical insurance life insurance permanent health insurance and in the case of Ben Stocks, a housing allowance and certain travel costs relating to his secondment to the USA

Share options – audited
Share options are awarded to Executive Directors at the discretion of the Committee

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 2005 Number	Granted on 27 January 2006 Number	Lapsed Number	At 30 November 2006 Number	Exercise price	Scheme	Date from which exercisable	Expiry date
B D W Stocks	31 890		(31 890)		116 18p	1997	25/02/2002	25/02/2006
B D W Stocks	21 259		(21 259)		148 17p	1997	16/08/2002	16/08/2006
B D W Stocks	85 000			**85,000**	259 00p	1997	12/07/2004	12/07/2008
B D W Stocks	7 616			**7,616**	123 75p	SAYE	01/06/2007	01/08/2007
B D W Stocks	70 000			**70,000**	111 00p	1997	28/01/2006	28/01/2010
B D W Stocks	150 000			**150,000**	98 00p	1997	25/01/2008	25/01/2012
B D W Stocks		**76,330**		**76,330**	131 00p	2005 EMI	27/01/2009	27/01/2016
B D W Stocks		**123,670**		**123,670**	131 00p	2005	27/01/2009	27/01/2016
C P Tyler	60 000			**60,000**	101 50p	1997	16/09/2007	28/01/2011
C P Tyler	100 000			**100,000**	98 00p	1997	25/01/2008	25/01/2012
C P Tyler		**76,330**		**76,330**	131 00p	2005 EMI	27/01/2009	27/01/2016
C P Tyler		**23,670**		**23,670**	131 00p	2005	27/01/2009	27/01/2016

Report of the Remuneration Committee

Options granted under the 1997 scheme can only be exercised if the Committee is satisfied that over a period of not less than three years commencing on the date of grant there has been an increase in the Group's earnings per share of at least 2% per annum above the growth in the Retail Prices Index over the same period Only HMRC approved options can now be issued under this scheme Under the 1997 scheme no Director may accumulate an issued value of more than four years' salary in unexpired options

Options granted under the 2005 scheme can only be exercised in full if the Committee is satisfied that over a period of either three or four years from the date of grant there has been an increase in the Group's earnings per share of at least 10% per annum above the growth in the Retail Prices Index over the same period 25% of the options awarded can be exercised if the Committee is satisfied that over a period of either three or four years from the date of grant there has been an increase in the Group's earnings per share of at least 5% per annum above the growth in the Retail Prices Index over the same period A sliding scale operates between the two limits If the vesting conditions are not met after four years then the options lapse Under the 2005 scheme except under exceptional circumstances no Director may be granted options to the value of more than one year's salary per annum

No Directors' options were exercised in the year

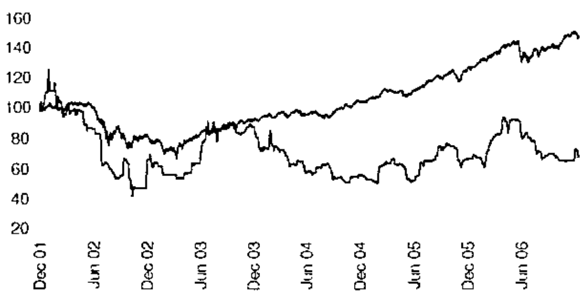
The market price of the Company's ordinary shares at 30 November 2006 was 122 pence (2005 122 pence)

The range of market prices during the year was 111 pence to 172 pence

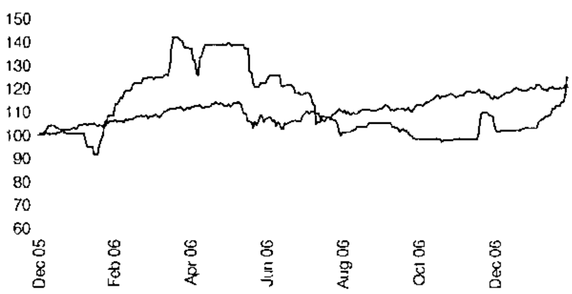
Total shareholder return

The following graphs chart total shareholder return against the FTSE All Share Index for the last 5 years rebased to 100 at 1 December 2001 and for the last year rebased to 100 at 1 December 2005 Given the changing nature of the Group, and different sectors it operates in, the FTSE All Share Index is the logical comparator index

5 year total shareholder return



1 year total shareholder return



—Porvair plc —FTSE All Share Index

Directors' interests

The beneficial interests at 30 November 2006 and 30 November 2005 of the Directors 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

	2006		2005	
	Ordinary shares	**Share options**	Ordinary shares	Share options
Executive Directors				
B D W Stocks	**90,050**	**512,616**	90 050	365 765
C P Tyler	**9,500**	**260,000**	9 500	160 000
Non-Executive Directors				
M R B Gatenby	**14,000**	–	14 000	–
C L Matthews	**10,000**	–	10 000	–
A J Walker	**4,011**	–	4 011	–

The sections on 'Directors' remuneration' and 'Share options' contain the auditable information All the other sections contain non-auditable information

Andrew Walker, Chairman Remuneration Committee
29 January 2007

Corporate governance

Compliance
The Directors are of the opinion that the Company has complied with the provisions of the 2003 Combined Code on Corporate Governance throughout the year except where explicitly set out below

Board of Directors
The Board consists of six Directors three Executive Directors and three Non-Executive Directors The Board is chaired by Charles Matthews Ben Stocks is the Group Chief Executive and Christopher Tyler is the Group Finance Director Michael Gatenby Charles Matthews and Andrew Walker are independent Non-Executive Directors Michael Gatenby is the Senior Non-Executive Director The Board considers that Charles Matthews continued to be an independent Non-Executive Director after his appointment as Chairman Dr John Sexton joined the Board after the year end as an Executive Director

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

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

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

Procedural compliance is monitored by The Company Secretary and the Directors' appointment and removal is a matter for the Board as a whole Independent professional advice and training are available to all the Directors The Senior Non-Executive Director Michael Gatenby is available for consultation with shareholders through the Company Secretary, by written submission None of the Company's major shareholders has asked for a meeting with the Non-Executive Directors in the period under review however the Executive Directors have met with the Company's major shareholders and other potential investors on a regular basis and have reported to the Board on those meetings

The Non-Executive Directors' terms of appointment do not specify a specific period for their appointment and therefore the terms are not in compliance with provision B 1 6 of the Code however in accordance with the Articles of Association one third of the Directors who have served throughout the year retire by rotation each year and if eligible, may offer themselves for re-election at the Annual General Meeting All newly appointed Directors offer themselves for election at the first Annual General Meeting following their appointment

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

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

The Company maintains Directors' and Officers' liability insurance

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

The Board undertook a rigorous self assessment review during the year to consider its own performance The Senior 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

Audit Committee
The Audit Committee currently comprises all of the independent Non-Executive Directors of the Company The Chairman of the Audit Committee is Michael Gatenby The Committee includes Charles Matthews the Chairman of the Company The Board takes the view that Charles Matthews is an independent Non-Executive Director and considers that it is appropriate for the Audit Committee to comprise all three independent Non-Executive Directors rather than reduce the Committee to only two members

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

The Board considers that the membership of the Committee as a whole has sufficient recent and relevant financial experience to discharge its function The Committee has a formal agenda, timetable and terms of reference During the course of the period under review it has

- reviewed the financial statements of the Company and any formal announcements relating to the Company's financial performance prior to announcement
- monitored the Company's internal financial controls and the Company's internal control and risk management systems and ensured that these are properly reviewed by the Group's management

- reviewed the scope of the work done by Group management in reviewing the operating companies' internal controls and procedures The Committee consider this work to be of such a standard that there is no separate requirement for an independent internal audit function particularly given the size and complexity of the operations
- made recommendations to the Board in relation to the appointment of the external auditor and approved the remuneration and terms of engagement of the external auditor
- monitored the external auditor's independence and objectivity
- reviewed arrangements by which staff of the Company may raise concerns about possible improprieties in matters of financial reporting or other matters

The Committee's full terms of reference are available from the Company Secretary on request

The Audit Committee has set a policy which is intended to maintain the independence of the Company's auditors when acting as auditor of the Group accounts The policy governs the provision of audit and non-audit services provided by the auditor and in summary, requires significant non-audit services other than routine tax compliance services to be subjected to a competitive tendering process

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

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

Remuneration Committee
The Remuneration Committee determines and recommends to the Board the framework or broad policy for the remuneration and long term incentive arrangements of the Company's Executive Directors The Committee's full terms of reference are available from the Company Secretary on request The Committee comprises all of the independent Non-Executive Directors of the Company The Chairman of the Company is a member of the Committee and therefore the composition of the Committee is not in compliance with B 2 1 of the 2003 Code However, the Committee will be in compliance with the 2006 Code when it is adopted by the Company for the year ending 30 November 2007 Charles Matthews was the Chairman of the Committee until his appointment as Chairman of the Group on 12 April 2006 Andrew Walker assumed the Chairmanship from that date The Group Chief Executive may be invited to attend and speak at meetings of the Committee, but does not participate in any matter which impacts upon his own remuneration arrangements The remuneration of the Non-Executive Directors including the Chairman is set by the Executive Directors

The Report of the Remuneration Committee on pages 18 to 20 includes details on remuneration policy practices and the remuneration of the Directors

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

Nomination Committee
The Company has established a Nominations Committee which provides a transparent process and procedure for the appointment of new Directors to the Board The Committee comprises all of the Non-Executive Directors The Committee is chaired by the Chairman of the Company The Committee's terms of reference which are available from the Company Secretary on request include

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

Any Director appointed since the last AGM is required under the Company's Articles of Association, to retire and seek election by the shareholders at the next AGM

The terms of reference for the appointment of the Non-Executive Directors are available for inspection from the Company Secretary

The Nominations Committee did not meet in the year

Pension Committee
The Company operates a defined benefit pension plan ('Plan') which was closed to new members in October 2001 This Plan is financed through a separate trust fund administered by trustees with an independent Chairman In addition the Group also provides defined contribution schemes for employees in the UK and the US

The Company had a Pension Committee up to 12 April 2006 Its objectives were to keep under review the present and future pension requirements within the Group and to monitor the status of the Plan with regard to those employees pensioners and deferred pensioners who remain participants It was chaired by John Morgan Michael Gatenby Christopher Tyler and Andrew Walker were the other members

As a result of the increased focus required on the operation and management of defined benefit pension schemes the Group decided that decisions in relation to the management of the Group's pension liabilities should be matters reserved for the Board as a whole and consequently the Pension Committee was disbanded from 12 April 2006

Internal control
The Turnbull Report issued in September 1999 gives guidance for directors on reviewing internal controls and reporting The Company has complied in full throughout the year and up to the date the financial statements were approved, with the recommendations of the Turnbull Report

The Board has overall responsibility for ensuring that the Group maintains a system of internal control 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 key risks As with any such system, it can only provide reasonable but not absolute assurance against material misstatement or loss The Board has reviewed the effectiveness of the process regularly throughout the year The Group's key procedures are as follows

Control environment – each operating business has its own management group which meets regularly to monitor operational matters The Managing Director of each operating business reports to the Group Chief Executive, and clearly defined lines of responsibility have been established within this organisational structure The Executive Directors visit all operations regularly to perform detailed reviews

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 The Board also commissions independent reviews of the key risks facing the Group as appropriate

Information and control systems – each operating business maintains its own internal systems and controls designed to provide management with regular and reliable management information The Group has a comprehensive process of annual budgets and detailed monthly reporting The annual budget of each operating business and the consolidated Group budget are approved by the Board as part of its normal responsibilities

Monitoring system – the Board has established a framework of controls encompassing procedures applicable to all businesses that are subject to executive review The Group operates a self-assessment process so that the operating businesses can quantify the extent of their compliance with control objectives This process is monitored by the Group Finance Director and central finance department The Group adopted a formal whistle blowing procedure during the year which gives employees the opportunity to escalate their concerns, ultimately to the Senior Non-Executive Director

The Audit Committee and the Board have reviewed the effectiveness of the Group's internal controls for the year 1 December 2005 to 30 November 2006

Christopher Tyler, Company Secretary
29 January 2007

Independent auditors' report to the members of Porvair plc

We have audited the Group financial statements of Porvair plc for the year ended 30 November 2006 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes These Group financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent company financial statements of Porvair plc for the year ended 30 November 2006 and on the information in the Report of the Remuneration Committee that is described as having been audited

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' responsibilities

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements The information given in the Directors' report includes that specific information presented in the Chairman and Chief Executive's statement and the Finance Director's review that is cross referred from the Business review section of the Directors' report

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements The other information comprises About Porvair, Key highlights in 2006, Porvair's Strategy, the Chairman and Chief Executive's statement, the Finance Director's review, the Board of Directors, the Board committees, Secretary and advisors, the Directors' report, the unaudited part of the Report of the Remuneration Committee and the Corporate governance statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 30 November 2006 and of its profit and cash flows for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the Group financial statements

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, Cambridge
Chartered Accountants and Registered Auditors
29 January 2007

Consolidated income statement

For the year ended 30 November	Note	2006 £'000	2005 Before exceptional items £'000	2005 Exceptional items £'000	2005 Total £'000
Continuing operations					
Revenue	2	**46,204**	44,873	–	44,873
Cost of sales		**(31,436)**	(30,985)	–	(30,985)
Gross profit		**14,768**	13,888	–	13,888
Distribution costs		**(619)**	(510)	–	(510)
Administrative expenses		**(10,476)**	(10,144)	67	(10,077)
Operating profit	2	**3,673**	3 234	67	3,301
Interest payable and similar charges	5	**(716)**	(757)	–	(757)
Interest receivable	5	**119**	205	–	205
Profit before income tax	3	**3,076**	2,682	67	2,749
Income tax expense	6	**(985)**	(800)	(20)	(820)
Profit for the year		**2,091**	1,882	47	1 929
Profit attributable to minority interest		**–**	(561)	–	(561)
Profit attributable to shareholders	22	**2,091**	1,321	47	1,368
Earnings per share (basic)	7	**5 2p**	3 6p	0 1p	3 7p
Earnings per share (diluted)	7	**5 1p**	3 6p	0 1p	3 7p

Consolidated statement of recognised income and expense

For the year ended 30 November	Note	2006 £'000	2005 £'000
Exchange differences on translation of foreign subsidiaries	22	**(1,598)**	1,079
Actuarial gains on defined benefit pension scheme	19	**2,300**	300
Taxation charge on items taken directly to equity	18	**(729)**	(73)
Net (expense)/income recognised directly in equity		**(27)**	1,306
Profit for the year		**2,091**	1,929
Total recognised income for the year		**2,064**	3,235
Attributable to			
Minority interests		**-**	(561)
Equity shareholders of Porvair plc		**2,064**	2,674

Consolidated balance sheet

As at 30 November	Note	2006 £'000	2005 £'000
Non-current assets			
Property, plant and equipment	9	**6,596**	8,045
Goodwill and other intangible assets	10	**26,718**	27 804
Deferred tax asset	18	**1,976**	2,819
Other receivable	11	**968**	1 159
		36,258	39 827
Current assets			
Inventories	13	**6,499**	6,103
Trade and other receivables	14	**8,195**	7,970
Derivative financial instruments	12	**97**	-
Cash and cash equivalents	15	**1,756**	1,001
		16,547	15,074
Current liabilities			
Trade and other payables	16	**(5,939)**	(6,710)
Current tax liabilities		**(355)**	(676)
Bank overdrafts and loans	17	**(500)**	(500)
Derivative financial instruments	12	**-**	(66)
Provisions for other liabilities and charges	20	**(150)**	(324)
		(6,944)	(8,276)
Net current assets		**9,603**	6,798
Non-current liabilities			
Bank loans	17	**(9,695)**	(9,012)
Retirement benefit obligations	19	**(4,275)**	(7,031)
Provisions for other liabilities and charges	20	**(367)**	(485)
		(14,337)	(16,528)
Net assets		**31,524**	30,097
Capital and reserves			
Share capital	21	**811**	810
Share premium account	21	**32,615**	32,513
Cumulative translation reserve	22	**(3,296)**	(1,698)
Retained earnings/(deficit)	22	**1,394**	(1,528)
Total shareholders' equity		**31,524**	30,097

The financial statements on pages 25 to 52 were approved by the Board of Directors on 29 January 2007 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	2006 £'000	2005 £'000
Cash flows from operating activities			
Cash generated from operations	23	**2,303**	4 497
Interest received		**60**	185
Interest paid		**(744)**	(494)
Tax paid		**(1,266)**	(800)
Net cash generated from operating activities		**353**	3,388
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)		**-**	(6,603)
Purchase of property plant and equipment	9	**(573)**	(835)
Purchase of intangible assets	10	**(390)**	(47)
Available for sale investments		**500**	1,288
Net cash used in investing activities		**(463)**	(6 197)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	21	**103**	3,908
Increase/(repayment) of borrowings		**1,669**	(2,508)
Dividends paid to shareholders		**(832)**	(736)
Net cash generated from financing activities		**940**	664
Net increase/(decrease) in cash and cash equivalents		**830**	(2,145)
Effects of exchange rate changes		**(75)**	99
		755	(2,046)
Cash and cash equivalents at 1 December		**1,001**	3,047
Cash and cash equivalents at 30 November	15	**1,756**	1,001

Reconciliation of net cash flow to movement in net debt

	2006 £'000	2005 £'000
Net increase/(decrease) in cash and cash equivalents	**830**	(2,145)
Effects of exchange rate changes	**911**	(869)
(Increase)/repayment of borrowings	**(1,669)**	2,508
Net debt at 1 December	**(8,511)**	(8,005)
Net debt at 30 November	**(8,439)**	(8,511)

Notes to the consolidated financial statements

1 Summary of significant accounting policies

Porvair is a public limited company registered in the UK and listed on the London Stock Exchange

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union International Financial Reporting Interpretations Committee (IFRIC) interpretations and those parts of the Companies Act 1985 applicable to companies reporting under IFRS Details of how the Group's results and financial position are affected by the change to IFRS are set out in Note 28 The Company has elected to prepare its entity accounts in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP") and these are presented on pages 54 to 60

The financial statements have been prepared under the historical cost convention except for certain items that have been measured at fair value as detailed in the individual accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately differ from those estimates

Basis of consolidation

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 Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i e discount on acquisition) is credited to the income statement in the period of acquisition The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised

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

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

Use of assumptions and estimates

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised

Material estimates and assumptions are made in particular with regard to establishing uniform depreciation and amortisation periods for the Group, impairment testing, parameters for measuring pension and other provisions, determination of the fair value of long term receivables and the likelihood that tax assets can be realised

The Group tests annually whether goodwill has suffered any impairment The recoverable amounts of cash generating units have been determined based on value-in-use calculations These calculations require the use of estimates (note 10)

Goodwill

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

Goodwill is recognised as an asset and reviewed for impairment at least annually Any impairment is recognised immediately in the income statement and is not subsequently reversed

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

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

1 Summary of significant accounting policies (continued)

Revenue recognition
Revenue comprises the invoiced value of goods and services supplied net of value added tax and other sales taxes Revenue is recognised when goods are despatched to the customer

Interest income is accrued on a time 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

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

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

Foreign currencies
The consolidated financial statements are presented in Pounds Sterling, which is the Company's functional and presentational currency The Group determines the functional currency of each entity and items included in the financial statements of each entity are measured using that functional currency

Transactions in currencies other than Pounds Sterling are recorded at the rates of exchange prevailing on the dates of the transactions 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 Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity

On consolidation, the assets and liabilities of the Group's overseas operations and 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 equity and transferred to the Group's translation reserve Such translation differences are recognised as income or expenditure in the period in which the operation is disposed of

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 recognised in profit or loss in the period in which they are incurred

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

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned

Retirement benefit costs
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due Payments made to state managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme

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 outside the income statement in the consolidated statement of recognised income and expense

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefits become vested

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 Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax

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

Notes to the consolidated financial statements

1 Summary of significant accounting policies (continued)

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, and interests in joint ventures, 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 that are expected to apply in the period when the liability is settled or the asset is realised Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Exceptional items
In accordance with IAS 1, ("Presentation of financial statements"), the Group presents certain items as "exceptional" These are material items which derive from events or transactions that fall within the Group's ordinary activities and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size, nature or incidence if the financial statements are to give a true and fair view

Property, plant and equipment
Land and buildings held 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

Properties in the course of construction for production rental or administrative purposes, or for purposes not yet determined, 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 property assets, commences when the assets are ready for their intended use

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight line method, on the following bases

Buildings	2 5 – 3%
Fixtures and equipment	10 – 30%
Motor vehicles	25%

Freehold land is not depreciated

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

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

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 is recognised only if all of the following conditions are met

- an asset is created that can be identified,
- it is probable that the asset created will generate future economic benefits and
- the development cost of the asset can be measured reliably

Internally generated intangible assets are amortised on a straight line basis over their useful lives 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 and trademarks
Patents and trademarks are measured initially at purchase cost and are amortised on a straight line basis over their estimated useful lives

1 Summary of significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill

The Group reviews annually the carrying amounts of its tangible 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) Where the asset does not generate cash flows that are independent from other assets the Group estimates the recoverable amount of the cash generating unit to which the asset belongs An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) 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 as income 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

Loans and receivables

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

Trade receivables

Trade receivables are recognised initially at fair value A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate The amount of the provision is recognised in the income statement within administrative expenses

Cash and cash equivalents

'Cash and cash equivalents' includes cash in hand and deposits held with banks

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 to 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 stated at their nominal value

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs

Derivative financial instruments and hedge accounting

The Group s activities expose it primarily to the financial risks of changes in foreign currency exchange rates The Group uses foreign exchange forward contracts to hedge these exposures The Group does not use derivative financial instruments for speculative purposes

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise

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

Notes to the consolidated financial statements

1 Summary of significant accounting policies (continued)

Provisions

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's liability

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties

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

Share based payments

The Group has applied the requirements of IFRS 2 Share Based Payments In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005

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

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

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments

Future accounting standards – New IFRS standards and interpretations not applied

During 2006, the IASB and IFRIC issued additional standards and interpretations which are effective for periods starting after the date of these financial statements The following standards and interpretations have yet to be adopted by the Group

International Financial Reporting Standards (IFRS / IAS)	Effective Date
IFRS 1 – Amendment relating to IFRS 6	1 January 2006
IFRS 4 – Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006
IFRS 6 – Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS 6 – Amendment relating to IFRS 6	1 January 2006
IFRS 7 – Financial Instruments Disclosures	1 January 2007
IFRS 8 – Operating Segments	1 January 2009
IAS 1 – Amendment to IAS 1 – Presentation of Financial Statements Capital Disclosures	1 January 2007
IAS 39 – Fair Value Option	1 January 2006
IAS 39 – Amendments to IAS 39 – Transition and Initial Recognition of Financial Assets and Financial Liabilities (Day 1 profits)	1 January 2006
IAS 39 – Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006

International Financial Reporting Interpretations Committee (IFRIC)	Effective Date
IFRIC 4 – Determining Whether An Arrangement Contains a Lease	1 January 2006
IFRIC 5 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyper Inflationary Economies	1 March 2006
IFRIC 8 – Scope of IFRS 2	1 May 2006

1 Summary of significant accounting policies (continued)

The Group does not anticipate that the adoption of these standards and interpretations will have a material effect on its financial statements on initial adoption Upon adoption of IFRS 7, the Group will be required to disclose additional information about its financial instruments, their significance and the nature and extent of the risks to which they give rise, together with greater detail as to the fair value of its financial instruments and its risk exposure There will be no effect on reported income or net assets

2 Segment information

Primary reporting format – business segments

At 30 November 2006, the Group is organised on a worldwide basis into three main business segments

(1) Metals Filtration

(2) Microfiltration

(3) Advanced Materials

The 'Other unallocated' segment mainly comprises Group corporate costs, some research and development costs, new business development costs and general financial services The unallocated loss before income tax of £1,498,000 includes provisions written back of £292,000, principally relating to a reduced expected onerous lease cost arising on a building that was refurbished and sublet in 2006 (note 20)

The segment results for the year ended 30 November 2006 are as follows

30 November 2006	Note	Metals Filtration £ 000	Microfiltration £ 000	Advanced Materials £ 000	Other unallocated £ 000	Group £ 000
Revenue		19 076	26,445	683	–	**46,204**
Operating profit/(loss)						
before share based payments		363	5,506	(1,271)	(833)	**3,765**
Share based payments	4	(9)	(4)	(11)	(68)	**(92)**
Operating profit/(loss)		354	5,502	(1,282)	(901)	**3,673**
Finance costs	5	–	–	–	(597)	**(597)**
Profit/(loss) before income tax		354	5,502	(1,282)	(1,498)	**3,076**
Income tax expense		–	–	–	(985)	**(985)**
Profit/(loss) for the year		354	5,502	(1,282)	(2,483)	**2,091**

The segment results for the year ended 30 November 2005 are as follows

30 November 2005	Note	Metals Filtration £ 000	Microfiltration £ 000	Advanced Materials £ 000	Other unallocated £ 000	Group £ 000
Revenue		18,861	25,392	620	–	44,873
Operating profit/(loss)						
before share based payments		1,032	4,819	(1,633)	(903)	3 315
Share based payments	4	(11)	(1)	(17)	(52)	(81)
Operating profit/(loss) before exceptional items		1,021	4,818	(1 650)	(955)	3,234
Exceptional items		–	711	–	(644)	67
Operating profit/(loss) after exceptional items		1,021	5,529	(1,650)	(1,599)	3,301
Finance costs	5	–	–	–	(552)	(552)
Profit/(loss) before income tax		1,021	5 529	(1,650)	(2,151)	2 749
Income tax expense		–	–	–	(820)	(820)
Profit/(loss) for the year		1 021	5,529	(1,650)	(2,971)	1 929

2 Segment information (continued)

Other segment items included in the income statement are as follows

30 November 2006	Note	Metals Filtration £ 000	Microfiltration £ 000	Advanced Materials £ 000	Other unallocated £ 000	Group £ 000
		Year ended 30 November 2006				
Depreciation and amortisation (tangible and intangible assets)	9 10	566	701	184	15	**1,466**

30 November 2005	Note	Metals Filtration £ 000	Microfiltration £ 000	Advanced Materials £ 000	Other unallocated £ 000	Group £ 000
		Year ended 30 November 2005				
Depreciation and amortisation (tangible and intangible assets)	9 10	539	795	147	25	1,506

The segment assets and liabilities at 30 November 2006 and capital expenditure for the year then ended are as follows

30 November 2006	Note	Metals Filtration £ 000	Microfiltration £ 000	Advanced Materials £ 000	Other unallocated £ 000	Group £ 000
Segmental assets		19 115	27 759	903	2 104	**49,881**
Long term receivable	11	–	–	–	968	**968**
Deferred payment on investment sale	14	–	–	–	200	**200**
Cash and cash equivalents	15	–	–	–	1,756	**1,756**
Total assets		19,115	27,759	903	5,028	**52,805**
Segmental liabilities		(1,504)	(3,698)	(50)	(1,559)	**(6,811)**
Retirement obligations	19	–	–	–	(4,275)	**(4,275)**
Borrowings	17	–	–	–	(10,195)	**(10,195)**
Total liabilities		(1,504)	(3 698)	(50)	(16,029)	**(21,281)**
Capital expenditure (tangible and intangible assets)	9 10	444	503	16	–	**963**

The segment assets and liabilities at 30 November 2005 and capital expenditure for the year then ended are as follows

30 November 2005	Note	Metals Filtration £ 000	Microfiltration £ 000	Advanced Materials £ 000	Other unallocated £ 000	Group £ 000
Segmental assets		21,533	26,550	1,175	2,983	52,241
Long term receivable	11	–	–	–	959	959
Deferred payment on investment sale	11 14	–	–	–	700	700
Cash and cash equivalents	15	–	–	–	1,001	1,001
Total assets		21 533	26,550	1,175	5,643	54,901
Segmental liabilities		(2,020)	(3,315)	(100)	(2,826)	(8,261)
Retirement obligations	19	–	–	–	(7,031)	(7,031)
Borrowings	17	–	–	–	(9,512)	(9,512)
Total liabilities		(2,020)	(3,315)	(100)	(19,369)	(24 804)
Capital expenditure (tangible and intangible assets)	9 10	368	943	88	4	1,403

Segment assets consist primarily of property, plant and equipment, intangible assets inventories receivables and operating cash

Segment liabilities comprise operating liabilities and include items such as taxation

Capital expenditure comprises additions to property plant and equipment and intangible assets

2 Segment information (continued)

Secondary reporting format – geographical segments

Revenue	2006 By destination £'000	2006 By origin £'000	2005 By destination £'000	2005 By origin £'000
United Kingdom	**13,581**	**26,445**	12,181	25,392
Continental Europe	**6,012**	**–**	5,144	–
Americas	**22,030**	**19,759**	22,019	19,481
Asia	**3,385**	**–**	4,376	–
Australasia	**506**	**–**	503	–
Africa	**690**	**–**	650	–
	46,204	**46,204**	44,873	44,873

Total assets	2006 £'000	2005 £'000
United Kingdom	**32,787**	32,193
Americas	**20,018**	22,708
	52,805	54,901

Capital expenditure	2006 £'000	2005 £'000
United Kingdom	**503**	947
Americas	**460**	456
	963	1,403

3 Profit before income tax

Revenue comprises income from the sale of goods and services during the year

The following items have been included in arriving at operating profit

	2006 £'000	2005 £'000
Staff costs	**15,345**	14,745
Inventories – cost of inventories recognised as an expense (included in cost of sales)	**16,372**	16,068
Net realised foreign exchange gains	**(220)**	(115)
Depreciation on tangible fixed assets	**1,454**	1,499
Amortisation of intangible fixed assets	**12**	7
Loss on sale of tangible fixed assets	**4**	4
Other operating lease rentals payable		
– Plant and machinery	**200**	165
– Property	**804**	836
Repairs and maintenance on property, plant and equipment	**981**	891
Trade receivables impairment/(reversal of impairment)	**26**	(36)
Government grants contribution to development expenditure	**(40)**	(333)
Research and development expenditure	**2,703**	3,251
Services provided by the Group's auditors and network firms		
During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below		
Fees payable to the Company's auditors for audit of parent company and consolidated accounts	**53**	45
Fees payable to the Company's auditors and its associates for other services	**25**	26
The audit of Company's subsidiaries pursuant to legislation	**50**	40
Other services pursuant to legislation	**16**	14
Tax services	**59**	63
	203	188

In addition to the above services, the Group's auditors acted as auditors to the Porvair plc Pension and Death Benefit Plan The appointment of auditors to the Group's pension plan and the fees paid in respect of those audits are agreed by the trustees who act independently from the management of the Group The aggregate fees paid to the Group's auditors for the audit services to the pension plan during the year was £11,000 (2005 £11,000)

4 Employee benefit expense

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

	2006 Average	2005 Average
Number		
Metals Filtration	**167**	178
Microfiltration	**279**	278
Advanced Materials	**15**	24
Head office	**7**	7
	468	487
North American employees included above	**182**	202

	2006 £'000	2005 £'000
Staff costs		
Wages and salaries	**12,321**	12 249
Social security costs	**2,018**	1 610
Other pension costs	**914**	805
Share based payments	**92**	81
	15,345	14 745

Detailed disclosures of Directors' emoluments and interests in share options are shown in the Report of the Remuneration Committee on pages 18 to 20 The Executive Directors comprise the key management and their remuneration is in the Report of the Remuneration Committee

5 Finance income and costs

	2006 £'000	2005 £'000
Interest payable on bank loans and overdrafts	**716**	557
Pension scheme finance costs	**-**	200
Interest receivable – long term receivable	**(81)**	(80)
Interest receivable – other	**(38)**	(125)
	597	552

6 Income tax expense

	Note	2006 £'000	2005 £'000
Current tax			
UK Corporation tax		**1,157**	1,237
Adjustment in respect of prior periods		**(250)**	(200)
Overseas tax		**15**	-
Deferred tax			
Origination – reversal of timing differences	18	**(10)**	(137)
Adjustment in respect of prior periods	18	**73**	(80)
		985	820

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

	2006 £'000	2005 £'000
Profit before tax	**3,076**	2,749
Tax at the UK corporation tax rate of 30% (2005 30%)	**923**	825
Tax adjustments in respect of previous periods	**(250)**	(200)
Deferred tax adjustments in respect of previous periods	**73**	(80)
Deferred tax on share based payments within equity	**-**	(15)
Tax effect of expenses not deductible in determining taxable profit	**35**	85
Tax losses for which no deferred income tax asset was recognised	**-**	205
Effect of different tax rates of subsidiaries operating in other jurisdictions	**204**	-
Tax charge	**985**	820

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

	2006 £'000	2005 £'000
Deferred tax on share based payments	**39**	(17)
Deferred tax on actuarial gains on the pension fund	**690**	90
	729	73

Notes to the consolidated financial statements

7 Earnings per share

	2006			2005		
	Earnings £'000	Weighted average number of shares	Per share amount (pence)	Earnings £'000	Weighted average number of shares	Per share amount (pence)
Basic EPS						
Earnings attributable to ordinary shareholders	**2,091**	**40,553,373**	**5 2**	1,368	37,037,333	3 7
Effect of dilutive securities						
Share options		**158,889**	**(0 1)**		56 531	-
Diluted EPS – adjusted earnings	**2,091**	**40,712,262**	**5 1**	1 368	37 093,864	3 7
Earnings per share excluding exceptional items						
Basic EPS						
Earnings attributable to ordinary shareholders	**2,091**	**40,553,373**	**5 2**	1,321	37,037,333	3 6
Effect of dilutive securities						
Share options		**158,889**	**(0 1)**		56 531	-
Diluted EPS – adjusted earnings	**2,091**	**40,712,262**	**5 1**	1,321	37,093,864	3 6

8 Dividends per share

		2006		2005
	Per share	£'000	Per share	£ 000
Final dividend paid	**1 05p**	**426**	1 0p	368
Interim dividend paid	**1 00p**	**406**	1 0p	368
	2 05p	**832**	2 0p	736

The Directors recommend a final dividend of 1 1 pence for the financial year ended 30 November 2006 to be paid on 16 May 2007

9 Property, plant and equipment

	Freehold land and buildings £ 000	Assets in course of construction £ 000	Plant machinery and equipment £ 000	Total £ 000
Cost				
At 1 December 2004	3,306	333	16,161	19,800
Reclassification	–	(208)	208	–
Additions	37	231	567	835
Disposals	–	–	(703)	(703)
Exchange differences	217	24	777	1,018
At 30 November 2005	3,560	380	17,010	20,950
Depreciation				
At 1 December 2004	(575)	–	(10,996)	(11,571)
Charge for year	(129)	–	(1 370)	(1,499)
Disposals	1	–	698	699
Exchange differences	(58)	–	(476)	(534)
At 30 November 2005	(761)	–	(12 144)	(12 905)
Net book value at 30 November 2005	2,799	380	4 866	8 045

9 Property, plant and equipment (continued)

	Freehold land and buildings £ 000	Assets in course of construction £ 000	Plant machinery and equipment £ 000	Total £ 000
Cost				
At 1 December 2005	3,560	380	17,010	20,950
Reclassification	84	382	(466)	–
Additions	–	334	239	573
Disposals	–	(4)	(198)	(202)
Exchange differences	(282)	(23)	(1,024)	(1 329)
At 30 November 2006	**3,362**	**1,069**	**15,561**	**19,992**
Depreciation				
At 1 December 2005	(761)	–	(12,144)	(12,905)
Charge for year	(134)	–	(1,320)	(1,454)
Disposals	–	–	198	198
Exchange differences	82	–	683	765
At 30 November 2006	**(813)**	**–**	**(12,583)**	**(13,396)**
Net book value at 30 November 2006	**2,549**	**1,069**	**2,978**	**6,596**

10 Goodwill and other intangible assets

	Goodwill £ 000	Development capitalised £ 000	Software capitalised £ 000	Total £ 000
At 1 December 2004				
Cost	44,408	62	210	44,680
Accumulated amortisation and impairment	(18,421)	–	(198)	(18,619)
Net book amount	25,987	62	12	26 061
Year ended 30 November 2005				
Opening net book amount	25,987	62	12	26,061
Exchange differences	1,182	–	–	1,182
Additions	–	40	7	47
Additions in respect of the purchase of the minority interest	521	–	–	521
Amortisation charge	–	–	(7)	(7)
Closing net book amount	27 690	102	12	27,804
At 30 November 2005				
Cost	46,111	102	217	46,430
Accumulated amortisation and impairment	(18,421)	–	(205)	(18 626)
Net book amount	27,690	102	12	27 804
Year ended 30 November 2006				
Opening net book amount	27,690	102	12	27,804
Exchange differences	(1,447)	(17)	–	(1,464)
Additions	–	227	163	390
Amortisation charges	–	–	(12)	(12)
Closing net book amount	**26,243**	**312**	**163**	**26,718**
At 30 November 2006				
Cost	44,664	312	380	45,356
Accumulated amortisation and impairment	(18,421)	–	(217)	(18,638)
Net book amount	**26,243**	**312**	**163**	**26,718**

10 Goodwill and other intangible assets (continued)

Internally generated intangible assets arising from the Group's product developments are recognised only if all of the following conditions are met

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits and
- the development cost of the asset can be measured reliably

Internally generated intangible assets are amortised on a straight line basis over their useful lives commencing when the development is complete and the asset created starts to generate economic benefits Where no internally generated intangible asset can be recognised development expenditure is recognised as an expense in the period in which it is incurred

Amortisation of £12,000 (2005 £7,000) is included in 'cost of sales' in the income statement and £Nil (2005 £Nil) in administrative expenses

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to country of operation and business segment

A segment level summary of the goodwill allocation is presented below

	2006				2005			
	Metals Filtration £'000	**Microfiltration £'000**	**Advanced Materials £'000**	**Total £'000**	Metals Filtration £'000	Microfiltration £'000	Advanced Materials £'000	Total £'000
	11,490	**14,753**	**–**	**26,243**	12,937	14,753	–	27,690

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, except for Advanced Materials which is covered by a budget over a five year period Cash flows beyond the three year period are extrapolated using the estimated growth rates stated below

Key assumptions used for value-in use calculations	Metals Filtration		Microfiltration		Advanced Materials	
	US	**UK**	**US**	**UK**	**US**	**UK**
Budgeted gross margin	50%	50%	50%	50%	50%	50%
Weighted average growth rate used to extrapolate cash flows beyond the budget period	3%	3%	3%	3%	3%	3%
Cost of capital	9%	9%	9%	9%	9%	9%

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

If the revised estimated profit before tax at 30 November 2006 was 10% lower than management's estimates and the pre-tax discount rate applied to the cash flows was 10% higher than management's estimate, the Group would still not require any impairment against goodwill

11 Other receivable

	2006 £'000	2005 £'000
Deferred consideration on investment sale	**–**	200
Long term receivable	**968**	959
At 30 November	**968**	1,159

	2006 £'000	2005 £'000
At 1 December	**1,159**	1,111
Reallocated to short term receivables	**(200)**	–
Exchange difference	**(12)**	28
Fair value restatement	**21**	20
At 30 November	**968**	1 159

The fair value of this long term receivable is based on cash flows discounted using a rate based on an unsecured borrowing rate of 9% (2005 9%)

The earliest contracted settlement date for the long term receivable is 31 December 2010

12 Derivative financial instruments

	2006 Assets £'000	2006 Liabilities £'000	2005 Assets £'000	2005 Liabilities £'000
Forward foreign exchange contracts – cash flow hedges – current	**97**	**–**	–	66

Under IFRS the fair value of all forward foreign exchange contracts and currency options is recognised on the balance sheet IAS 39 places significant restrictions on the use of hedge accounting and changes the hedge accounting methodology As a result, from 1 December 2005, the Group recognises all forward foreign exchange contracts and currency options on the balance sheet at fair value

Trading derivatives are classified as a current asset or liability The notional principal amount of the outstanding forward foreign exchange contracts at 30 November 2006 is £1 4 million (2005 £3 7 million) and these relate to US Dollar forward exchange contracts which mature in January and February 2007

13 Inventories

	2006 £'000	2005 £'000
Raw materials	**1,759**	2,126
Work in progress	**2,315**	1,657
Finished goods	**2,425**	2,320
	6,499	6 103

The cost of inventories recognised as expense and included in 'cost of sales' amounted to £16,372,000 (2005 £16,068,000)

14 Trade and other receivables

	2006 £'000	2005 £'000
Trade receivables	**7,471**	6,869
Less provision for impairment	**(45)**	(51)
Trade receivables – net	**7,426**	6,818
Deferred consideration on investment sale	**200**	500
Other debtors	**169**	185
Prepayments	**400**	467
	8,195	7,970

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

The Group has created a provision of £26,000 (2005 £36,000 release) for the impairment of its trade receivables during the year ended 30 November 2006 The Group has used provisions for impaired receivables of £28 000 during the year ended 30 November 2006 (2005 £161,000) The creation and release of provisions for impairment of receivables have been included in 'administrative costs' in the income statement

15 Cash and cash equivalents

	2006 £'000	2005 £'000
Cash at bank and in hand	**956**	1
Short term bank deposits	**800**	1 000
	1,756	1,001

The effective interest rate on short term bank deposits was 4 65% (2005 4 30%), these deposits have an average maturity of one day (2005 one day)

Notes to the consolidated financial statements

16 Trade and other payables

	2006 £'000	2005 £'000
Amounts falling due within one year		
Trade payables	**4,170**	5,034
Taxation and social security	**391**	261
Accruals and deferred income	**1,378**	1,415
	5,939	6,710

17 Borrowings

	2006 £'000	2005 £'000
Secured multicurrency revolving credit facility of US$20 0 million (2005 US$20 0 million) maturing in October 2008 with interest at 1 75% above LIBOR	**8,195**	7,012
Secured five year amortising debt facility of £2 0 million (2005 £2 5 million) expiring in October 2010 with interest at 1 85% above LIBOR	**2,000**	2,500
	10,195	9,512

Bank and other loans of the Group are repayable as follows	2006 £'000	2005 £'000
Within one year	**500**	500
One to two years	**500**	500
Two to five years	**9,195**	8,512
	10,195	9,512

At 30 November 2006 the Group had £1,972,000 (2005 £4,546,000) of unutilised borrowing facilities under the existing bank facility and a £3,000,000 (2005 £3,000,000) overdraft facility

The carrying values of bank borrowings approximate their fair value

The multicurrency revolving credit facility and amortising debt facility are secured by fixed and floating charges against the Group's assets

18 Deferred tax asset

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

	Note	2006 £'000	2005 £'000
At 1 December		**2,819**	2,675
Exchange differences		**(51)**	–
Income statement (charge)/credit	6	**(63)**	217
Tax charged to equity		**(729)**	(73)
At 30 November		**1,976**	2,819

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

	Accelerated capital allowances £'000	Other short term timing differences £'000	Fair value gains £'000	R & D capitalised £'000	Share based payments £'000	Retirement obligations £'000	Total £'000
At 1 December 2004	(509)	1,298	45	(19)	–	1 860	2,675
Credited/(charged) to income statement	(37)	167	(6)	(12)	9	96	217
Credited/(charged) to equity	–	–	–	–	17	(90)	(73)
At 30 November 2005	(546)	1,465	39	(31)	26	1,866	2,819
Credited/(charged) to income statement	6	(75)	(6)	(65)	43	34	(63)
Credited/(charged) to equity	–	–	–	–	(39)	(690)	(729)
Exchange differences	86	(137)	–	–	–	–	(51)
At 30 November 2006	**(454)**	**1,253**	**33**	**(96)**	**30**	**1,210**	**1,976**

18 Deferred tax asset (continued)

There were £1,114,000 (2005 £836,000) of unrecognised deferred tax assets at 30 November 2006 relating to unutilised tax losses, primarily in the US The tax losses in relation to losses incurred in the US have been recognised to the extent that they are expected to be relieved against future profits

There were no other unprovided deferred tax amounts at 30 November 2006 (2005 £Nil)

19 Retirement benefit obligations

	2006 £'000	2005 £'000
Defined benefit scheme deficit	**4,032**	6,769
Additional pension commitments	**243**	262
	4,275	7,031

The additional pension commitments arise out of contractual commitments to certain employees which have fallen outside the scope of the defined benefit plan deficit These liabilities will crystalise between two and fifteen years

a) Defined contribution schemes
For its USA 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 2006 this amounted to £148,000 (2005 £153,000) In 2006 the Group also made payments of £143,000 (2005 £120,000) 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 to defined contribution schemes was £196,000 (2005 £173,000)

b) Defined benefit plan
The Group operates a defined benefit pension scheme 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 Porvair plc Pension & Death Benefit Plan (the 'Plan') was closed to new entrants in October 2001

Formal valuations of the Plan by a professionally qualified actuary are carried out at least every three years using the projected unit method Under this method the current service cost will increase in relation to the salaries of the members in future years as those members approach retirement The latest full actuarial valuation was at 1 April 2003 The 2006 valuation is ongoing and the results will be available in the next financial year

The principal actuarial assumptions adopted in the 2003 valuation were that over the long term, the return on the investments would be 8% per annum, that salary increases would average 5% per annum plus a promotional scale and that future pensions increases would be limited to those provided on a statutory basis The actuarial value of the assets on the funding basis was sufficient to cover 83% (previous valuation in 2000 96%) of the benefits that had accrued to members after allowing for expected increases in pensionable remuneration, and the current funding deficiency amounted to £3,010,000

The UK pension charge for the year was £400,000 (2005 £600,000), the funding via employer contributions was £837,000 (2005 £831,000)

The valuation used is based on the most recent actuarial valuation of the Plan as updated by the Plan actuaries to take account of the market value of the assets and the present value of the liabilities of the Plan at 30 November 2006

Balance sheet
The financial assumptions used to calculate Plan liabilities under IAS 19

Valuation method	2006 Projected Unit	2005 Projected Unit	2004 Projected Unit
Discount rate	**5 0%**	4 9%	5 3%
Inflation rate	**2 9%**	2 6%	2 6%
General salary increases	**3 9%**	4 1%	4 1%
Rate of increase of pensions in payment	**2 9%**	2 6%	2 6%
Rate of increase for deferred pensioners	**2 9%**	2 6%	2 6%

Notes to the consolidated financial statements

19 Retirement benefit obligations (continued)

The PMA92 and PFA92 Calendar Year tables for pre and post retirement mortality have been used, rated up one year for both males and females with reduction of 0 25%pa on discount rate to allow for future improvements, as published by the Continuous Mortality Investigation Bureau (CMIB)

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

	Long term expected rate of return at 30 November 2006	Value at 30 November 2006 £'000	Long term expected rate of return at 30 November 2005	Value at 30 November 2005 £ 000	Long term expected rate of return at 30 November 2004	Value at 30 November 2004 £ 000
Equities	**7 8%**	**12,100**	8 0%	11,300	8 3%	9,900
Bonds	**4 4%**	**6,600**	4 2%	6,200	4 6%	5,200
Other	**4 3%**	**268**	4 1%	131	4 1%	-
Fair value of plan assets		**18,968**		17,631		15,100
Present value of funded obligations		**(23,000)**		(24,400)		(22,400
Deficit in the Plan (excluding deferred tax)		**(4,032)**		(6,769)		(7,300)

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

	2006 £'000	2005 £ 000	2004 £ 000
Deficit at 1 December	**(6,769)**	(7,300)	(8,600)
Contributions paid	**837**	831	700
Current service cost	**(400)**	(400)	(300)
Curtailment cost	**-**	-	1,400
Other finance charge	**-**	(200)	(200)
Actuarial gains/(losses)	**2,300**	300	(300)
Deficit at 30 November	**(4,032)**	(6,769)	(7,300)

Income statement	2006 £'000	2005 £ 000
Analysis of amounts chargeable to operating profit		
Current service cost	**(400)**	(400)
Analysis of amounts chargeable to other finance income		
Interest on Plan liabilities	**(1,200)**	(1,200)
Expected return on assets in the Plan	**1,200**	1,000
Net amount chargeable to other finance income	**-**	(200)
Total chargeable within the income statement before deduction of tax	**(400)**	(600)
Other items		
Analysis of amounts recognised in the statement of recognised income and expense		
Gains on assets	**100**	1,500
Experience gains on liabilities	**3,500**	-
Losses on change in financial and demographic assumptions	**(1,300)**	(1,200)
Total actuarial gain recognised in the statement of recognised income and expenditure	**2,300**	300

20 Provisions for other liabilities and charges

	2006 £'000	2005 £'000
At 1 December	**809**	2,508
Charged to consolidated income statement		
– Additional provisions	**-**	644
– Unused amounts reversed	**(292)**	–
Transfers to accruals	**–**	(1,081)
Transfers to retirement benefits	**–**	(262)
Used in the year	**–**	(1,000)
At 30 November	**517**	809

The provisions arise from an onerous lease provision discounted at 6 75%, relocations legal and other expenses relating to the sale of businesses on 1 December 2003 Further details are shown in note 2

Analysis of total provisions	2006 £'000	2005 £'000
Current (other)	**150**	324
Non-current (onerous lease)	**367**	485
	517	809

21 Share capital and premium

	Number of shares	Ordinary shares £'000	Share premium account £'000	Total £'000
At 1 December 2004	36,803,011	736	28,679	29,415
Proceeds from shares issued	3,680,000	74	3,834	3,908
At 30 November 2005	40,483,011	810	32,513	33,323
Employee share option scheme				
– Proceeds from exercised shares under share option schemes	91,575	1	102	103
At 30 November 2006	**40,574,586**	**811**	**32,615**	**33,426**

The authorised number of ordinary shares is 75 million shares (2005 75 million shares) with a par value of 2 pence per share (2005 2 pence per share) All issued shares are fully paid

Share options

Share options are granted to Directors and to selected employees The exercise price of the granted options is equal to the mid-market price of the shares on the date of grant

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 are 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

Group

21 Share capital and premium (continued)

Details of the share options are

Scheme	Year of grant	Exercise period	Subscription price pence	2006 Number of shares	2005 Number of shares
1986 (Revenue approved)	1996	1999 – 2006	388 53	–	108,409
1997 (Revenue approved)	1999	2002 – 2009	116 18	–	21,259
1997 (Revenue unapproved)	1999	2002 – 2006	116 18	–	58,465
1997 (Revenue unapproved)	1999	2002 – 2006	148 17	–	37,203
1997 (Revenue unapproved)	2000	2003 – 2007	214 49	**31,887**	58,460
1997 (Revenue unapproved)	2001	2004 – 2008	259 00	**130,000**	210,000
1997 (Revenue approved)	2002	2005 – 2012	231 00	**3,000**	6,000
1997 (Revenue unapproved)	2002	2005 – 2009	231 00	–	14 000
1997 (Revenue approved)	2002	2005 – 2012	126 50	**5,000**	10,000
1997 (Revenue unapproved)	2002	2005 – 2009	126 50	**85,000**	130,000
1997 (Revenue approved)	2003	2006 – 2013	111 00	**13,000**	18,000
1997 (Revenue unapproved)	2003	2006 – 2010	111 00	**85,000**	155,000
1997 (Revenue unapproved)	2003	2006 – 2010	160 00	**50,000**	100,000
Save As You Earn Scheme	2003	2006 – 2007	123 75	**214,288**	291,064
1997 (Revenue approved)	2004	2007 – 2014	114 00	**30,000**	30,000
1997 (Revenue unapproved)	2004	2007 – 2011	114 00	**25,000**	30,000
1997 (Revenue unapproved)	2004	2007 – 2011	101 50	**60,000**	60,000
1997 (Revenue unapproved)	2004	2007 – 2011	103 50	**30,000**	30,000
1997 (Revenue unapproved)	2005	2008 – 2012	98 00	**274,000**	274 000
2005 EMI (Revenue approved)	2006	2009 – 2013	151 00	**40,000**	–
2005 EMI (Revenue approved)	2006	2009 – 2013	131 00	**182,660**	–
2005 (Revenue unapproved)	2006	2009 – 2013	131 00	**147,340**	–
At 30 November				**1,406,175**	1,641,860

Movements in share options during the year were

	2006 Weighted average exercise price (pence)	2005 Weighted average exercise price (pence)	2006 Number of shares	2005 Number of shares
At 1 December	**158 52**	191 49	**1,641,860**	1 605,264
Options granted	**133 16**	98 00	**370,000**	274,000
Options expired	**388 53**	281 28	**(108,409)**	(10,629)
Options forfeited	**142 89**	321 67	**(405,701)**	(226,775)
Options exercised	**112 50**	–	**(91,575)**	–
At 30 November	**134 81**	158 52	**1,406,175**	1,641,860
Options exercisable at 30 November	**126 24**	139 56	**455,288**	160,000
Options not exercisable at 30 November	**138 92**	160 56	**950,887**	1,481,860
Total	**134 81**	158 52	**1,406,175**	1,641,860

Options expired during the year were	Scheme	Subscription price pence	2006 Number of shares	2005 Number of shares
	1986	388 53	**108,409**	–
	1997	281 28	–	10,629
At 30 November			**108,409**	10,629

21 Share capital and premium (continued)

Options forfeited during the year were	Scheme	Subscription price pence	2006 Number of shares	2005 Number of shares
	1986	388 53	–	39,327
	1997	331 61	–	53,149
	1997	345 72	–	106,299
	1997	126 50	–	10,000
	SAYE	123 75	**76,776**	–
	1997	231 00	**17,000**	–
	1997	126 00	**50,000**	–
	1997	160 00	**50,000**	–
	1997	148 17	**37,203**	–
	1997	116 18	**53,149**	–
	1997	259 00	**80,000**	–
	1997	214 49	**26,573**	–
	1997	111 00	**10,000**	8,000
	1997	114 00	**5,000**	10,000
At 30 November			**405,701**	226,775

Options exercised during the year were				
	1997	111 00	**65,000**	–
	1997	116 18	**26,575**	–
At 30 November			**91,575**	–

Share based payment

30 November 2006

Grant date / Scheme	28/01/03 Porvair 1997 share option	01/05/03 Share save 2003	25/06/03 Porvair 1997 share option	29/06/04 Porvair 1997 share option	16/09/04 Porvair 1997 share option	25/11/04 Porvair 1997 share option	25/01/05 Porvair 1997 share option	25/01/06 Porvair 2005 share option	07/03/06 Porvair 2005 share option
Share price at grant date	111 00p	137 50p	160 00p	114 00p	101 00p	103 50p	98 00p	131 00p	151 00p
Exercise price	111 00p	123 75p	160 00p	114 00p	101 00p	103 50p	98 00p	131 00p	151 00p
Shares under option	116,000	215,201	90,000	65,000	60,000	30,000	274,000	320,000	50,000
Vesting period (years)	3	3	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	30%	30%	30%	30%	30%	30%
Expected life (years)	3	3	3	3	3	3	3	3	3
Risk free rate	4 00%	3 75%	3 75%	4 50%	4 75%	4 75%	4 75%	4 50%	4 50%
Dividend yield	3 06%	2 47%	2 13%	1 75%	1 97%	1 93%	2 09%	1 60%	1 39%
Fair value per option (£)	0 21907	0 33875	0 33726	0 25840	0 22892	0 23421	0 21883	0 30066	0 35263

	2006 £'000	2005 £'000
Share based payments	**92**	81

Notes to the consolidated financial statements

22 Other reserves

	2006		2005	
	Cumulative translation reserve £'000	Retained (deficit)/ earnings £'000	Cumulative translation reserve £'000	Deficit £'000
At 1 December	**(1,698)**	**(1,528)**	(2,777)	(2 468)
Profit attributable to shareholders	**-**	**2,091**	-	1 368
Direct to equity				
Dividends paid	**-**	**(832)**	-	(736)
Actuarial gains net of tax	**-**	**1,610**	-	210
Share based payments net of tax	**-**	**53**	-	98
Exchange differences	**(1,598)**	**-**	1,079	-
At 30 November	**(3,296)**	**1,394**	(1,698)	(1 528)

23 Cash generated from operations

	2006 £'000	2005 £'000
Operating profit before exceptional items	**3,673**	3,234
Adjustments for		
– Exceptional items	**-**	67
– Non cash pension charge	**113**	125
– Share based payments	**92**	81
– Depreciation and amortisation	**1,466**	1,506
– Loss on disposal of property, plant and equipment	**4**	4
Operating cash flows before movement in working capital	**5,348**	5,017
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)		
– (Increase) in inventories	**(634)**	(19)
– (Increase) in trade and other receivables	**(1,017)**	(235)
– (Decrease) in payables	**(1,102)**	(85)
– (Decrease) in provisions	**(292)**	(181)
Increase in working capital	**(3,045)**	(520)
Cash generated from operations	**2,303**	4,497

24 Commitments
Capital and other financial commitments

Contracts placed for future capital expenditure not provided in the financial statements at 30 November 2006 were £136,000 (2005 £45,000)

Operating lease commitments – minimum lease payments

	2006		2005	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
Commitments under non-cancellable operating leases expiring				
Within one year	**45**	**41**	22	15
Later than one year and less than five years	**331**	**88**	496	96
After five years	**1,630**	**–**	1,417	–
	2,006	**129**	1 935	111

Operating rent receivable from a sublet property agreement expiring in more than five years amounts to £1,183,000 (2005 £1,334,000)

25 Key management compensation
Only the Executive Directors are classified as key management Their remuneration is shown in the Report of the Remuneration Committee

26 Events after the balance sheet date
On 19 January 2007, the Group acquired the business and assets of Omnifilter and Manufacturing Inc for a cash consideration of US$2 06 million plus expenses It is a profitable business and in 2006 achieved sales of US$2 0 million The acquisition has been made for cash and is expected to be immediately earnings enhancing The gross assets acquired, excluding goodwill, are approximately US$0 6 million

27 Principal subsidiaries
The principal operating companies at 30 November 2006 are as follows -

Name	Country of incorporation and operation	% holding
Selee Corporation	USA	100%
Porvair Advanced Materials	USA	100%
Porvair Filtration Group Limited	England	100%
Porvair Sciences Limited	England	100%

The other subsidiaries, which are either dormant or non-trading, are disclosed on the Annual Return

28 IFRS transition
This is the first year the Group has presented its financial statements under IFRS

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 November 2006, the comparative information presented in these financial statements for the year ended 30 November 2005 and in the preparation of an opening IFRS Balance Sheet as at 1 December 2004 (the Group's date of transition to IFRS)

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position is set out in the following tables and accompanying notes

Summary of IFRS impact on the Income Statement for the year ended 30 November 2005

	Underlying £'000	Statutory £'000
UK GAAP profit before tax	3 028	874
Adjustments		
Amortisation of goodwill	–	2 221
SSAP 24 to IAS 19 retirement benefit adjustment	(325)	(325)
Charge for share based payments	(81)	(81)
Interest earned on long term receivable held at fair value	20	20
Net impact of capitalised development costs	40	40
IFRS profit before tax	2 682	2,749

Underlying performance is before goodwill amortisation and exceptional items under UK GAAP and before exceptional items under IFRS

28 IFRS transition (continued)

Consolidated Balance Sheet as at 1 December 2004 – Adjustments and reclassification to IFRS Format

IFRS format	UK GAAP £'000	Goodwill amortisation and currency revaluation £'000	Retirement benefit obligations £'000	Software intangibles £'000	Fair value of long term loan £'000	Dividend £'000	Development expenditure £'000	IFRS £'000
Non-current assets								
Property, plant and equipment	8,241			(12)				8,229
Goodwill and other intangible assets	27,785	(1 798)		12			62	26,061
Deferred tax asset	587		2 062		45		(19)	2,675
Other receivable	1,812				(150)			1,662
Pension prepayment	672		(672)					–
	39,097	(1 798)	1,390	–	(105)	–	43	38 627
Current assets								
Inventories	5 897							5,897
Trade and other receivables	8,263							8,263
Cash and cash equivalents	3,047							3,047
	17,207	–	–	–	–	–	–	17,207
Current liabilities								
Trade and other payables	(5,853)							(5,853)
Current tax liabilities	(532)							(532)
Retirement benefit obligations	(550)		550					–
Bank overdrafts and loans	(1,000)							(1,000)
Provisions for other liabilities and charges	(190)							(190)
Proposed dividend	(368)					368		–
	(8,493)	–	550	–	–	368	–	(7,575)
Net current assets	8,714	–	550	–	–	368	–	9,632
Non-current liabilities								
Bank loans	(10,052)							(10 052)
Retirement benefit obligations	(550)		(6 750)					(7 300)
Provisions for other liabilities and charges	(1 218)							(1,218)
	(11,820)	–	(6 750)	–	–	–	–	(18,570)
Net assets	**35,991**	**(1,798)**	**(4,810)**	–	**(105)**	**368**	**43**	**29,689**
Capital and reserves								
Share capital	736							736
Share premium account	28,679							28,679
Cumulative translation reserve	(1,100)	(1,677)						(2,777)
Retained earnings/(deficit)	2,157	(121)	(4,810)		(105)	368	43	(2,468)
Equity attributable to equity holders of the parent	30,472	(1,798)	(4,810)	–	(105)	368	43	24 170
Minority interests	5,519							5,519
Total equity	**35,991**	**(1,798)**	**(4,810)**	–	**(105)**	**368**	**43**	**29,689**

28 IFRS transition (continued)

Consolidated Balance Sheet as at 30 November 2005 – Adjustments and reclassification to IFRS Format

IFRS format	UK GAAP £ 000	Goodwill amortisation and currency revaluation £ 000	Retirement benefit obligations £ 000	Software intangibles £ 000	Fair value of long term loan £ 000	Dividend £ 000	Share based payments £ 000	Development expenditure £ 000	IFRS £ 000
Non-current assets									
Property, plant and equipment	8,057			(12)					8,045
Goodwill and other intangible assets	26,502	1 188		12				102	27,804
Deferred tax asset	715		2,070		39		26	(31)	2,819
Other receivable	1,289				(130)				1 159
Pension prepayment	678		(678)						–
	37,241	1,188	1,392	–	(91)	–	26	71	39,827
Current assets									
Inventories	6,103								6 103
Trade and other receivables	7,970								7,970
Cash and cash equivalents	1,001								1,001
	15,074	–	–	–	–	–	–	–	15 074
Current liabilities									
Trade and other payables	(6,776)								(6,776)
Current tax liabilities	(676)								(676)
Retirement benefit obligations	(811)		811						–
Bank overdrafts and loans	(500)								(500)
Provisions for other liabilities and charges	(324)								(324)
Proposed dividend	(426)					426			–
	(9,513)	–	811	–	–	426	–	–	(8,276)
Net current assets	5,561	–	811	–	–	426	–	–	6,798
Non-current liabilities									
Bank loans	(9,012)								(9,012)
Retirement benefit obligations	–		(7,031)						(7,031)
Provisions for other liabilities and charges	(485)								(485)
	(9,497)	–	(7 031)	–	–	–	–	–	(16,528)
Net assets	**33,305**	**1,188**	**(4,828)**	**–**	**(91)**	**426**	**26**	**71**	**30,097**
Capital and reserves									
Share capital	810								810
Share premium account	32,513								32,513
Cumulative translation reserve	(987)	(711)							(1,698)
Retained earnings/(deficit)	969	1,899	(4,828)		(91)	426	26	71	(1,528)
Equity attributable to equity holders of the parent	33 305	1,188	(4,828)	–	(91)	426	26	71	30,097
Minority interests									–
Total equity	**33,305**	**1,188**	**(4,828)**	**–**	**(91)**	**426**	**26**	**71**	**30,097**

Principal impact of IFRS

The key differences between UK GAAP and IFRS that impact the Group are set out below

Research and development

Under UK GAAP the Group wrote off research and development expenditure in the year in which it was incurred

28 IFRS transition (continued)

Under IFRS the Group capitalises development expenditure from the point that it can be demonstrated that a measurable asset has been created and it is probable that the asset will create future economic benefit Capitalised expenditure is amortised over the expected life of the developed product from the initial commercial sales Much of the Group's development expenditure is either in novel technologies or bespoke products for specific customers and in these cases the requirements are not met until the initial commercial trials have been approved

Goodwill

Under UK GAAP goodwill on businesses acquired by the Group is capitalised and amortised on a straight line basis over its anticipated future life up to a maximum of 20 years Goodwill is calculated at the date of purchase and usually recorded in the functional currency of the acquiring company

Under IFRS, from 1 December 2004 onwards, goodwill is no longer amortised, but is instead subject to an annual impairment review Goodwill is held in the functional currency of the underlying acquired operation

Dividends

Under UK GAAP dividends relating to an accounting period but declared after the balance sheet date were recognised as a liability even if the approval of that dividend took place after the balance sheet date

Under IFRS, proposed dividends do not meet the definition of a liability until such time as they have been declared and paid, and in the case of the final dividend, approved by shareholders at the Annual General Meeting

Share based payment

Under UK GAAP the Group does not recognise an expense on the grant of options as options are either issued at market value on which no charge arises or are Save-As-You-Earn schemes for which UK GAAP includes an exemption from recognising an expense

Under IFRS the cost of all share-based payments based on the fair value of the options or shares at the date of grant and calculated using an appropriate pricing model is recognised over the vesting period of the award

Retirement benefits

Under UK GAAP the company accounted for its pension scheme under SSAP 24 but had provided disclosures to enable the impact of adopting FRS 17 to be derived Under FRS 17 the assets and liabilities of the Group's defined benefit pension scheme are recognised at fair value in the balance sheet and the operating and financing costs of defined benefit pension schemes are recognised in the income statement as operating costs and finance costs respectively Variations from expected costs arising from the experience of the plans or changes in actuarial assumptions are recognised immediately in the Statement of Total Recognised Gains and Losses

The differences between the requirements of FRS 17 and IAS 19, "Employee Benefits", have no impact on the Group

To comply with IFRS, therefore, the Group applied the FRS 17 adjustments disclosed in its 2005 report and accounts

Deferred taxation

The carrying values of deferred tax assets and liabilities in the balance sheet have been adjusted to reflect the restatement of newly recognised assets and liabilities arising from the adoption of IFRS

Computer software

Under UK GAAP all capitalised computer software was classified within tangible fixed assets IFRS requires capitalised software that is not an integral part of the hardware to be treated as an intangible asset

Forward foreign exchange contracts and currency options

The Group uses forward foreign exchange contracts and currency options for the purposes of hedging material contractually committed and forecast foreign currency denominated future sales and purchases Under UK GAAP a form of hedge accounting was applied to these forward foreign exchange contracts and currency options meaning that these derivatives are held off balance sheet at period ends

Under IFRS the fair value of all forward foreign exchange contracts and currency options is recognised on the balance sheet IAS 39 places significant restrictions on the use of hedge accounting and changes the hedge accounting methodology As a result, from 1 December 2005, the Group recognises all forward foreign exchange contracts and currency options on the balance sheet at fair value

Long term loan receivable

Under UK GAAP the Groups long term loan receivable was held at its nominal value and interest was credited to the income statement at the coupon rate on the debtor

Under IFRS the loan has been restated to its fair value to reflect a market interest rate for the loan

Independent auditors' report to the members of Porvair plc

We have audited the parent company financial statements of Porvair plc for the year ended 30 November 2006 which comprise the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the related notes These parent company financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Report of the Remuneration Committee that is described as having been audited

We have reported separately on the Group financial statements of Porvair plc for the year ended 30 November 2006

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Report of the Remuneration Committee and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities

Our responsibility is to audit the parent company financial statements and the part of the Report of the Remuneration Committee to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Report of the Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' report is consistent with the parent company financial statements The information given in the Directors' report includes that specific information presented in the Chairman and Chief Executive's statement and the Finance Director's review that is cross referred from the Business review section of the Directors' report

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements The other information comprises About Porvair, Key highlights in 2006, Porvair's strategy, the Chairman and the Chief Executive's statement, and the Finance Director's review, the Board of Directors', the Board committees, Secretary and advisors, the Directors' report, the unaudited part of the Report of the Remuneration Committee and the Corporate governance statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Report of the Remuneration Committee to be audited It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Report of the Remuneration Committee to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Report of the Remuneration Committee to be audited

Opinion

In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 November 2006,
- the parent company financial statements and the part of the Report of the Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent company financial statements

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, Cambridge
Chartered Accountants and Registered Auditors
29 January 2007

Porvair plc – Parent company balance sheet (under UK GAAP)

As at 30 November	Note	2006 £'000	2005 as restated £'000
Fixed assets			
Tangible assets	3	**11**	26
Investments	4	**55,313**	56 273
		55,324	56,299
Current assets			
Debtors amounts falling due after more than one year	5	**17**	90
Debtors amounts falling due within one year	5	**600**	171
		617	261
Creditors amounts falling due within one year	6	**(7,140)**	(5 267)
Net current liabilities		**(6,523)**	(5,006)
Total assets less current liabilities		**48,801**	51,293
Creditors amounts falling due after more than one year	6	**(9,695)**	(9,012)
Net assets		**39,106**	42,281
Capital and reserves			
Called up share capital	9	**811**	810
Share premium account	10	**32,615**	32 513
Exchange reserves	10	**(1,486)**	(1,209)
Profit and loss account	10	**7,166**	10,167
Total shareholders' funds		**39,106**	42,281

The financial statements on pages 54 to 60 were approved by the Board of Directors on 29 January 2007 and were signed on its behalf by

B D W Stocks
C P Tyler C.P.Tyler

Company profit for the financial year

As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the holding company

The loss after tax attributable to the Company which has been dealt with in the accounts is £2 169 000 (2005 profit of £2,399 000)

Reconciliation of movements in shareholders' funds

For the year ended 30 November	Note	2006 £'000	2005 £ 000
(Loss)/profit for the financial year		**(2,169)**	2,399
Dividends		**(832)**	(736)
		(3,001)	1,663
Exchange differences	10	**(277)**	(39)
Net proceeds from issue of ordinary share capital	9 10	**103**	3,908
Net (reduction)/increase in shareholders' funds		**(3,175)**	5,532
Opening shareholders' funds as previously reported		**41,855**	36,381
Prior year adjustment – FRS 21	1,10	**426**	368
Opening shareholders' funds as restated		**42,281**	36,749
Closing shareholders' funds		**39,106**	42 281

Accounting policies

These financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 1985 and applicable UK accounting standards A summary of the more important accounting policies is set out below, which have been applied on a consistent basis with the previous year except for the adoption of new accounting standards

Changes in accounting standards

The Company has adopted Financial Reporting Standard (FRS) 21, "Events after the balance sheet date" in these financial statements The effect of the change in accounting policy to adopt FRS 21 was to recognise the final proposed dividend for the year ended 30 November 2005 of £426,000 in the current year and to recognise the proposed dividend for the year ended 30 November 2004 of £368,000 in the comparative amounts The final proposed dividend for the current year of £446 000 will be recognised in the following year as this has yet to be approved

The Company has also adopted the presentational aspects of FRS 25, "Financial instruments Disclosure and presentation" and FRS 28, "Corresponding amounts", in these financial statements The adoption of these standards has not resulted in any prior year adjustments

Tangible fixed assets

Tangible fixed assets are capitalised at cost and are depreciated by equal annual amounts over their estimated useful lives Annual depreciation rates are 10% to 33 33% for plant machinery and equipment

Impairment of assets

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

Fixed asset investments

Investments held as fixed assets are stated at cost less provision for permanent diminution of value

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term

Turnover

Turnover comprises the invoiced value of goods and services supplied net of value added tax and other sales taxes Turnover is recognised when goods are despatched to the customer

Patents and trade marks

All expenditure on the registration, renewal and maintenance of patents and trade marks is expensed as incurred

Foreign exchange

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year

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

Deferred taxation

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

Pensions

Pension costs for defined benefit and defined contribution schemes are charged to profit as incurred

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

1 Staff costs

	2006 £'000	2005 £'000
Wages and salaries	**818**	833
Social security costs	**77**	83
Other pension costs	**118**	77
	1,013	993

Share based payment detail is shown in note 21 of the Group accounts

Average number of employees	**7**	7

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

Fees payable to Company auditors for the audit of the parent company	**14**	11
Tax services	**33**	38
	47	49

In addition to the above services, the Group's auditors acted as auditors to the Porvair plc Pension and Death Benefit Plan The appointment of auditors to the Group's pension plan and the fees paid in respect of those audits are agreed by the trustees who act independently from the management of the Group The aggregate fees paid to the Group's auditors for the audit services to the pension plan during the year was £11,000 (2005 £11,000)

2 Directors' emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the Report of the Remuneration Committee on pages 18 to 20

3 Tangible fixed assets

	Plant machinery and equipment £'000
Cost	
At 1 December 2005	111
Disposals	(13)
At 30 November 2006	**98**
Depreciation	
At 1 December 2005	(85)
Charge for year	(15)
Disposals	13
At 30 November 2006	**(87)**
Net book value	
At 30 November 2006	**11**
At 30 November 2005	26

There were no capital commitments, authorised and contracted for, in the Company at 30 November 2006 (2005 £Nil)

4 Fixed asset investments

	2006			2005		
	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Cost						
At 1 December	**42,243**	**30,104**	**72,347**	42,243	23,131	65,374
Advances	**–**	**308**	**308**	–	6,016	6,016
Exchange differences	**–**	**(1,268)**	**(1,268)**	–	957	957
At 30 November	**42,243**	**29,144**	**71,387**	42,243	30,104	72,347
Provisions						
At 1 December	**(2,598)**	**(13,476)**	**(16,074)**	(4,998)	(13,476)	(18,474)
Provision release	**–**	**–**	**–**	2,400	–	2,400
At 30 November	**(2,598)**	**(13,476)**	**(16,074)**	(2,598)	(13,476)	(16,074)
Net book value at 30 November	**39,645**	**15,668**	**55,313**	39,645	16,628	56,273

Details of the subsidiary undertakings are given in Note 27 of the Group accounts

5 Debtors

	2006 £'000	2005 £'000
Amounts falling due within one year		
Corporation tax recoverable	**577**	133
Other debtors	**–**	17
Prepayments	**23**	21
	600	171
Amounts falling due after more than one year		
Deferred taxation	**17**	90
	17	90

6 Creditors

	2006 £'000	2005 £'000
Amounts falling due within one year		
Bank overdraft and other loans	**6,047**	3,905
Trade creditors	**99**	234
Taxation and social security	**49**	25
Accruals and deferred income	**945**	1,103
	7,140	5,267
Amounts falling due after more than one year		
Bank loans	**9,695**	9,012

7 Bank and other loans

	2006 £'000	2005 £'000
Secured multicurrency revolving credit facility of US$20 0 million (2005 US$20 0 million) maturing in October 2008 with interest at 1 75% above LIBOR	**8,195**	7,012
Secured five year amortising debt facility of £2 0 million (2005 £2 5 million) expiring in October 2010 with interest at 1 85% above LIBOR	**2,000**	2,500
Bank loans offset against cash balances in other Group companies under a Group banking offset arrangement	**5,547**	3,405
	15,742	12,917

The multicurrency revolving credit facility and amortising debt facility are secured by fixed and floating charges against the Group s assets

	2006 £'000	2005 £'000
Bank and other loans of the Company are repayable as follows		
Within one year	**6,047**	3,905
One to two years	**500**	500
Two to five years	**9,195**	8,512
	15,742	12,917

At 30 November 2006, the Company had £1,972,000 (2005 £4,546,000) of unutilised borrowing facilities under the existing bank facility and a £3,000,000 (2005 £3,000,000) overdraft facility

8 Provisions for liabilities and charges

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

	2006 £'000	2005 £'000
Assets		
Accelerated capital allowances	**17**	17
Other short-term timing differences	**–**	73
	17	90

There were no other unprovided deferred tax amounts at 30 November 2006 (2005 £Nil)

The deferred tax assets in the table above have been included in debtors amounts falling due after more than one year (Note 5)

9 Called up share capital

	2006 £'000	2005 £'000
Authorised		
75,000,000 ordinary shares of 2 pence each (2005 75 000,000)	**1,500**	1,500
Allotted, called up and fully paid		
40,574,586 ordinary shares of 2 pence each (2005 40,483,011)	**811**	810
Shares issued as fully paid		
At 1 December	**40,483,011**	36,803,011
Issued during the year	**91,575**	3,680,000
At 30 November	**40,574,586**	40 483,011

For details of shares issued during the period see Group accounts (note 21)

Notes to the financial statements continued

10 Reserves

	Share premium account £ 000	Exchange reserves £ 000	Profit and loss account £ 000
At 1 December 2005 as previously reported	32 513	(1,209)	9,741
Prior year adjustment - FRS 21	–	–	426
At 1 December 2005 as restated	32,513	(1,209)	10,167
Premium on shares issued	102	–	–
Deficit for the year	–	–	(3,001)
Exchange differences	–	(277)	–
At 30 November 2006	**32,615**	**(1,486)**	**7,166**

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

Notice of the Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of Porvair plc (the "Company") will be held at Brampton House 50 Bergen Way, King's Lynn PE30 2JG on 17 April 2007 at 9 30 a m for the transaction of the following business

Ordinary business

As ordinary business to consider and, if thought fit to pass the following resolutions, of which numbers 1 to 8 will be proposed as ordinary resolutions and number 9 will be proposed as a special resolution

1 To receive the Company's annual accounts for the year ended 30 November 2006 together with the Directors' report and the auditors' report on those accounts and on the auditable part of the Report of the Remuneration Committee

2 To approve the Report of the Remuneration Committee for the year ended 30 November 2006, which is set out in the Annual Report of the Company for the year ended 30 November 2006

3 To declare and approve the payment of a final dividend of 1 1p per ordinary share

4 To re-elect Charles Matthews as a Director

5 To re-elect Andrew Walker as a Director

6 To elect Dr John Sexton as a Director, who has been appointed since the last Annual General Meeting of the Company

7 To re-appoint PricewaterhouseCoopers LLP as auditors to the Company until the conclusion of the next Annual General Meeting of the Company and authorise the Directors to fix the auditors' remuneration

8 THAT for the purposes of section 80 Companies Act 1985 (and so that expressions used in this resolution shall bear the same meanings as in the said section 80)

8 1 the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities up to a maximum nominal amount of £294,334 to such persons and at such times and on such terms as they think proper during the period expiring at the end of five years from the date of the passing of this resolution (unless previously revoked or varied by the Company in general meeting), and

8 2 the Company be and is hereby authorised to make prior to the expiry of such period any offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution,

so that all previous authorities of the Directors pursuant to the said section 80 be and are hereby revoked

9 THAT the Directors be and are empowered in accordance with section 95 Companies Act 1985 (the "Act") to sell treasury shares (as defined in section 162 of the Act) and, subject to the passing of resolution 8 set out in the Notice convening this Meeting, make other allotments of equity securities (and the expression "allotment of equity securities" and like expressions used in this resolution shall have the meaning given to them by virtue of section 94 of the Act) for cash, pursuant to the authority conferred on them to allot relevant securities (as defined in section 80 of the Act) by that resolution, in each case as if section 89(1) and sub-sections (1) – (6) of section 90 of the Act did not apply to any such sale or allotment, provided that the power conferred by this resolution shall be limited to

9 1 the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities and any other persons entitled to participate in such issue or offering (other than the Company itself in respect of any shares held by it as treasury shares) where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or stock exchange in any territory, and

9 2 the allotment (otherwise than pursuant to paragraph 9 1 above) of equity securities up to an aggregate nominal value not exceeding £40,574 58,

and this power, unless renewed shall expire at the end of five years from the date of the passing of this resolution but shall extend to the making, before such expiry, of an offer or agreement which would or might require an allotment of equity securities to be made after such expiry and the Directors may make an allotment of equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired

Special business

As special business to consider and if thought fit, to pass the following resolutions each of which will be proposed as a special resolution

10 THAT the Company be and is hereby generally and unconditionally authorised for the purpose of section 166 Companies Act 1985 to make market purchases (as defined in section 163 of the said Act) of ordinary shares of 2p each in the capital of the Company ("ordinary shares") provided that

10 1 the maximum number of ordinary shares hereby authorised to be purchased is 4,057,458

Notice of the Annual General Meeting

10 2 the minimum price (exclusive of expenses) which may be paid for such ordinary shares is 2p per share, being the nominal amount thereof,

10 3 the maximum price (exclusive of expenses) which may be paid for such ordinary shares shall be an amount equal to 5% above the average of the middle market quotations for such shares taken from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made,

10 4 the authority hereby conferred shall (unless previously renewed or revoked) expire on the earlier of the end of the next Annual General Meeting of the Company and the date which is 18 months after the date on which this resolution is passed, and

10 5 the Company may make a contract to purchase its own ordinary shares under the authority conferred by this resolution prior to the expiry of such authority and such contract will or may be executed wholly or partly after the expiry of such authority, and the Company may make a purchase of its own ordinary shares in pursuance of any such contract

11 THAT, pursuant to section 10 of the Companies Act 1985, the Articles of Association of the Company be altered as follows

11 1 by adding to present article 2 1 the following additional expression

"2006 Act the Companies Act 2006"

such words to be inserted immediately above the first expression currently set out in present article 2 1

11 2 by deleting the words "section 212 of the Act" in present articles 87, 88, 91, 92 1, 92 2 and 199 2 and in each substituting therefor the words "section 793 of the 2006 Act',

11 3 by deleting the words "section 216 of the Act" in present article 93 and substituting therefor the words "section 794 of the 2006 Act",

11 4 by deleting the words "Part VI of the Act" in present article 151 4 and substituting therefor the words "Part 22 of the 2006 Act", and

11 5 by deleting the words "Sub-sections (1) to (6) of section 293 of the Act shall not apply to the Company" in present article 113

By order of the Board

Christopher Tyler, Company Secretary
29 January 2007

Notes

(1) A member entitled to attend and vote at the Meeting convened by the above Notice is entitled to appoint one or more proxies to attend and, on a poll, to vote in his place A proxy need not be a member of the Company

(2) To appoint a proxy you may use the Form of Proxy enclosed with this Notice of Annual General Meeting To be valid, the Form of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, must be deposited by 9 30 a m on 13 April 2007 at the offices of Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU Completion of the Form of Proxy will not prevent you from attending and voting in person

(3) Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 only shareholders registered in the register of members of the Company as at 9 30 a m on 13 April 2007 shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at such time If the Meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned Meeting is 9 30 a m on the day preceding the date fixed for the adjourned Meeting Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting

(4) In the case of joint holders the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding

(5) The following documents are available for inspection at the registered office of the Company Brampton House, 50 Bergen Way, King's Lynn PE30 2JG, during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this Notice until the conclusion of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the Meeting

(a) the register of interests of the Directors and their families in the share capital of the Company, and

(b) copies of service contracts between the Directors and the Company or its subsidiary undertakings

Form of Proxy

porvair

Form of Proxy for use by members of Porvair plc at the Annual General Meeting to be held at Brampton House, 50 Bergen Way, King's Lynn PE30 2JG at 9 30 a m on 17 April 2007

I/We being a member/members of the above-named Company, hereby appoint the following person(s)

___

or, failing whom, the Chairman of the Meeting as my/our proxy to attend and, on a poll, to vote on my/our behalf at the Annual General Meeting of the Company to be held at 9 30 a m on 17 April 2007 at Brampton House, 50 Bergen Way, King's Lynn PE30 2JG (or at any adjournment thereof) I/We direct that my/our proxy will vote (or abstain from voting) on a poll on the resolutions set out in the Notice of Annual General Meeting as indicated below

Resolutions	For	Against	Abstain
1 To receive the Company's annual accounts and the Directors' and Auditors reports			
2 To approve the Report of the Remuneration Committee			
3 To declare a final dividend of 1 1p per ordinary share			
4 To re-elect Charles Matthews as a Director			
5 To re-elect Andrew Walker as a Director			
6 To elect Dr John Sexton as a Director			
7 To re-appoint PricewaterhouseCoopers LLP as auditors to the Company and authorise the Directors to fix their remuneration			
8 To authorise the Directors to allot shares under section 80 Companies Act 1985			
9 To disapply statutory pre-emption rights under section 89 Companies Act 1985 (special resolution)			
10 To authorise the Company to make market purchases of its own ordinary shares (special resolution)			
11 To amend the Articles of Association (special resolution)			

Please complete the details below in block capitals and sign and date where indicated

___

___

Signature of shareholder or common seal/signature of duly authorised officer of corporate shareholder
Note If joint shareholders, only one joint holder need sign

___

Print Name Date

___

Please return this Form of Proxy in the reply-paid envelope provided to Capita Registrars, The Registry, 34 Beckenham Road, Kent BR3 4TU so as to arrive by 9 30 a m on 13 April 2007

Notes

1 A proxy need not be a member of the Company but must attend the Meeting to represent you You may appoint as your proxy (a) person(s) of your own choice by inserting his/their name(s) in the space provided If no name is inserted in the space provided the Chairman will be deemed appointed as the proxy

2 Please indicate with a cross in the appropriate box how you wish your votes to be cast In the absence of any specific direction the proxy will vote (or abstain from voting) at his or her discretion On any other business which properly comes before the Annual General Meeting (including any motion to amend any resolution or to adjourn the Meeting) the proxy will vote or abstain at his or her discretion

3 To be valid this Form of Proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be received by Capita Registrars The Registry 34 Beckenham Road Kent BR3 4TU by not later than 9 30 a m on 13 April 2007

4 Completion and return of this Form of Proxy will not prevent you from attending and voting at the Annual General Meeting if you so wish

5 In the case of a corporate shareholder this Form of Proxy should either be executed by the Company under seal or signed by two Directors a Director and the Secretary or a duly authorised officer or attorney A copy of the written authority must accompany the Form or Proxy

6 In the case of joint holders the vote of the first named in the register of members of the Company will be accepted to the exclusion of that of other joint holders

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Third Fold (Tuck in)

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1

Capita Registrars (Proxies)
PO Box 25
Beckenham
Kent BR3 4BR

Second Fold

First Fold

Financial calendar

30 January 2007
Preliminary announcement of 2006 results

11 April 2007
Ex-dividend date for the final dividend on ordinary shares

13 April 2007
Closure of share register for final dividend on ordinary shares

17 April 2007
Annual General Meeting

16 May 2007
Payment of final dividend on ordinary shares

26 June 2007
Announcement of interim results

September 2007
Payment of interim dividend on ordinary shares

30 November 2007
2007 financial year end

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Porvair plc
Brampton House
50 Bergen Way
King's Lynn
Norfolk PE30 2JG

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

www.porvair.com

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