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Porvair plc Annual Report & Accounts 2008

Delivering on our strategy
Positioned for future growth

porvair

About Porvair

Porvair is a specialist filtration and environmental technology group, with operations in the UK, US and Germany, employing over 500 people.

The Group develops, designs and manufactures specialist filtration and separation equipment. We serve a range of market segments of which aviation, molten metal, clean energy, clean water and life sciences are the most important.

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 performance highlights in 2008

Financial highlights

→ Revenue up 20% to £54.8 million (2007: £45.5 million).

→ Profit before tax up 23% to £4.2 million (2007: £3.4 million).

→ Earnings per share up 21% to 7.0 pence (2007: 5.8 pence).

Operating highlights

Growth

→ Microfiltration revenue grew 23% to £32.3 million (2007: £26.2 million). 11% revenue growth, excluding acquisitions, driven by strong demand from aviation and energy sectors in particular.

→ Metals Filtration sales grew 11% to a record US$42.9 million (2007: US$38.6 million).

→ Key growth projects contributed 11% of total revenue at £6.0 million as new products began commercial sales.

Investment

Acquisitions:

→ Toolturn Engineering Limited was acquired to support aviation and energy growth.

→ Seal Analytical Limited was acquired to expand our presence in attractive clean water markets.

Facilities:

→ New Microfiltration facilities were opened to accommodate growth.

Capabilities:

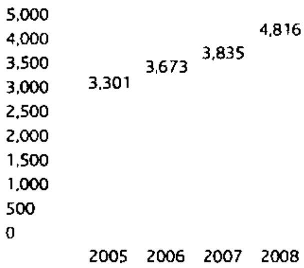
→ Equipment was upgraded in Metals Filtration to improve quality and reduce manufacturing labour costs.

→ Additional capacity was installed for key growth projects set to launch in 2009.

To accommodate these investments, banking arrangements for the next three years were renewed in July 2008.

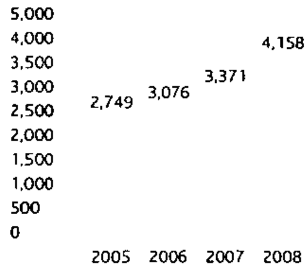
Operating profit (£'000)

£4.8m
+26%



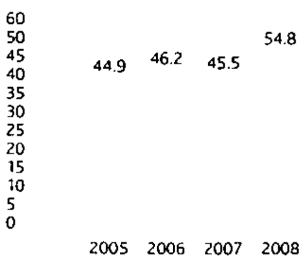
Profit before tax (£'000)

£4.2m
+23%



Turnover (£'m)

£54.8m
+20%



Basic earnings per share (pence)

7.0p
+21%

Porvair at a glance

Porvair serves the needs of a range of specialist filtration markets around the world and is managed through two operating divisions. The Microfiltration division comprises the Porvair Filtration Group, Porvair Sciences and Seal Analytical and is mainly based in the UK, US and Germany. The Metals Filtration division trades as SELEE Corp and is based in the US.

Microfiltration Division – UK, US & Germany

The Microfiltration division provides bespoke filtration solutions to a diverse range of customers and markets. It has operations in the UK, US and Germany and employs 376 people. Its sales are global.

Markets served:
→ Aviation
→ Life sciences
→ Clean energy
→ Clean water
→ General industrial

Applied technology:
→ Metallic and polymeric filtration technologies
→ Related instruments

Annual sales:
£32.3m

Metals Filtration Division – US

The Metals Filtration division serves the market for the filtration and handling of molten metal. It has operations in the US and employs 179 people. Its sales are global.

Markets served:
→ Aluminium
→ Iron foundry
→ Specialist metals
→ Metals handling

Applied technology:
→ Ceramic filtration technology
→ Related refractories

Annual sales:
US$42.9m

Revenue by division (£'000)

Microfiltration: £32,341
Metals Filtration: £22,498

Revenue by destination (%)

Americas: 48%
UK: 27%
Europe: 17%
ROW: 8%

Revenue by origin (%)

UK: 52%
Americas: 45%
Europe: 3%

Our strategy

The Group manufactures in the UK, US and Germany and sales are global.

Porvair's strategy for the creation of growth and sustainable shareholder value is to:

→ Develop filtration and environmental technology positions in markets where typically:
- Specialist design or engineering skills win business;
- Regulation or quality accreditation requirements mandate product use;
- Consumable products are often replaced as part of a maintenance routine in order to protect more costly downstream components;
- Products, once designed into a specification, have very long lifecycles.

→ Broaden the range of products Porvair delivers to key market segments, particularly in aviation, aluminium, energy and clean water as these all have good long term growth characteristics.

→ Acquire complementary businesses that meet financial and commercial criteria.

→ Maintain an appropriately funded balance sheet and generate sufficient cash to sustain a progressive dividend policy.

Key growth projects – progress and developments

Gasification
→ Over £1.0 million revenue recorded in the year.
→ Several new programmes announced in 2008.

Aviation
→ Nitrogen Generation System (NGS) filter now in production.
→ Retrofit of NGS now likely to happen.
→ Toolturn acquisition and new plant have enhanced our capabilities.
→ 10% compound annual growth over the last 5 years.

Nickel-cobalt filter
→ Filters fully qualified and launched in the year.
→ Filter used in manufacture of gas turbines and aerospace turbine blades.

New molten aluminium filter
→ First major development in the market for 30 years.
→ Better filtration and health and safety profile.
→ Launched in the final quarter of the year.
→ 20% conversion by the year end.

Solar panel etching filter
→ Launched in the year.
→ Filter recovers hydrofluoric acid used in the manufacture of solar panels.

New foundry filter
→ New filter in production and customer trials.
→ Commercial launch planned Q2 2009.

Energy storage component
→ Production capacity installed, almost half covered by a prepayment from the customer.
→ Customer has signed a multi-year sales contract.
→ Customer trials are underway.
→ Production to start in Q2 2009 provided trials are successful.

Clean water
→ Seal Analytical acquisition expands our presence in clean water markets.
→ Acquisition gives us a market-leading position in the laboratory analysis of clean water.

Chairman and Chief Executive's statement

Charles Matthews, Chairman

Ben Stocks, Group Chief Executive

Performance summary
2008 was a year of growth and investment at Porvair, the year in which our long term new product development activities started to make a significant contribution to our results.

Revenues in the year ended 30 November 2008 were £54.8 million, an increase of 20% on the prior year (2007: £45.5 million). Profit before tax increased 23% to £4.2 million (2007: £3.4 million). Earnings per share increased 21% to 7.0 pence (2007: 5.8 pence).

New products generated revenue of £6.0 million, 11% of total revenue. It is a pleasure to be able to report this to shareholders as some of these products have taken five years or more to bring to market. As we head into a period of economic uncertainty it is encouraging to have a healthy roster of newly launched products in our portfolio.

2008 was also a year of investment. £8.6 million was deployed in acquiring Toolturn Engineering Limited ("Toolturn") and Seal Analytical Limited ("Seal"); moving to new facilities in Fareham; generating efficiency savings in Metals Filtration and expanding capacity for new products. These investments increased net borrowings at the end of the year to £16.4 million (2007: £7.0 million), a figure which includes £2.4 million attributable to currency translation into a weaker Sterling. Three year banking facilities to accommodate these investments were put in place in July 2008.

Porvair's activities and strategy
Porvair specialises in filtration and related environmental technology. We operate two divisions. The Microfiltration division comprises the Porvair Filtration Group, Porvair Sciences and Seal Analytical. It serves aviation, life sciences, clean water, energy and other markets. The Metals Filtration division trades as SELEE Corp and its primary focus is molten aluminium filtration where it has a global market leadership position. Selee also has strong market positions in US foundry and super-alloy filtration.

The Group manufactures in the UK, US and Germany and sales are global.

Porvair's strategy for the creation of growth and sustainable shareholder value is to:

→ Develop filtration and environmental technology positions in markets where typically:

- Specialist design or engineering skills win business;
- Regulation or quality accreditation requirements mandate product use;
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- Products, once designed into a specification, have very long lifecycles.

→ Broaden the range of products Porvair delivers to key market segments, particularly in aviation, aluminium, energy and clean water as these all have good long term growth characteristics.

→ Acquire complementary businesses that meet financial and commercial criteria.

→ Maintain an appropriately funded balance sheet and generate sufficient cash to sustain a progressive dividend policy.

Operating review

Divisional performance – Microfiltration
The Microfiltration division performed strongly in 2008 showing 11% like-for-like revenue growth. Total revenue including acquisitions was £32.3 million (2007: £26.2 million). Operating profits were up 16% to £5.1 million (2007: £4.4 million).

All key market segments performed well. Our aviation business in Fareham had another good year. Revenues have grown by 10% compound annually over the last five years and having run out of space, we opened

Case Study: Porvair has grown its aerospace business by 10% annually over the last five years. The core of its aviation business is the production of filters for aircraft fuel lines, oil lines and hydraulic systems.

The acquisition of Toolturn with its specialist machining capabilities and the move to the new factory significantly enhances Porvair's ability to provide a broader range of fluid line components for the aerospace industry.

→ Broadening our capabilities, providing valuable solutions

Chairman and Chief Executive's statement continued

new facilities to accommodate this growth. The new plant has better clean room, manufacturing, test and laboratory facilities and gives us room for further expansion – indeed part of Seal will move into this building in early 2009. Toolturn, a key supplier located very close to the new plant, was acquired in March to secure access to critical skills and to allow us to tender for more added-value work around the filters we design. Bringing Toolturn into the business and upgrading our facilities undoubtedly helped in signing several long term aviation contracts later in the year.

2008 was a good year for energy related sales in general and gasification orders in particular. The energy order book for 2009 is healthy. Gasification continues to be a major focus of our engineering work, with sales exceeding £1 million in 2008, although global financial issues have slowed some customers' projects in recent months. This is not the case for nuclear programmes, several of which are accelerating in 2009 with the order book forecasting stronger sales revenues in the second half of the coming year.

Omnifilter, the US subsidiary of this division which will be renamed Porvair Filtration Group Inc in 2009, completed its first full year under our ownership with success. It grew 19% in 2008 and improved margins.

Seal joined the Microfiltration division in July 2008 in order to build on our presence in the clean water market. The final consideration was £5.6 million, of which £4.3 million was paid in cash and the remainder in Porvair shares. Seal designs and manufactures laboratory based water analysis equipment and related consumables. The business has a number of attractive characteristics. It operates in a well defined and growing market niche. Its highly respected products are market-leading and, in many applications, demonstrably best-in-class. Water analysis is mandatory in much of the world, and must be carried out by approved methods for which Seal products are ideally suited. Integration of Seal is proceeding well. We will incorporate its UK operations into our existing plants in early 2009 and our strategy, which is based on re-connecting the business with its extensive installed base, is progressing well.

Divisional performance – Metals Filtration
Metals Filtration reported record sales of US$42.9 million, up 11% (2007: US$38.6 million) driven by export growth, new products and price rises applied during the year to cover raw material increases. Operating profits rose to US$2.0 million (2007: US$0.6 million).

As reported at the half year, raw material increases early in the year were passed on successfully, albeit with a time lag as customer contract renewals came up. Margins were compressed for several months during the year, although they had largely recovered by the end of the year.

New "CSX" filters were launched in September 2008. Aluminium filtration by ceramic foam filter was invented by Selee in the 1970s, and the basic formulation, much copied around the world, has hardly changed since. Our new proprietary CSX product offers superior filtration performance and much better materials handling characteristics. Initial customer trials started in 2007, and we began to get full customer qualifications during 2008. By the end of the year around 20% of our output was converted with both new and existing customers transferring.

Other products that became fully commercial this year were our new nickel-cobalt filters for super-alloys, which achieved full customer qualification in May; a bespoke filter for use in solar panel manufacture; and a proprietary investment casting filter which is sold together with ancillary refractories. Some of these products have been in development for over five years, a period during which margins at Selee have been under pressure. The business has long had strong market positions and with these new products the Board believes that prospects for the future are good.

Two further products are expected to be launched in 2009:

→ An advanced battery component. This project follows work previously done with fuel cells. Pre-production samples are currently in customer trials and provided these are successful commercial production will start in the second quarter of 2009.

Case Study: Porvair's Metals Filtration operations principally design and manufacture filters for molten metal, however the business continues to find other applications for its ceramic foam technology.

One such application is a highly corrosive resistant filter used in the recovery of hydrofluoric acid from the etching process in the manufacture of solar panels. The product was launched this year and as solar energy becomes a more important part of the energy supply mix we expect sales of this equipment to increase.

→ Developing new products, positioning for future growth

Chairman and Chief Executive's statement continued

Production facilities were installed during the year. Almost a half of the US$2.0 million costs associated were covered in the form of a prepayment from the customer, against a multi-year sales contract.

→ A new foundry filtration product. This product is currently at the customer and production trial stage. Depending on the outcome of these trials commercial sales will commence in the second quarter of 2009.

Earnings per share, dividend and financing
Earnings per share increased 21% to 7.0 pence (2007: 5.8 pence) per share. The Directors recommend a final dividend of 1.25 pence (2007: 1.20 pence) per share, making a full year dividend of 2.25 pence (2007: 2.20 pence) per share.

Net borrowings at the year end were £16.4 million (2007: £7.0 million). Operating cash flow before working capital movements was £6.6 million (2007: £5.3 million). In a year of investment two acquisitions were successfully completed and integrated at a total cash cost in the year of £5.1 million. £3.5 million was invested in capital expenditure, principally: £1.0 million invested in new manufacturing facilities in Microfiltration to accommodate growth; production efficiency investments of £0.4 million in Metals Filtration, which have lowered manufacturing costs; and £1.6 million invested in production capacity for key growth projects. Reported borrowings were further increased by £2.4 million due to the currency translation impact of weaker Sterling at the year end.

Three year financing facilities were put in place in July 2008. At 30 November 2008 the Group had £5.3 million in cash and un-drawn facilities. Interest cover was 7 times (2007: 8 times).

Staff
On behalf of the Board we are pleased to welcome new colleagues in Toolturn and Seal, and we wish them well for the future. We have had a number of successes in Porvair in 2008. Two in particular stand out: the opening of the new Fareham factory without loss of customer service; and the final trials and launch of our new aluminium and NiCo filters at Selee. Our particular thanks go to the teams involved in these projects. The hard work of all our staff makes Porvair a better business every year, and we are most grateful for all their efforts.

We are sad to report that John Morgan, our former Chairman and Chief Executive, died recently. John was instrumental in building Porvair. He led the management buyout of the Group in 1982 and its stock market debut in 1988. He was an enthusiastic proponent of change and oversaw the development of the business from polymer products to filtration and environmental technology specialists. He remained close to the business and many of its current and former staff after his retirement in 2006. His wise counsel and enthusiasm will be greatly missed.

Current trading and outlook
As previously reported, current trading overall is satisfactory. We are experiencing healthy demand from aviation, energy and clean water customers and this is balanced by weaker demand from US automotive and some general industrial segments. We are alert to the economic outlook and have addressed operating costs in those parts of the Group where we have seen demand soften or where we perceive a risk of weakening demand. Whilst current Sterling exchange rates inflate reported borrowings, they also help UK exports and improve the retranslation of US dollar denominated profits.

Porvair has a very broad customer base and diversified end markets. The specialist nature of our installed product base makes substitution difficult. Our filters are consumable – their use is often mandated by custom or regulation and they are usually replaced as part of a maintenance cycle. These features will give some resilience in difficult times. The fact that 11% of our sales in 2008 came from new products offers good prospects for margin and market share enhancement in 2009. We are prepared for the next year or so to be more challenging, but we also see opportunities ahead and expect Porvair to be well placed for continued growth as and when markets allow.

Charles Matthews, Chairman
Ben Stocks, Group Chief Executive

26 January 2009

Case Study: Porvair has built on its position in environmental technologies markets in the year with the acquisition of Seal Analytical. Seal Analytical designs and manufactures laboratory based water analysis equipment. Our analysers are used to test drinking water, sea water and waste water to ensure compliance with exacting standards.

Seal Analytical is the market leader in sea water analysis equipment. Its analysers are used throughout the world in laboratories and on survey ships to monitor the level of inorganic compounds in sea water at detection limits of lower than 100 nano-grams per litre.

→ Strengthening our market positions, leveraging our expertise

Finance Director's review

Christopher Tyler, Group Finance Director

Group operating performance
Group revenues were £54.8 million (2007: £45.5 million) and operating profits were £4.8 million (2007: £3.8 million). The operating performance of the Microfiltration and Metals Filtration divisions are described in detail in the Chairman and Chief Executive's statement. The operating loss associated with the Other Unallocated segment was £1.3 million (2007: £0.9 million), which mainly comprises Group corporate costs, some research and development costs, new business development costs and general financial services. In 2007 the Other Unallocated segment included provisions written back of £0.4 million related to disposed businesses and property.

Key performance indicators
The Group considers its key performance indicators to be: the sales growth and operating margins of its principal operations; the profit before tax growth; earnings per share growth; interest cover; gearing; and return on capital employed. The table below summarises these indicators:

	2008	2007
Sales growth – Metals Filtration (US dollars)	11%	7%
Sales growth – Microfiltration	23%	(1)%
Operating margin – Group	9%	8%
Operating margin – Metals Filtration (Before restructuring in 2007)	5%	3%
Operating margin – Microfiltration	16%	17%
Profit before tax growth	23%	10%
Earnings per share growth	21%	12%
Interest cover	7 times	8 times
Gearing	40%	20%
ROCE	8%	9%

The Group also considers progress towards commercialisation of its key growth projects to be a key indicator of performance. These indicators are discussed in detail throughout the Chairman and Chief Executive's statement and the Finance Director's review.

Impact of exchange rate movements on performance
Due to the international nature of the Group's business relative movements in exchange rates have an impact on the reported performance. Sterling weakened significantly against the US dollar and the Euro in the final quarter of the year; however the Group had sold forward its 2008 US dollar revenue generated by its UK business at rates similar to those achieved in 2007 and the average rate used for translating the results of US operations into Sterling was less than 5% different from 2007. Consequently the Group's operating results for the year were not materially impacted by currency movements as compared with 2007.

Finance costs
Net interest payable increased to £0.7 million (2007: £0.5 million). Interest paid increased as Group borrowings in the year rose to fund capital expenditure and acquisitions, offset by some reduction in the effective interest rates. There was a finance credit in relation to the closed defined benefit pension scheme of £0.1 million (2007: £0.1 million). Interest cover was 7 times (2007: 8 times).

Tax
The Group tax charge of £1.3 million (2007: £1.0 million) represents an effective tax rate of 31% (2007: 30%) on profits before tax. The tax charge comprises current tax of £0.8 million (2007: £0.5 million) and a deferred tax charge of £0.5 million (2007: £0.5 million). The Group carries a deferred tax asset in relation to the past losses in its US operations and the deficit on the pension fund. This tax asset related to the past losses is limited to the amount expected to be recovered in the foreseeable future.

Shareholders' funds
Shareholders' funds at 30 November 2008 were £41.2 million (2007: £34.4 million), an increase of 20% over the prior year. Shareholders' funds increased by the profit after tax of £2.9 million and a write back of £0.1 million relating to share based payments; new shares issued on the acquisition of

Case Study: Porvair supplies ceramic foam filters to the molten metal industry. Filtration of molten metal improves the quality of the metal and enables metal components to be made lighter and stronger.

In 2008 Porvair introduced the first significant advance in the filtration of molten aluminium for 30 years. Our new proprietary CSX filter offers superior filtration performance and better materials handling characteristics. By the end of the year around 20% of our output was converted to the new filter. A similar product advance for the iron foundry industry is currently in production and customer trials.

→ Enhancing performance, improving our competitive advantage

Finance Director's review continued

Seal added £1.3 million. Shareholders' funds were increased by exchange gains on retranslation of foreign currencies of £5.1 million. Dividends paid of £0.9 million and actuarial losses net of deferred tax of £1.7 million reduced shareholders' funds.

Cash flow

Net cash generated from operations was £4.2 million (2007: £5.7 million). Operating cash flow before working capital movements was £6.6 million (2007: £5.3 million). Working capital outflows of £2.4 million (2007: inflow of £0.4 million) principally comprise: increases in stock to service 20% sales growth; the impact of higher raw material prices in Metals Filtration; a reduction of Seal's trade payables; and the impact of expenditure in 2008 of cash received in 2007 related to the new Microfiltration premises.

Net interest paid was £0.7 million (2007: £0.6 million). The higher interest charge reflects the impact of increased borrowings to finance capital expenditure and acquisitions, offset by lower overall interest rates.

Tax paid of £0.6 million (2007: £0.6 million) was lower than the current tax charge as a result of repayments relating to prior periods.

Capital expenditure increased to £3.5 million (2007: £2.0 million). The main investments were: the fit out of the new Microfiltration facility; additional manufacturing capacity installed in Metals Filtration for new products; and the capitalisation of associated development and project management costs.

£5.1 million was paid to fund acquisitions: £0.8 million relates to the acquisition of Toolturn and £4.3 million relates to the acquisition of Seal.

Borrowings and bank finance

At the year end, the Group had net borrowings of £16.4 million (2007: £7.0 million) comprising gross borrowings of £18.9 million (2007: £9.9 million) offset by cash balances of £2.5 million (2007: £2.9 million). Borrowings of £9.8 million (US$15.0 million) are held in US dollars and the strengthening of the US dollar relative to Sterling increased the Group's net debt by £2.4 million compared with the prior year.

The Group put in place three year borrowing facilities with Barclays Bank plc in July 2008. At 30 November 2008 the Group had unutilised borrowing facilities of £1.3 million (2007: £1.4 million), an unutilised overdraft facility of £1.5 million (2007: £3.0 million) and cash balances of £2.5 million (2007: £2.9 million).

The Group's gearing (net debt as a percentage of shareholders' funds) increased to 40% (2007: 20%).

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$15.0 million (2007: US$14.8 million) of US dollar borrowings exposure which hedged underlying US net tangible assets on the balance sheet of US$23.8 million (2007: US$22.7 million). In addition, the Group has a €1.6 million (2007: €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 throughout the year were principally at floating rate. Since the year end the Group has adopted a policy of fixing the interest rate on a portion of its borrowings.

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.

The Group recorded a retirement benefit obligation of £3.7 million (2007: £1.8 million). The increase arose from an actuarial loss in the year of £2.2 million and a current service cost of £0.3 million offset by £0.5 million of contributions and a £0.1 million finance income credit.

During 2007, a valuation of the assets and liabilities of the closed defined benefit scheme was completed. As a result of this review, the Group and the Trustees agreed to alter the employer's contributions from 15% of salary to 8% of salary plus an £80,000 contribution towards the running costs of the scheme. The Group also committed to make additional annual contributions, to cover the past service deficit, of £250,000 per annum increasing by 5% per annum for the next eight years. The first payment was made in December 2007.

The next actuarial valuation of the scheme is due at 31 March 2009. It is possible that the outcome of that valuation could require an increase in the contributions to cover the past service deficit. Any such increase would take effect in the 2010 or 2011 financial year.

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 serves the needs of a range of specialist filtration markets, such that it is not dependent upon any one market. No single market represents more than 24% of sales. However, three key markets: aviation; aluminium filtration; and water analysis each contribute more than 10% of the Group's revenue and the Group would be exposed to a significant decline in any of these segments.

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, which are used both for new build and routine maintenance. The Board would expect to be able to manage the consequences of fluctuating aviation demand over time.

The production rates of aluminium can vary. Any impact on the Group is dependent upon whether changes to production affect filtered or non-filtered aluminium. The Group has developed a new filter formulation which has improved filtration and materials handling characteristics, which should improve its market position and is developing overseas markets for its aluminium cast shop business to enhance its offering.

Water analysis sales are generally made to laboratories engaged in meeting the regulatory requirements for clean water. As such, the market is expected to grow as water regulations tighten throughout the world and demand for clean water in the developing world increases. Whilst revenue might be affected by access to capital in customer markets (municipal/utility and industrial laboratories) it is expected that the regulated nature of this market will mitigate cyclical changes.

New products and markets risk

The Group has invested significant amounts into the development of new products. Some of these new products are in the early commercial or late development stages. There is a risk that these products may not be as commercially successful as expected.

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.

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 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, US and Germany and sells its products throughout the world. 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.

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.

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; and

- 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.

Finance Director's review continued

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, resources and facilities risk
The Group uses raw materials in its production processes. Prices for these raw materials can be volatile and are affected by the cyclical movement in commodity prices such as oil, gas, 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.

The Group operates from a number of production facilities, the largest facility generating approximately one third of the Group's revenue. A disaster, such as a fire or flood, at any of the Group's facilities could have a material impact on the Group's performance. The Group maintains insurance of its equipment and facilities and carries business interruption insurance to cover loss of profits. In addition, the Group has ISO 9001 and other industry specific quality control systems which reduce the risk that a disaster will occur.

Christopher Tyler, Group Finance Director
26 January 2009

Board of Directors

Executive Directors

1 Ben Stocks (46), Group Chief Executive
Joined the Group in February 1998. He was previously UK Managing Director of the Speciality Packaging Division of Carnauld Metal Box. He holds an MBA from INSEAD.

2 Christopher Tyler (46), 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.

Non-Executive Directors

3 Michael Gatenby* (64), 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.

4 Charles Matthews* (55), Chairman
Appointed to the Board in January 2005 and became Chairman on 12 April 2006. He is Chairman of Axeon plc, Chairman of PBLsat Ltd and Chairman of Wheelabator 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 Andrew Walker* (57)
Appointed to the Board in January 2005. He is a Non-Executive Director of API Group plc, Manganese Bronze Holdings plc, Ultra Electronic Holdings plc, Delta plc, Plastics Capital plc, May Gurney 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
7 Regis Place
Bergen Way
King's Lynn PE30 2JN

Company registration
number
1661935

Auditors
PricewaterhouseCoopers LLP
Abacus House
Castle Park
Cambridge CB3 0AN

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

Investment bankers
Close Brothers
10 Crown Place
London EC2A 4FT

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

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 2008.

Principal activities and results

The Group's principal activities are in the areas of specialist filtration and environmental technologies in the UK, US and Germany. The profit for the financial year was £2.9 million (2007: profit of £2.4 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 14. 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 13 and 14 and in the financial risk management section below.

Acquisitions

On 28 March 2008, the Group acquired Toolturn Engineering Limited ("Toolturn") for a cash consideration of £0.7 million plus £0.3 million of loan notes. Toolturn is a key supplier to the Microfiltration division, and the acquisition was made as part of Porvair's strategy to support growth in demand for its aviation filtration products.

On 9 July 2008, the Group acquired Seal Analytical Limited ("Seal") for £3.9 million, comprising £1.3 million in shares and £2.6 million in cash. Porvair also assumed £2.1 million of bank debt and £0.3 million of finance leases. Seal is a leading manufacturer of water quality analysis equipment for environmental and industrial laboratories. Seal allows Porvair to build on its position in water quality markets.

Dividends

An interim dividend of 1.0 pence per share was paid on 12 September 2008. The Directors recommend the payment of a final dividend of 1.25 pence per share (2007: 1.2 pence per share) on 12 June 2009 to shareholders on the register on 1 May 2009; the ex-dividend date is 29 April 2009. This makes a total dividend for the year of 2.25 pence per share (2007: 2.2 pence per share).

Directors and their interests

The names and biographical details of the Directors are set out on page 15.

In accordance with the Articles of Association, Charles Matthews and Christopher Tyler 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 21 to 24. None of the Directors had a material interest in any contract of significance in relation to the Company or its subsidiaries during the year.

Following the introduction on 1 October 2008 of the new conflicts of interest regime for directors contained in the Companies Act 2006, the Company put in place procedures to deal with conflicts of interest and these have operated effectively. Since that date, the Company has followed the guidance on conflicts of interest issued by the Association of General Counsel and Company Secretaries of the FTSE.

Research and development

The Group continues to undertake a research and development programme with the objective of identifying and developing new materials and products which have the potential to transform the growth of the Group. The cost to the Group in the year under review was £3.0 million (2007: £2.5 million), £2.2 million (2007: £2.2 million) was written off to the income statement and £0.8 million (2007: £0.3 million) 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.

Share capital

The Company has one class of ordinary share capital which carries no right to fixed income. The authorised share capital comprises 75,000,000 shares of 2 pence each. All of the Company's shares in issue are fully paid and each share carries the right to vote at general meetings of the Company. Changes in the Company's share capital during the year were:

	Shares in issue
Shares in issue at 1 December 2007	40,698,506
Shares issued as part of the consideration for the acquisition of Seal Analytical Limited	1,375,134
Shares in issue at 30 November 2008	42,073,640

Further details of the share capital of the Company are given in Note 22 to the Financial statements on page 51.

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

The appointment and replacement of Directors is governed by the Articles of Association, the Companies Acts, the Combined Code and related regulation and legislation applying to UK listed companies. The Articles themselves may be amended by special resolution. The Articles of Association require there to be a minimum of three Directors and permit a maximum of 15. The Articles of Association provide that the business of the Company shall be managed by the Board of Directors which may exercise all powers of the Company. The Board of Directors may make such arrangements as they see fit to delegate those powers except that the Board retains specific authority over the matters outlined in the Matters reserved for the Board which are summarised in the Board of Directors section in the Corporate Governance report on page 25.

Each year the Board seeks shareholder approval to renew the Board's authority to allot relevant securities. There are also a number of other agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, banking agreements, property lease arrangements and employee share plans. None of these are considered to have a significant impact on the business of the Group.

The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment in the event of a takeover of the Company.

Substantial shareholders

As at 26 January 2009 the Company has been notified of the following substantial shareholdings comprising 3% or more of the issued share capital of the Company.

	Ordinary shares number	Percentage %
Schroder Investment Management Ltd	8,821,013	20.97
M&G Group Limited	5,320,632	12.65
Impax Environmental plc	4,147,250	9.86
Morley Investment Management	2,852,577	6.78
Insight Investment	2,438,847	5.80
Levantis Group	1,825,954	4.34
Standard Life	1,800,000	4.28
Cavendish Asset Management	1,520,475	3.61
British Airways Pension Fund	1,323,486	3.15

Employment policies

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

The Group involves employees through both formal and informal systems of communication and consultation. Managers have a responsibility to communicate effectively and to promote a better understanding by employees of the activities and performance of the Group. 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

Directors' report continued

and inspects the conditions in which our employees work. The Group consistently considers methods of improving safety and its environmental responsibilities. 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 (2007: £13,000) during the year. Substantially all charitable donations were made to local charities operating in Hendersonville, North Carolina. In accordance with Company policy, no political donations were made in the year (2007: £nil).

Annual General Meeting

The Annual General Meeting of the Company is to be held on Tuesday 7 April 2009. Notice of the meeting and proxy form have been sent to shareholders separately.

Resolutions 4 and 5 – Re-election of Charles Matthews and Christopher Tyler 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 Christopher Tyler 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 15 of the Annual Report.

Resolutions 7 and 8 – Directors' authority to allot shares (ordinary resolution) and disapply pre-emption rights (special resolution)

Resolution 7 authorises the Directors to allot shares under section 80 Companies Act 1985. Paragraph 7.1 gives the Directors customary authority to allot ordinary shares up to an aggregate nominal amount of £334,018, being an amount equal to one third of the Company's issued share capital as at 26 January 2009 and the amount of all outstanding options. Paragraph 7.2 gives the Directors authority to issue an additional aggregate nominal amount of up to £280,491, being an amount equal to one third of the Company's issued share capital as at 26 January 2009. This additional authority is to be applied to rights issues only and is in accordance with the recommendations of the Rights Issue Review Group and the Association of British Insurers (the "ABI").

The Directors do not currently intend to conduct a rights issue but, should circumstances change and the Directors do exercise such further authority, they intend to comply with the ABI recommendations and stand for re-election at the next Annual General Meeting of the Company if they wish to remain in office. The authorities granted under Resolution 7 shall expire at the next Annual General Meeting of the Company.

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 9, 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 8 asks shareholders to grant the Directors authority to allot equity securities or sell treasury shares for cash up to an aggregate nominal value of £42,074 (being 5% of the Company's issued ordinary share capital as at 26 January 2009) without first offering the securities to existing shareholders. The resolution also disapplies the statutory pre-emption provisions in connection with a rights issue and allows the Directors, in the case of a rights issue, to make appropriate arrangements in relation to fractional entitlements or other legal or practical problems which might arise. The Directors confirm that they do not intend to issue in excess of 7.5% of the Company's issued ordinary share capital within any rolling three year period without prior consultation with shareholders. The authority will expire at the next Annual General Meeting of the Company.

In addition, there are two items of special business:

Resolution 9 – Purchases of own shares by the Company (special resolution)

Resolution 9 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 26 January 2009. 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 2p 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 9 April 2008. 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 2,676,343 ordinary shares have been granted and are outstanding as at 26 January 2009 (being the latest practicable date prior to publication of this document) representing

6.4% 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 9 the options outstanding as at 26 January 2009 would represent 7.1% of the ordinary share capital (excluding shares held in treasury) in issue following such exercise.

Resolution 10 – Calling of general meetings (special resolution)
Resolution 10 to be proposed at the Annual General Meeting seeks authority from shareholders to hold general meetings (other than Annual General Meetings) on 14 days' clear notice. This is permissible under the existing Articles of Association of the Company and the Companies Act 2006. However, pursuant to the EU Shareholders' Rights Directive and in accordance with published guidance from the Department of Business, Enterprise and Regulatory Reform, specific shareholder approval will be required annually in order to retain this ability with effect from 3 August 2009. The Directors believe that there may be circumstances in which it will be in the interests of the Company to be able to convene meetings at such short notice.

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 2008 were 44 days (2007: 44 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 (IFRSs) as adopted by the European Union, and the parent company financial statements 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; and
- 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 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 financial statements and the Report of the Remuneration Committee comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names and functions are listed on page 15 confirms that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Chairman and Chief Executive's statement, the Finance Director's review and the Directors' report, when taken together, include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Directors' report continued

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.

Throughout the year the Group maintained all of its borrowings at floating rates of interest and was therefore exposed to movements in the interest rates of both the US dollar and Sterling. Since the year end the Group has fixed certain of its interest rate exposure on its US dollar borrowings for up to three years. The Group will apply hedge accounting to these transactions.

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 60% 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.

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.

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.

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 fixed rate. The Group has changed its policy towards its interest rate exposure and now maintains between 40% and 60% of its borrowings at a fixed interest rate. This policy was changed immediately after the end of the current financial year. 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 2009 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
26 January 2009

C. Tyler

Report of the Remuneration Committee

This part of the Report of the Remuneration Committee is unaudited

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, and Andrew Walker (Chairman). 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. The Committee uses external published data as part of its assessment of the pay and benefits awarded to 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 long term incentives; 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 2009 relating to the achievement of the Group's profit targets in 2008, which are disclosed in the table of Directors' remuneration.

This part of the Report of the Remuneration Committee is audited

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 is entitled to 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 2008 £ 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 2008 £	Transfer value of accrued pension at 30 November 2007 £	Increase in transfer value over the year net of Director's contributions £
B D W Stocks	17,006	2,237	1,661	61,896	79,904	(915)

The Company paid £19,263 (2007: £18,337) to a SIPP for Ben Stocks and £25,650 (2007: £24,450) to a stakeholder pension plan for Christopher Tyler in respect of the financial year 2008.

Report of the Remuneration Committee continued

Directors' remuneration

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

2008	Basic salary and fees £'000	Bonus £'000	Benefits £'000	Total 2008 £'000
Executive Directors				
B D W Stocks	245	74	22	341
C P Tyler	171	51	19	241
Non-Executive Directors				
M R B Gatenby	25			25
C L Matthews	66			66
A J Walker	25			25
	532	125	41	698

2007	Basic salary and fees £'000	Bonus £'000	Benefits £'000	Relocation £'000	Total 2007 £'000
Executive Directors					
Dr J Sexton (appointed 29 January 2007, resigned 2 October 2007)	71	10	9		90
B D W Stocks	234	54	40	35	363
C P Tyler	163	38	19		220
Non-Executive Directors					
M R B Gatenby	25				25
C L Matthews	63				63
A J Walker	25				25
	581	102	68	35	786

Benefits include company cars, medical insurance, life insurance, permanent health insurance and, in the case of Ben Stocks in 2007, a housing allowance and certain travel costs relating to his secondment to the US. The relocation cost for Ben Stocks in 2007 relates to the costs of relocating him to the UK following the completion of his secondment to the US.

Share options

Share options are awarded to Executive Directors at the discretion of the Committee, usually immediately after the announcement of the Group's results.

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 2007 Number	Granted/ (Exercised/ lapsed) in the year Number	At 30 November 2008 Number	Exercise price	Scheme	Grant/ exercise date	Date from which exercisable	Expiry date
B D W Stocks	85,000	(85,000)	–	259.00p	1997		12/07/2004	12/07/2008
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
B D W Stocks	100,000		100,000	138.00p	2005		02/02/2010	02/02/2017
B D W Stocks	8,750	(8,750)	–	108.00p	SAYE		01/10/2010	01/04/2011
B D W Stocks		100,000	100,000	114.00p	2005	10/03/2008	10/03/2011	10/03/2018
B D W Stocks		452,166	452,166	2.00p	LTSP2008	10/04/2008	10/04/2011	10/04/2018
B D W Stocks		11,750	11,750	80.00p	SAYE	28/08/2008	01/10/2011	01/04/2012
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
C P Tyler	50,000		50,000	138.00p	2005		02/02/2010	02/02/2017
C P Tyler	8,750	(8,750)	–	108.00p	SAYE		01/10/2010	01/04/2011
C P Tyler		50,000	50,000	114.00p	2005	10/03/2008	10/03/2011	10/03/2018
C P Tyler		315,207	315,207	2.00p	LTSP2008	10/04/2008	10/04/2011	10/04/2018
C P Tyler		11,750	11,750	80.00p	SAYE	28/08/2008	01/10/2011	01/04/2012

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. For options granted in 2009 and later the Committee intends to apply similar performance conditions, except that the conditions will have to be met after three years otherwise the options will 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.

Options granted under the Porvair Long Term Share Plan 2008 can only be exercised in full if the Committee is satisfied that:

a) in the financial year ending 30 November 2010 the Group has achieved earnings per share of at least 11.6 pence per share; and

b) the peak share price in the year to 10 April 2011 has been at least 245 pence for at least 20 working days.

25% of the award will vest if the condition in a) above is satisfied and the share price in the year to 10 April 2011 has been at least 205 pence for at least 20 working days. A sliding scale operates between a peak share price of 205 pence and 245 pence. No shares will vest if the share price does not reach 205 pence for at least 20 working days in the year to 10 April 2011.

The Committee retains the discretion to vary the performance conditions on any future awards.

Options were granted in the year under a new Save As You Earn (SAYE) scheme. The options were issued at a 20% discount to the market price at the date of grant. The options have no performance conditions.

The market price of the Company's ordinary shares at 30 November 2008 was 62.5 pence (2007: 114 pence).

The range of market prices during the year was 62.5 pence to 116.5 pence.

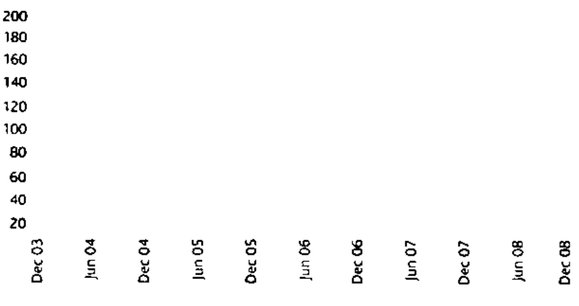
The Directors did not exercise any share options in the year ended 30 November 2008.

This part of the Report of the Remuneration Committee is unaudited

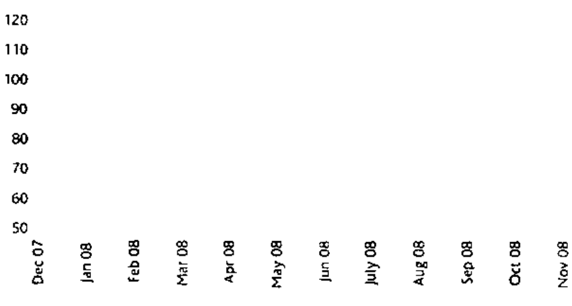
Total shareholder return

The following graphs chart total shareholder return against the FTSE SmallCap Index for the last 5 years and the last year to 30 November 2008, with both rebased to 100. Given the size of the Group, and different sectors it operates in, the FTSE SmallCap Index is the logical comparator index.

5 year total shareholder return



1 year total shareholder return



— Porvair plc — FTSE SmallCap Index

Report of the Remuneration Committee continued

Directors' interests

The beneficial interests at 30 November 2008 and 30 November 2007 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.

	2008		2007	
	Ordinary shares number	Share options number	Ordinary shares number	Share options number
Executive Directors				
B D W Stocks	98,070	1,083,916	96,666	613,750
C P Tyler	9,500	686,957	9,500	318,750
Non-Executive Directors				
M R B Gatenby	14,000	–	14,000	–
C L Matthews	10,000	–	10,000	–
A J Walker	4,119	–	4,040	–

Andrew Walker, Chairman Remuneration Committee
26 January 2009

Corporate governance

Compliance

The Directors are of the opinion that the Company has complied with the provisions of the 2006 Combined Code on Corporate Governance throughout the year except where explicitly set out below.

Board of Directors

The Board consists of five Directors; two 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 continues to be an independent Non-Executive Director after his appointment as Chairman.

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 six pre-arranged meetings during the year. In addition such other meetings as are required are arranged to deal with specific issues or transactions. During the year there was full attendance at all pre-arranged Board meetings.

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.

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.

Corporate governance continued

The Board considers that all members of the Committee have recent and relevant financial experience to enable it 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 the Group Internal auditor in reviewing the operating companies' internal controls and procedures.
- 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 on the Group's website **www.porvair.com**.

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 three 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 on the Group's website **www.porvair.com**. The Committee comprises all of the independent Non-executive Directors of the Company. Andrew Walker is the Chairman of the Committee. The Group Chief Executive may be invited to attend and speak at meetings of the 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 21 to 24 includes details on remuneration policy, practices and the remuneration of the Directors.

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

Nomination Committee

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

Internal control

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

The Board has overall responsibility for ensuring that the Group maintains a system of internal 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 have 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's internal auditor and the Group Finance Director. The Group has a formal whistle blowing procedure 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 2007 to 30 November 2008.

Christopher Tyler, Company Secretary
26 January 2009

Report of the Remuneration Committee

This part of the Report of the Remuneration Committee is unaudited

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, and Andrew Walker (Chairman). 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. The Committee uses external published data as part of its assessment of the pay and benefits awarded to 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 long term incentives; 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 2009 relating to the achievement of the Group's profit targets in 2008, which are disclosed in the table of Directors' remuneration.

This part of the Report of the Remuneration Committee is audited

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 is entitled to 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 2008 £ 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 2008 £	Transfer value of accrued pension at 30 November 2007 £	Increase in transfer value over the year net of Director's contributions £
B D W Stocks	17,006	2,237	1,661	61,896	79,904	(915)

The Company paid £19,263 (2007: £18,337) to a SIPP for Ben Stocks and £25,650 (2007: £24,450) to a stakeholder pension plan for Christopher Tyler in respect of the financial year 2008.

Report of the Remuneration Committee continued

Directors' remuneration

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

2008	Basic salary and fees £'000	Bonus £'000	Benefits £'000	Total 2008 £'000
Executive Directors				
B D W Stocks	245	74	22	341
C P Tyler	171	51	19	241
Non-Executive Directors				
M R B Gatenby	25			25
C L Matthews	66			66
A J Walker	25			25
	532	125	41	698

2007	Basic salary and fees £'000	Bonus £'000	Benefits £'000	Relocation £'000	Total 2007 £'000
Executive Directors					
Dr J Sexton (appointed 29 January 2007, resigned 2 October 2007)	71	10	9		90
B D W Stocks	234	54	40	35	363
C P Tyler	163	38	19		220
Non-Executive Directors					
M R B Gatenby	25				25
C L Matthews	63				63
A J Walker	25				25
	581	102	68	35	786

Benefits include company cars, medical insurance, life insurance, permanent health insurance and, in the case of Ben Stocks in 2007, a housing allowance and certain travel costs relating to his secondment to the US. The relocation cost for Ben Stocks in 2007 relates to the costs of relocating him to the UK following the completion of his secondment to the US.

Share options

Share options are awarded to Executive Directors at the discretion of the Committee, usually immediately after the announcement of the Group's results.

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 2007 Number	Granted/ (Exercised/ lapsed) in the year Number	At 30 November 2008 Number	Exercise price	Scheme	Grant/ exercise date	Date from which exercisable	Expiry date
B D W Stocks	85,000	(85,000)	-	259.00p	1997		12/07/2004	12/07/2008
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
B D W Stocks	100,000		100,000	138.00p	2005		02/02/2010	02/02/2017
B D W Stocks	8,750	(8,750)	-	108.00p	SAYE		01/10/2010	01/04/2011
B D W Stocks		100,000	100,000	114.00p	2005	10/03/2008	10/03/2011	10/03/2018
B D W Stocks		452,166	452,166	2.00p	LTSP2008	10/04/2008	10/04/2011	10/04/2018
B D W Stocks		11,750	11,750	80.00p	SAYE	28/08/2008	01/10/2011	01/04/2012
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
C P Tyler	50,000		50,000	138.00p	2005		02/02/2010	02/02/2017
C P Tyler	8,750	(8,750)	-	108.00p	SAYE		01/10/2010	01/04/2011
C P Tyler		50,000	50,000	114.00p	2005	10/03/2008	10/03/2011	10/03/2018
C P Tyler		315,207	315,207	2.00p	LTSP2008	10/04/2008	10/04/2011	10/04/2018
C P Tyler		11,750	11,750	80.00p	SAYE	28/08/2008	01/10/2011	01/04/2012

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. For options granted in 2009 and later the Committee intends to apply similar performance conditions, except that the conditions will have to be met after three years otherwise the options will 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.

Options granted under the Porvair Long Term Share Plan 2008 can only be exercised in full if the Committee is satisfied that:

a) in the financial year ending 30 November 2010 the Group has achieved earnings per share of at least 11.6 pence per share; and

b) the peak share price in the year to 10 April 2011 has been at least 245 pence for at least 20 working days.

25% of the award will vest if the condition in a) above is satisfied and the share price in the year to 10 April 2011 has been at least 205 pence for at least 20 working days. A sliding scale operates between a peak share price of 205 pence and 245 pence. No shares will vest if the share price does not reach 205 pence for at least 20 working days in the year to 10 April 2011.

The Committee retains the discretion to vary the performance conditions on any future awards.

Options were granted in the year under a new Save As You Earn (SAYE) scheme. The options were issued at a 20% discount to the market price at the date of grant. The options have no performance conditions.

The market price of the Company's ordinary shares at 30 November 2008 was 62.5 pence (2007: 114 pence).

The range of market prices during the year was 62.5 pence to 116.5 pence.

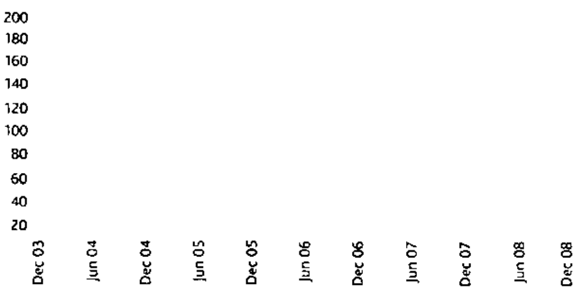
The Directors did not exercise any share options in the year ended 30 November 2008.

This part of the Report of the Remuneration Committee is unaudited

Total shareholder return

The following graphs chart total shareholder return against the FTSE SmallCap Index for the last 5 years and the last year to 30 November 2008, with both rebased to 100. Given the size of the Group, and different sectors it operates in, the FTSE SmallCap Index is the logical comparator index.

5 year total shareholder return



1 year total shareholder return

— Porvair plc — FTSE SmallCap Index

Report of the Remuneration Committee continued

Directors' interests

The beneficial interests at 30 November 2008 and 30 November 2007 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.

	2008		2007	
	Ordinary shares number	Share options number	Ordinary shares number	Share options number
Executive Directors				
B D W Stocks	98,070	1,083,916	96,666	613,750
C P Tyler	9,500	686,957	9,500	318,750
Non-Executive Directors				
M R B Gatenby	14,000	–	14,000	–
C L Matthews	10,000	–	10,000	–
A J Walker	4,119	–	4,040	–

Andrew Walker, Chairman Remuneration Committee
26 January 2009

Corporate governance

Compliance
The Directors are of the opinion that the Company has complied with the provisions of the 2006 Combined Code on Corporate Governance throughout the year except where explicitly set out below.

Board of Directors
The Board consists of five Directors; two 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 continues to be an independent Non-Executive Director after his appointment as Chairman.

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 six pre-arranged meetings during the year. In addition such other meetings as are required are arranged to deal with specific issues or transactions. During the year there was full attendance at all pre-arranged Board meetings.

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.

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.

Corporate governance continued

The Board considers that all members of the Committee have recent and relevant financial experience to enable it 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 the Group Internal auditor in reviewing the operating companies' internal controls and procedures.
- 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 on the Group's website **www.porvair.com**.

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 three 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 on the Group's website **www.porvair.com**. The Committee comprises all of the independent Non-executive Directors of the Company. Andrew Walker is the Chairman of the Committee. The Group Chief Executive may be invited to attend and speak at meetings of the 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 21 to 24 includes details on remuneration policy, practices and the remuneration of the Directors.

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

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

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

The Board has overall responsibility for ensuring that the Group maintains a system of internal 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:

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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's internal auditor and the Group Finance Director. The Group has a formal whistle blowing procedure 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 2007 to 30 November 2008.

Christopher Tyler, Company Secretary
26 January 2009

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 2008 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 2008 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 (IFRSs) 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 (2006) 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 other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. This other information comprises the Chairman and Chief Executive's statement (pages 4, 6, 8), the Finance Director's review (pages 10, 12, 13, 14), the Board of Directors, the Board committees, Secretary and advisers, the Directors' report, the unaudited part of the Report of the Remuneration Committee, the Corporate governance statement and all of the other information listed on the contents page. 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 IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 November 2008 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 LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cambridge
26 January 2009

Consolidated income statement

For the year ended 30 November	Note	2008 £'000	2007 £'000
Continuing operations			
Revenue	2	54,839	45,517
Cost of sales		(37,172)	(31,320)
Gross profit		17,667	14,197
Distribution costs		(705)	(679)
Administrative expenses		(12,146)	(9,683)
Operating profit	2	4,816	3,835
Interest payable and similar charges	5	(879)	(722)
Interest receivable	5	221	258
Profit before income tax	3	4,158	3,371
Income tax expense	6	(1,261)	(930)
Overseas tax	6	(27)	(65)
Profit for the year attributable to shareholders	23	2,870	2,376
Earnings per share (basic)	7	7.0p	5.8p
Earnings per share (diluted)	7	7.0p	5.8p

Consolidated statement of recognised income and expense

For the year ended 30 November	Note	2008 £'000	2007 £'000
Exchange differences on translation of foreign subsidiaries	23	5,119	(528)
Actuarial (losses)/gains on defined benefit pension scheme	20	(2,200)	2,400
Taxation credit/(charge) on items taken directly to equity	19	493	(756)
Net income recognised directly in equity		3,412	1,116
Profit for the year		2,870	2,376
Total recognised income for the year		6,282	3,492
Attributable to shareholders of Porvair plc		6,282	3,492

Consolidated balance sheet

As at 30 November	Note	2008 £'000	2007 £'000
Non-current assets			
Property, plant and equipment	9	9,870	6,722
Goodwill and other intangible assets	10	38,604	27,138
Deferred tax asset	19	751	753
Other receivable	11	1,261	1,056
		50,486	35,669
Current assets			
Inventories	13	9,970	6,888
Trade and other receivables	14	11,078	7,888
Derivative financial instruments	12	–	44
Cash and cash equivalents	15	2,501	2,893
		23,549	17,713
Current liabilities			
Trade and other payables	16	(9,201)	(6,937)
Current tax liabilities		(372)	(224)
Bank overdrafts and loans	17	(582)	(500)
Finance lease liabilities	18	(164)	–
Derivative financial instruments	12	(283)	–
Provisions for other liabilities and charges	21	–	(78)
		(10,602)	(7,739)
Net current assets		12,947	9,974
Non-current liabilities			
Bank loans	17	(18,316)	(9,364)
Finance lease liabilities	18	(169)	–
Retirement benefit obligations	20	(3,704)	(1,804)
Provisions for other liabilities and charges	21	(60)	(55)
		(22,249)	(11,223)
Net assets		41,184	34,420
Capital and reserves			
Share capital	22	841	814
Share premium account	22	34,024	32,765
Cumulative translation reserve	23	1,295	(3,824)
Retained earnings	23	5,024	4,665
Total shareholders' equity		41,184	34,420

The financial statements on pages 29 to 59 were approved by the Board of Directors on 26 January 2009 and were signed on its behalf by:

B D W Stocks

C P Tyler

C. P. Tyler

Consolidated cash flow statement

For the year ended 30 November	Note	2008 £'000	2007 £'000
Cash flows from operating activities			
Cash generated from operations	24	4,237	5,711
Interest received		91	130
Interest paid		(823)	(780)
Tax paid		(599)	(608)
Net cash generated from operating activities		2,906	4,453
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)	25	(5,121)	(1,046)
Purchase of property, plant and equipment	9	(2,628)	(1,688)
Purchase of intangible assets	10	(828)	(284)
Proceeds from sale of property, plant and equipment		7	295
Proceeds from sale of available for sale investments		-	200
Net cash used in investing activities		(8,570)	(2,523)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	22	-	153
Increase in/(repayment of) borrowings		6,008	(68)
Dividends paid to shareholders	8	(909)	(853)
Capital element of finance leases		(88)	-
Net cash generated from/(used in) financing activities		5,011	(768)
Net (decrease)/increase in cash and cash equivalents		(653)	1,162
Effects of exchange rate changes		261	(25)
		(392)	1,137
Cash and cash equivalents at 1 December		2,893	1,756
Cash and cash equivalents at 30 November	15	2,501	2,893

Reconciliation of net cash flow to movement in net debt

	2008 £'000	2007 £'000
Net (decrease)/increase in cash and cash equivalents	(653)	1,162
Effects of exchange rate changes	(2,405)	238
(Increase in)/repayment of borrowings	(6,368)	68
Net debt at 1 December	(6,971)	(8,439)
Net debt at 30 November	(16,397)	(6,971)

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 (IFRSs) 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. The Company has elected to prepare its entity accounts in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and these are presented on pages 61 to 67.

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 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, goodwill and intangible assets valuation, 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. The cost of acquisition includes the fair value of deferred consideration.

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 IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

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 at which point the risks and rewards of ownership are transferred.

1 Summary of significant accounting policies continued

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 typically recognised in profit or loss in the period in which they are incurred. Borrowing costs incurred in arrangement of new facilities are recognised in the income statement over the period of the borrowings.

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.

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.

For certain overseas defined benefit retirement schemes that are not material to the Group, the cost of providing benefits are included within trade and other payables.

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 continued

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.

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 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 criteria are demonstrable:

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

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

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. Significant financial difficulties of the debtor and default or delinquency in payments when credit control procedures have been applied are indicators the impairment may be required. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible it is written off to the provision for impairment. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

Cash and cash equivalents

'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.

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

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

Provisions
Provisions 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.

The Group has adopted the requirements of IFRIC 11 'Group and treasury share transactions', in these financial statements. This has no impact on the consolidated financial statements.

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.

New standards, amendments and interpretations
(a) Standards, amendments and interpretations effective in the year ended 30 November 2008
IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group financial statements.

IFRIC 11, 'IFRS 2, Group and treasury share transactions'. This interpretation provides guidance on how share based transactions involving treasury shares or options should be accounted for. This is effective for annual periods beginning on or after 1 March 2007. However, since the principles of this standard were already applied by the Group, there is no new effect on the Group's financial statements.

(b) Standards, amendments and interpretations effective for the year ended 30 November 2008 but not relevant
The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRS 4, 'Insurance contracts';
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'; and
- IFRIC 9, 'Re-assessment of embedded derivatives'

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group
Amendment to IFRS 1, 'First time adoption of IFRS' and IAS 27, 'Consolidated and separate financial statements'. This allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investment in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removed the definition of the cost method from IAS 27 and replaced it with a requirement to present dividends as income in the separate financial statements of the investor. Published on 22 May 2008, and effective for annual periods beginning on or after 1 January 2009, it is not likely to impact the Group.

IFRS 8, 'Operating segments'. This supersedes IAS 14, 'Segmental reporting', under which segments were identified and reported on risk and return analysis. Under IFRS 8, segments are reported based on internal reporting, bringing segment reporting in line with the requirements of US standard FAS 131. Published by the IASB in November 2006, this standard is effective for annual periods beginning on or after 1 January 2009.

1 Summary of significant accounting policies continued

Amendment to IFRS 2, 'Share based payments'. This clarifies what events constitute vesting conditions and also specifies that all cancellations, whether by the Group or by another party, should receive the same accounting treatment. This may have an impact on the Group financial statements and is currently being assessed. Published by the IASB on 17 January 2008, this amendment is effective for annual periods beginning on or after 1 January 2009.

IFRS 3, (Revised), 'Business combinations'. The revision to this standard changes accounting for business combinations. While the acquisition method is still applied, there are significant changes to the treatment of contingent payments, transaction costs and the calculation of goodwill. Published by the IASB in January 2008, the standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009, with earlier application permitted. This could impact the Group's financial statements in future if it makes further acquisitions.

IAS 1 (Revised), 'Presentation of financial statements'. This new standard will require "non-owner changes in equity" to be presented separately from "owner changes in equity". As the Group currently does not have any minority interests, it will not be relevant. Published by the IASB in September 2007, this standard is effective for annual periods beginning on or after 1 January 2009.

IAS 23 (Revised), 'Borrowing costs'. A result of the joint short term convergence project with the FASB, this new standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. This will be relevant if the Group funds acquisitions with debt in the future. Published by the IASB in March 2007, this is effective for annual periods beginning on or after 1 January 2009.

IAS 27 (Revised), 'Consolidated and separate financial statements'. This revises the accounting for transactions with non-controlling interests. Published by the IASB in January 2008, this is not relevant to the Group as it does not have any non-controlling interests.

Amendment to IAS 32, 'Financial instruments: Presentation', and IAS 1, 'Presentation of financial statements'. This amendment requires entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions:

- Puttable financial instruments
- Instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

Published by the IASB in February 2008, this is effective for annual periods beginning on or after 1 January 2009. This amendment will not be relevant to the Group.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement on eligible hedged items'. The amendment makes two significant changes. It prohibits designating inflation as a hedgable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. This does not currently impact the Group. Published on 31 July 2008, this is effective for accounting periods beginning on or after 1 July 2009 and must be applied retrospectively in accordance with IAS 8, 'Accounting Policies'.

Annual improvements to IFRSs
This Standard improves existing standards and amends 20 standards, basis of conclusions and guidance. The improvements include changes in presentation, recognition and measurement plus terminology and editorial changes. The Standard was published in May 2008 and will be effective for annual periods beginning on or after 1 January 2009.

IFRIC 12, 'Service concession arrangements'. This applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, for example, under private finance initiative contracts (PFI). It is not relevant for the Group. Published by the IASB in November 2006, it is effective for annual periods beginning on or after 1 January 2008.

IFRIC 13, 'Customer loyalty programmes relating to IAS 18, Revenue'. This provides guidance on accounting for customer loyalty programmes. As the Group does not offer such incentives, it will not be relevant. Published by the IASB in June 2007, it is effective for annual periods beginning on or after 1 July 2008.

IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. This provides guidance on accounting for defined benefit pension schemes. Published by the IASB in July 2007, it is effective for annual periods beginning on or after 1 January 2008.

IFRIC 15, 'Agreements for construction of real estates'. The interpretation clarifies which standard (IAS 18 or IAS 11) should be applied to particular transactions and is likely to mean that IAS 18 will be applied to a wider range of transactions. Published on 3 July 2008, and effective for annual periods beginning on or after 1 January 2009, it is not relevant to the Group.

IFRIC 16, 'Hedges of a net investment in a foreign operation'. This interpretation clarifies certain areas in respect of net investment hedging. Published on 3 July 2008, it is effective for annual periods beginning on or after 1 October 2008.

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.

Notes to the consolidated financial statements continued

2 Segment information

Primary reporting format - business segments
At 30 November 2008, the Group is organised on a worldwide basis into two main business segments:

(1) Metals Filtration

(2) Microfiltration

The Metals Filtration segment operating profit in the year ended 30 November 2007 includes a restructuring charge of £232,000. The Microfiltration segment operating profit includes Seal Analytical Limited Group and Toolturn Engineering Limited.

Other Group operations are included in 'Other Unallocated' and mainly comprise Group corporate costs not directly allocatable, some unallocatable research and development, new business development and general financial services. The Unallocated loss before income tax for the year ended 30 November 2007 of £1,322,000 includes provisions written back of £439,000 relating to reduced expenses in connection with businesses disposed of in 2003 and the elimination of an onerous lease cost on a building sublet in 2006 and disposed of in January 2008.

The segment results for the year ended 30 November 2008 are as follows:

30 November 2008	Note	Metals Filtration £'000	Microfiltration £'000	Other Unallocated £'000	Group £'000
Revenue		22,498	32,341	–	**54,839**
Operating profit/(loss) before share based payments		1,061	5,101	(1,241)	**4,921**
Share based payments	4	–	(33)	(72)	**(105)**
Operating profit/(loss)		1,061	5,068	(1,313)	**4,816**
Finance costs	5	–	–	(658)	**(658)**
Profit/(loss) before income tax		1,061	5,068	(1,971)	**4,158**
Income tax expense		–	–	(1,288)	**(1,288)**
Profit/(loss) for the year		1,061	5,068	(3,259)	**2,870**

The segment results for the year ended 30 November 2007 are as follows:

30 November 2007	Note	Metals Filtration £'000	Microfiltration £'000	Other Unallocated £'000	Group £'000
Revenue		19,330	26,187	–	45,517
Operating profit/(loss) before share based payments		308	4,414	(783)	3,939
Share based payments	4	2	(31)	(75)	(104)
Operating profit/(loss)		310	4,383	(858)	3,835
Finance costs	5	–	–	(464)	(464)
Profit/(loss) before income tax		310	4,383	(1,322)	3,371
Income tax expense		–	–	(995)	(995)
Profit/(loss) for the year		310	4,383	(2,317)	2,376

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

30 November 2008	Note	Metals Filtration £'000	Microfiltration £'000	Other Unallocated £'000	Group £'000
Depreciation and amortisation (tangible and intangible assets)	9,10	726	890	7	**1,623**

30 November 2007	Note	Metals Filtration £'000	Microfiltration £'000	Other Unallocated £'000	Group £'000
Depreciation and amortisation (tangible and intangible assets)	9,10	685	649	11	1,345

2 Segment information continued

The segment assets and liabilities at 30 November 2008 and capital expenditure for the year then ended are as follows:

30 November 2008	Note	Metals Filtration £'000	Microfiltration £'000	Other Unallocated £'000	Group £'000
Segmental assets		29,737	39,781	755	**70,273**
Long term receivable	11	–	–	1,261	**1,261**
Cash and cash equivalents	15	–	–	2,501	**2,501**
Total assets		29,737	39,781	4,517	**74,035**
Segmental liabilities		(3,248)	(5,812)	(1,189)	**(10,249)**
Retirement obligations	20	–	–	(3,704)	**(3,704)**
Borrowings	17	–	–	(18,898)	**(18,898)**
Total liabilities		(3,248)	(5,812)	(23,791)	**(32,851)**
Capital expenditure (tangible and intangible assets)	9,10	1,931	1,489	36	**3,456**

The segment assets and liabilities at 30 November 2007 and capital expenditure for the year then ended are as follows:

30 November 2007	Note	Metals Filtration £'000	Microfiltration £'000	Other Unallocated £'000	Group £'000
Segmental assets		20,859	28,151	423	49,433
Long term receivable	11	–	–	1,056	1,056
Cash and cash equivalents	15	–	–	2,893	2,893
Total assets		20,859	28,151	4,372	53,382
Segmental liabilities		(1,847)	(4,587)	(860)	(7,294)
Retirement obligations	20	–	–	(1,804)	(1,804)
Borrowings	17	–	–	(9,864)	(9,864)
Total liabilities		(1,847)	(4,587)	(12,528)	(18,962)
Capital expenditure (tangible and intangible assets)	9,10	782	1,175	15	1,972

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 and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Notes to the consolidated financial statements continued

2 Segment information continued

Secondary reporting format - geographical segments

Revenue	2008 By destination £'000	2008 By origin £'000	2007 By destination £'000	2007 By origin £'000
United Kingdom	14,834	28,302	14,657	25,166
Continental Europe	9,071	1,799	6,208	–
Americas	26,166	24,738	21,074	20,351
Asia	3,765	–	2,659	–
Australasia	490	–	457	–
Africa	513	–	462	–
	54,839	54,839	45,517	45,517

Total assets	2008 £'000	2007 £'000
United Kingdom	40,275	31,513
Continental Europe	2,016	–
Americas	31,704	21,869
Asia	40	–
	74,035	53,382

Capital expenditure	2008 £'000	2007 £'000
United Kingdom	1,479	1,183
Continental Europe	12	–
Americas	1,947	789
Asia	18	–
	3,456	1,972

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:

	2008 £'000	2007 £'000
Staff costs	17,779	15,037
Inventories - Cost of inventories recognised as an expense (included in cost of sales)	19,946	16,505
Net realised foreign exchange losses/(gains)	204	(165)
Depreciation on tangible fixed assets	1,344	1,229
Amortisation of intangible fixed assets	279	116
Loss/(profit) on sale of tangible fixed assets	1	(41)
Other operating lease rentals payable:		
– Plant and machinery	258	181
– Property	1,173	867
Repairs and maintenance on property, plant and equipment	1,139	832
Trade receivables impairment	83	52
Research and development expenditure	2,236	2,209
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 the audit of parent company and consolidated accounts	50	49
Fees payable to the Company's auditors and its associates for other services	1	–
The audit of Company's subsidiaries pursuant to legislation	79	53
Other services pursuant to legislation	16	16
Tax services	71	75
	217	193

3 Profit before income tax continued

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 £13,000 (2007: £11,000).

4 Employee benefit expense

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

	2008 Average	2007 Average
Number		
Metals Filtration	179	173
Microfiltration	376	290
Head office	7	7
	562	470
North American employees included above	198	185

	2008 £'000	2007 £'000
Staff costs		
Wages and salaries	14,643	12,193
Social security costs	2,129	1,856
Other pension costs	902	884
Share based payments	105	104
	17,779	15,037

Detailed disclosures of Directors' emoluments and interests in share options are shown in the Report of the Remuneration Committee on pages 22 to 23. The Executive Directors comprise the key management and their remuneration is in the Report of the Remuneration Committee.

5 Finance income and costs

	Note	2008 £'000	2007 £'000
Interest payable on bank loans and overdrafts		846	722
Interest payable on finance leases		16	–
Interest payable on loan notes		12	–
Unwinding of discount on provisions	21	5	–
Pension scheme finance income		(100)	(100)
Interest receivable - long term receivable		(111)	(92)
Interest receivable - other		(10)	(66)
		658	464

6 Income tax expense

	Note	2008 £'000	2007 £'000
Current tax			
UK Corporation tax		744	894
Adjustment in respect of prior periods		10	(427)
Overseas tax		27	65
Deferred tax			
Origination - reversal of timing differences	19	535	152
Adjustment in respect of prior periods	19	(28)	301
Effect of change in deferred tax rates		–	10
		1,288	995

Notes to the consolidated financial statements continued

6 Income tax expense continued

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:

	2008 £'000	2007 £'000
Profit before tax	4,158	3,371
Tax at the UK Corporation tax rate of 28.67% (2007: 30%)	1,192	1,011
Tax adjustments in respect of previous periods	10	(427)
Deferred tax adjustments in respect of previous periods	(28)	301
Deferrred tax on share based payments within equity	(30)	(31)
Tax effect of expenses not deductible in determining taxable profit	138	110
Effect of change in deferred tax rates	–	10
Effect of different tax rates of subsidiaries operating in other jurisdictions	6	21
Tax charge	1,288	995

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

	2008 £'000	2007 £'000
Deferred tax on share based payments	55	36
Deferred tax on actuarial (losses)/gains on the pension fund	(548)	720
	(493)	756

During the year the change in UK Corporation Tax rates, which were effective from 1 April 2008, reduced the UK Corporation tax rate to 28.67% (2007: 30%).

7 Earnings per share

	2008			2007		
	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	2,870	41,041,288	7.0	2,376	40,615,967	5.8
Effect of dilutive securities						
Share options	–	17,817	–	–	125,036	–
Diluted EPS - adjusted earnings	2,870	41,059,105	7.0	2,376	40,741,003	5.8

8 Dividends per share

	2008		2007	
	Per share (pence)	£'000	Per share (pence)	£'000
Final dividend paid	1.20	488	1.10	446
Interim dividend paid	1.00	421	1.00	407
	2.20	909	2.10	853

The Directors recommend a final dividend of 1.25p for the financial year ended 30 November 2008 to be paid on 12 June 2009.

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 2006	3,362	1,069	15,561	19,992
Reclassification	6	(1,449)	1,443	–
Additions	121	1,086	481	1,688
Acquisitions	–	–	62	62
Disposals	(257)	–	(462)	(719)
Exchange differences	(84)	(7)	(345)	(436)
At 30 November 2007	3,148	699	16,740	20,587
Depreciation				
At 1 December 2006	(813)	–	(12,583)	(13,396)
Charge for year	(87)	–	(1,142)	(1,229)
Disposals	13	–	452	465
Exchange differences	50	–	245	295
At 30 November 2007	(837)	–	(13,028)	(13,865)
Net book value at 30 November 2007	2,311	699	3,712	6,722
Cost				
At 1 December 2007	3,148	699	16,740	20,587
Reclassification	474	(1,190)	716	–
Additions	293	683	1,652	2,628
Acquisitions	–	–	553	553
Disposals	(371)	–	(906)	(1,277)
Exchange differences	622	30	2,943	3,595
At 30 November 2008	**4,166**	**222**	**21,698**	**26,086**
Depreciation				
At 1 December 2007	(837)	–	(13,028)	(13,865)
Charge for year	(178)	–	(1,166)	(1,344)
Reclassification	(49)	–	49	–
Disposals	371	–	898	1,269
Exchange differences	(233)	–	(2,043)	(2,276)
At 30 November 2008	**(926)**	**–**	**(15,290)**	**(16,216)**
Net book value at 30 November 2008	**3,240**	**222**	**6,408**	**9,870**

The net book value of plant, machinery and equipment includes £193,000 (2007: £nil) held under finance leases (note 18).

Notes to the consolidated financial statements continued

10 Goodwill and other intangible assets

	Goodwill £'000	Development expenditure capitalised £'000	Software capitalised £'000	Trademarks £'000	Total £'000
At 1 December 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
Year ended 30 November 2007					
Opening net book amount	26,243	312	163	–	26,718
Exchange differences	(480)	(17)	–	–	(497)
Additions	–	266	18	–	284
Acquisitions	749	–	–	–	749
Amortisation charges	–	(68)	(48)	–	(116)
Closing net book amount	26,512	493	133	–	27,138
At 30 November 2007					
Cost	44,933	561	398	–	45,892
Accumulated amortisation and impairment	(18,421)	(68)	(265)	–	(18,754)
Net book amount	26,512	493	133	–	27,138
Year ended 30 November 2008					
Opening net book amount	26,512	493	133	–	27,138
Exchange differences	4,416	302	7	–	4,725
Additions	–	763	65	–	828
Acquisitions	5,673	–	487	32	6,192
Amortisation charges	–	(168)	(108)	(3)	(279)
Closing net book amount	**36,601**	**1,390**	**584**	**29**	**38,604**
At 30 November 2008					
Cost	55,171	1,662	957	32	57,822
Accumulated amortisation and impairment	(18,570)	(272)	(373)	(3)	(19,218)
Net book amount	**36,601**	**1,390**	**584**	**29**	**38,604**

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

Amortisation of £279,000 (2007: £116,000) is included in 'cost of sales' in the income statement.

The net book value of software capitalised includes £264,000 (2007: £nil) held under finance leases (note 18).

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. A segment level summary of the goodwill allocation is presented below.

	2008			2007		
	Metals Filtration £'000	Microfiltration £'000	Total £'000	Metals Filtration £'000	Microfiltration £'000	Total £'000
	15,177	21,424	36,601	11,734	14,778	26,512

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. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below.

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

10 Goodwill and other intangible assets continued

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 2008 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

	2008 £'000	2007 £'000
Long term receivable	1,261	1,056

	2008 £'000	2007 £'000
At 1 December	1,056	968
Exchange difference	180	64
Fair value restatement	25	24
At 30 November	1,261	1,056

The fair value of this long term receivable is based on cash flows discounted using a rate based on a weighted average cost of capital rate of 9% (2007: 9%) (note 26).

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

12 Derivative financial instruments

	2008 Liabilities £'000	2007 Assets £'000
Forward foreign exchange contracts – cash flow hedges – current	(283)	44

Under IFRS the fair value of all forward foreign exchange contracts and currency options is recognised on the balance sheet with the corresponding entry included within administrative expenses. 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 full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

The notional principal amount of the outstanding US dollar forward foreign exchange contracts at 30 November 2008 is £1.2 million (2007: £0.7 million) which mature in December 2008, January 2009 and February 2009. The notional principal amount of the outstanding Euro forward exchange contract at 30 November 2008 is £0.4 million (2007: £nil) which matures in February 2009.

13 Inventories

	2008 £'000	2007 £'000
Raw materials	3,270	1,739
Work in progress	2,936	2,582
Finished goods	3,764	2,567
	9,970	6,888

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £19,946,000 (2007: £16,505,000).

Notes to the consolidated financial statements continued

14 Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	10,024	7,293
Less: provision for impairment	(244)	(59)
Trade receivables - net	9,780	7,234
Other debtors	424	154
Prepayments	874	500
	11,078	7,888

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

Credit risk in relation to trade receivables

The Group has a diverse customer base both geographically and in the number of industries in which it operates. There is credit risk associated with a decline in a particular industry or geographic region. To offset this risk the Group has implemented policies that require appropriate credit checks to be performed on significant potential customers before sales are made. Customer orders are checked against pre-set criteria before acceptance and credit control procedures are applied. Letters of credit and payments in advance are obtained from customers as appropriate.

The Group does not hold security over its receivables so was exposed to credit risk in respect of the net trade receivables balance of £9,780,000 (2007: £7,234,000). Management believe the credit quality of trade receivables which are within the Group's typical payment terms of between 30 and 90 days are good, with £2,035,000 (2007: £1,387,000) being past due but not impaired at the year end, of which £1,311,000 (2007: £963,000) are less than 30 days overdue.

	2008			2007		
Trade receivables:	Not yet due £'000	Past due not impaired £'000	Impaired £'000	Not yet due £'000	Past due not impaired £'000	Impaired £'000
Not yet due	7,666	–	–	5,794	–	–
0-3 months overdue	–	2,035	25	–	1,387	–
3-6 months overdue	–	79	17	–	53	25
>6 months overdue	–	–	202	–	–	34
Total	7,666	2,114	244	5,794	1,440	59

The Group has recognised a provision of £83,000 (2007: £52,000) for the impairment of its trade receivables during the year ended 30 November 2008. The Group has used provisions for impaired receivables of £44,000 during the year ended 30 November 2008 (2007: £38,000). The Group recognised £146,000 (2007: £nil) provision for impairment of its trade receivables on acquisition of the Seal Analytical Limited Group in the year. The creation and usage of provisions for impairment of receivables has been included in 'administrative expenses' in the income statement.

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

15 Cash and cash equivalents

	2008 £'000	2007 £'000
Cash at bank and in hand	2,501	1,193
Short term bank deposits	–	1,700
	2,501	2,893

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

	2008 £'000	2007 £'000
Pounds Sterling	106	1,796
US dollar	1,332	834
Euro	987	263
Other	76	–
	2,501	2,893

The effective interest rate on short term bank deposits was 5.44% in 2007; these deposits had an average maturity of one day.

16 Trade and other payables

	2008 £'000	2007 £'000
Amounts falling due within one year:		
Trade payables	5,677	4,453
Taxation and social security	859	277
Accruals and deferred income	2,665	2,207
	9,201	6,937

17 Borrowings

	2008 £'000	2007 £'000
Secured multi-currency revolving credit facility of US$25 million (2007: US$20 million) maturing in July 2011 with interest at 1.825% (2007: 1.655%) above US dollar LIBOR	14,919	8,364
Secured five year amortising debt facility of £2.375 million (2007: £1.5 million) expiring in July 2011 with interest at 1.825% (2007: 1.655%) above LIBOR	2,359	1,500
Secured revolving credit facility of Euro €1.6 million (2007: €nil) maturing January 2011 with interest at 1.825% above EURIBOR	1,320	–
Unsecured loan notes relating to the acquisition of Toolturn Engineering Limited (note 25)	300	–
	18,898	9,864

Bank and other loans of the Group are repayable as follows:	2008 £'000	2007 £'000
Within one year	582	500
One to two years	582	8,864
Two to five years	17,734	500
	18,898	9,864

On 7 July 2008, the Group renegotiated its banking facilities on the acquisition of Seal Analytical Limited Group (note 25) and to extend the maturity date. The loans are shown net of issue costs of £82,000 (2007: £nil) which are being amortised over the life of the loan agreement.

At 30 November 2008 the Group had £1,310,000 (2007: £1,363,000) of unutilised borrowing facilities under the existing bank facility and a £1,500,000 (2007: £3,000,000) overdraft facility.

The carrying values of bank borrowings approximate their fair value.

The multi-currency, Euro revolving credit facilities and amortising debt facility are secured by fixed and floating charges against the Group's assets. The unsecured loan notes are payable in equal instalments over 3 years to March 2011. Interest is payable at National Westminster Bank plc base rate (note 25).

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

	2008 £'000	2007 £'000
Pounds Sterling	7,593	1,500
US dollar	9,775	7,222
Euro	1,530	1,142
	18,898	9,864

Notes to the consolidated financial statements continued

18 Finance lease liabilities

	2008 £'000	2007 £'000
Gross lease liabilities		
Within one year	195	–
Between 2 and 5 years	202	–
	397	–
Future interest	(64)	–
Net lease liabilities	333	–
Net lease liabilities are repayable as follows:		
Within one year	164	–
Between 2 and 5 years	169	–
Total over one year	169	–

The leases are secured on the assets to which they relate.

19 Deferred tax asset

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

	Note	2008 £'000	2007 £'000
At 1 December		753	1,976
Exchange differences		66	(14)
Income statement (charge)	6	(507)	(453)
Tax credited/(charged) to equity		493	(756)
Acquisitions		(54)	–
At 30 November		751	753

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 2006	(454)	1,253	33	(96)	30	1,210	1,976
(Charged)/credited to income statement	(137)	(270)	(7)	(70)	31	–	(453)
(Charged) to equity	–	–	–	–	(36)	(720)	(756)
Exchange differences	27	(41)	–	–	–	–	(14)
At 30 November 2007	(564)	942	26	(166)	25	490	753
(Charged)/credited to income statement	(223)	(89)	(7)	(206)	30	(12)	(507)
(Charged)/credited to equity	–	–	–	–	(55)	548	493
Acquisitions	(54)	–	–	–	–	–	(54)
Exchange differences	(176)	285	–	(43)	–	–	66
At 30 November 2008	(1,017)	1,138	19	(415)	–	1,026	751

There were £530,000 (2007: £536,000) of unrecognised deferred tax assets at 30 November 2008 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 2008 (2007: £nil).

20 Retirement benefit obligations

	2008 £'000	2007 £'000
Defined benefit scheme deficit	3,540	1,632
Additional pension commitments	164	172
	3,704	1,804

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 fourteen years.

a) Defined contribution schemes
For its US employees, the Group operates a defined contribution pension plan (the 'Pension Plan') covering all eligible full time employees. The Group contributes 3% of each participant's base salary each year to the Pension Plan. In 2008 this amounted to £154,000 (2007: £146,000). In 2008 the Group also made payments of £157,000 (2007: £140,000) 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 were £263,000 (2007: £211,000).

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 and 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 2006.

The principal actuarial assumptions adopted in the 2006 valuation were:	2006 valuation assumptions %	2003 valuation assumptions %
Past service investment return:		
Pre-retirement	6.75	8.00
Post-retirement	4.75	8.00
Future service investment return:		
Pre-retirement	7.00	8.00
Post-retirement	5.00	8.00
Salary increases	4.00	5.00

The actuarial value of the assets on the funding basis was sufficient to cover 92% (previous valuation in 2003: 83%) of the benefits that had accrued to members after allowing for expected increases in pensionable remuneration, and the current funding deficiency amounted to £1.8 million.

The UK pension charge for the year was £300,000 (2007: £381,000); the funding via employer contributions was £492,000 (2007: £281,000).

The valuation of the deficit in the balance sheet 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 2008.

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

	2008	2007	2006
Valuation method	Projected unit	Projected unit	Projected unit
Discount Rate	6.8%	5.9%	5.0%
Inflation Rate	3.2%	3.2%	2.9%
General salary increases	4.2%	4.2%	3.9%
Rate of increase of pensions in payment	3.2%	3.2%	2.9%
Rate of increase for deferred pensioners	3.2%	3.2%	2.9%

Notes to the consolidated financial statements continued

20 Retirement benefit obligations continued

Pre and post retirement mortality:

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 average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is 18.2 (2007: 18.2) for men and 21.3 (2007: 21.3) for women.

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

	Long term expected rate of return at 30 November 2008	Value at 30 November 2008 £'000	Long term expected rate of return at 30 November 2007	Value at 30 November 2007 £'000	Long term expected rate of 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	**8.4%**	**8,100**	8.0%	12,200	7.8%	12,100	8.0%	11,300	8.3%	9,900
Bonds	**4.4%**	**6,360**	4.6%	6,800	4.4%	6,600	4.2%	6,200	4.6%	5,200
Other	**4.4%**	**–**	4.6%	68	4.3%	268	4.1%	131	4.1%	–
Fair value of plan assets		**14,460**		19,068		18,968		17,631		15,100
Present value of funded obligations		**(18,000)**		(20,700)		(23,000)		(24,400)		(22,400)
Deficit in the Plan (excluding deferred tax)		**(3,540)**		(1,632)		(4,032)		(6,769)		(7,300)

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

	2008 £'000	2007 £'000	2006 £'000
Deficit at 1 December	**(1,632)**	(4,032)	(6,769)
Contributions paid	**492**	281	837
Current service cost	**(300)**	(300)	(400)
Past service cost	**–**	(81)	–
Other finance income	**100**	100	–
Actuarial (losses)/gains	**(2,200)**	2,400	2,300
Deficit at 30 November	**(3,540)**	(1,632)	(4,032)

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

	2008 £'000	2007 £'000
Market value at start of year	**19,068**	18,968
Benefit payments	**(1,100)**	(1,200)
Company contributions	**492**	300
Member contributions	**100**	100
Expected return on assets	**1,300**	1,200
(Loss) on assets	**(5,400)**	(300)
Plan assets at the end of the year	**14,460**	19,068

20 Retirement benefit obligations continued

Income statement	2008 £'000	2007 £'000
Analysis of amounts chargeable to operating profit		
Current service cost	(300)	(300)
Past service cost	–	(81)
Amount chargeable to operating profit	(300)	(381)
Analysis of amounts credited to other finance income		
Interest on Plan liabilities	(1,200)	(1,100)
Expected return on assets in the Plan	1,300	1,200
Net amount credited to other finance income	100	100
Total chargeable to the income statement before deduction of tax	**(200)**	**(281)**
Other items		
Analysis of amounts recognised in the statement of recognised income and expense		
(Losses) on assets	(5,400)	(300)
Gains on change in financial and demographic assumptions	3,200	2,700
Total actuarial (loss)/gain recognised in the statement of recognised income and expense	**(2,200)**	2,400

21 Provisions for other liabilities and charges

	2008 £'000	2007 £'000
At 1 December	133	517
Credited/(charged) to consolidated income statement:		
– Used during year	(78)	–
– Additional provisions	–	55
– Unwinding of discount	5	–
– Unused amounts reversed	–	(439)
At 30 November	**60**	133

The provisions arise from a discounted dilapidations provision for leased property which is expected to reverse in 2027.

Analysis of total provisions	2008 £'000	2007 £'000
Current	–	78
Non-current	60	55
	60	133

22 Share capital and premium

	Number of shares	Ordinary shares £'000	Share premium account £'000	Total £'000
At 1 December 2006	40,574,586	811	32,615	33,426
Employee share option scheme:				
– Proceeds from exercised shares under share option schemes	123,920	3	150	153
At 30 November 2007	40,698,506	814	32,765	33,579
Issue of shares as part-consideration for the Seal Analytical acquisition	1,375,134	27	1,259	1,286
At 30 November 2008	**42,073,640**	**841**	**34,024**	**34,865**

The authorised number of ordinary shares is 75 million shares (2007: 75 million shares) with a par value of 2p per share (2007: 2p per share). All issued shares are fully paid.

Notes to the consolidated financial statements continued

22 Share capital and premium continued

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 is expensed to the income statement on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The charge is then credited back to reserves.

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

Details of the share options are:

	Year of grant	Exercise period	Subscription price (pence)	2008 Number of shares	2007 Number of shares
1997 (Revenue unapproved)	2001	2004 - 2008	259.00	–	130,000
1997 (Revenue unapproved)	2002	2005 - 2009	126.50	**85,000**	85,000
1997 (Revenue approved)	2003	2006 - 2013	111.00	**5,000**	5,000
1997 (Revenue unapproved)	2003	2006 - 2010	111.00	**85,000**	85,000
1997 (Revenue unapproved)	2003	2006 - 2010	160.00	**10,000**	10,000
1997 (Revenue approved)	2004	2007 - 2014	114.00	**30,000**	30,000
1997 (Revenue unapproved)	2004	2007 - 2011	114.00	**20,000**	20,000
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**	40,000
2005 EMI (Revenue approved)	2006	2009 - 2013	131.00	**182,660**	182,660
2005 EMI (Revenue unapproved)	2006	2009 - 2013	131.00	**147,340**	147,340
2005 EMI (Revenue approved)	2007	2010 - 2014	138.00	**60,000**	132,463
2005 EMI (Revenue unapproved)	2007	2010 - 2014	138.00	**150,000**	177,537
2007 Save As You Earn Scheme	2007	2010 - 2011	108.00	**94,500**	415,975
2005 EMI (Revenue approved)	2008	2011 - 2015	110.00	**15,000**	–
2005 EMI (Revenue unapproved)	2008	2011 - 2015	114.00	**150,000**	–
2008 Long term incentive scheme	2008	2011 - 2018	2.00	**767,373**	–
2008 Save As You Earn Scheme	2008	2011 - 2012	80.00	**470,470**	–
At 30 November				**2,676,343**	1,824,975

Movements in share options during the year were:

	2008 Weighted average exercise price (pence)	2007 Weighted average exercise price (pence)	2008 Number of shares	2007 Number of shares
At 1 December	**128.62**	134.81	**1,824,975**	1,406,175
Options granted	**41.29**	120.81	**1,402,843**	725,975
Options expired	**259.00**	147.42	**(130,000)**	(122,255)
Options forfeited	**113.46**	150.55	**(421,475)**	(61,000)
Options exercised	–	123.75	–	(123,920)
At 30 November	**78.64**	128.62	**2,676,343**	1,824,975
Options exercisable at 30 November	**106.99**	155.84	**599,000**	455,000
Options not exercisable at 30 November	**69.73**	119.58	**2,077,343**	1,369,975
Total	**78.64**	128.62	**2,676,343**	1,824,975

22 Share capital and premium continued

Options expired during the year were:	Scheme	Subscription price pence	2008 Number of shares	2007 Number of shares
	1997	214.49	–	31,887
	SAYE	123.75	–	90,368
	1997	259.00	130,000	–
At 30 November			**130,000**	122,255

Options forfeited during the year were:	Scheme	Subscription price pence	2008 Number of shares	2007 Number of shares
	1997	126.50	–	5,000
	1997	231.00	–	3,000
	1997	160.00	–	40,000
	1997	111.00	–	8,000
	1997	114.00	–	5,000
	2005	138.00	72,463	–
	2005	138.00	27,537	–
	SAYE	108.00	321,475	–
At 30 November			**421,475**	61,000

Options exercised during the year were:	Scheme	Subscription price pence	2008 Number of shares	2007 Number of shares
At 30 November	SAYE	123.75	–	123,920

Share based payment

30 November 2008

Grant date / Scheme	28/1/03 Porvair 1997 share option	25/6/03 Porvair 1997 share option	29/6/04 Porvair 1997 share option	16/9/04 Porvair 1997 share option	25/11/04 Porvair 1997 share option	25/1/05 Porvair 1997 share option	25/1/06 Porvair 2005 EMI share option	7/3/06 Porvair 2005 EMI share option
Share price at grant date	111.00p	160.00p	114.00p	101.00p	103.50p	98.00p	131.00p	151.00p
Exercise price	111.00p	160.00p	114.00p	101.00p	103.50p	98.00p	131.00p	151.00p
Shares under option	116,000	90,000	65,000	60,000	30,000	274,000	330,000	40,000
Vesting period (years)	3	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	30%	30%	30%	30%	30%
Expected life (years)	3	3	3	3	3	3	3	3
Risk free rate	4.00%	3.75%	4.50%	4.75%	4.75%	4.75%	4.50%	4.50%
Dividend yield	3.06%	2.13%	1.75%	1.97%	1.93%	2.09%	1.60%	1.39%
Fair value per option (£)	0.21907	0.33726	0.25840	0.22892	0.23421	0.21883	0.30066	0.35263

Grant date / Scheme	28/2/07 Porvair 2005 EMI share option	17/8/07 Share save 2007	1/2/08 Porvair 2005 EMI share option	10/3/08 Porvair 2005 share option	10/4/08 Porvair LTIP	1/10/08 Share save 2008
Share price at grant date	138.00p	135.00p	110.00p	114.00p	108.50p	99.50p
Exercise price	138.00p	108.00p	110.00p	114.00p	2.00p	80.00p
Shares under option	310,000	415,975	15,000	150,000	767,373	470,470
Vesting period (years)	3	3	3	3	3	3
Expected volatility	30%	30%	30%	30%	30%	50%
Expected life (years)	3	3	3	3	3	3
Risk free rate	5.25%	5.75%	5.25%	5.25%	5.25%	5.00%
Dividend yield	1.56%	1.59%	2.00%	2.00%	1.94%	2.10%
Fair value per option (£)	0.33045	0.46118	0.25092	0.26332	2.71828	0.41019

	2008 £'000	2007 £'000
Share based payments	**105**	104

The expected volatility is based on historic share price movements. The Directors anticipate that in the current economic conditions it is possible the performance criteria in relation to certain share options may not be met.

Notes to the consolidated financial statements continued

23 Other reserves

	2008		2007	
	Cumulative translation reserve £'000	Retained earnings £'000	Cumulative translation reserve £'000	Retained earnings £'000
At 1 December	(3,824)	4,665	(3,296)	1,394
Profit for the year attributable to shareholders	–	2,870	–	2,376
Direct to equity:				
Dividends paid	–	(909)	–	(853)
Actuarial (losses)/gains net of tax	–	(1,652)	–	1,680
share based payments net of tax	–	50	–	68
Exchange differences	5,119	–	(528)	–
At 30 November	1,295	5,024	(3,824)	4,665

24 Cash generated from operations

	2008 £'000	2007 £'000
Operating profit	4,816	3,835
Adjustments for:		
– Non cash pension charge	100	100
– Share based payments	105	104
– Depreciation and amortisation	1,623	1,345
– Loss/(profit) on disposal of property, plant and equipment	1	(41)
Operating cash flows before movement in working capital	6,645	5,343
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– (Increase) in inventories	(1,176)	(322)
– Decrease in trade and other receivables	289	102
– (Decrease)/increase in payables	(1,443)	972
– (Decrease) in provisions	(78)	(384)
(Increase)/decrease in working capital	(2,408)	368
Cash generated from operations	4,237	5,711

25 Acquisitions

Acquisition of Toolturn Engineering Limited

On 28 March 2008, the Group purchased 100% of the issued share capital of CM7 Limited and its wholly owned subsidiary Toolturn Engineering Limited for a total consideration of £990,000. The acquired business primarily sells to businesses within the Microfiltration segment and these transactions are eliminated on consolidation. The company contributed external revenues of £232,000 and a minimal impact to the Group profit for the period 29 March 2008 to 30 November 2008. If the acquisition had occurred on 1 December 2007, the company would have contributed external revenues of £332,000 and a minimal impact to the Group profit for the year ended 30 November 2008.

	Note	£'000
Purchase consideration:		
Cash paid		653
Deferred consideration		300
Direct costs relating to the acquisition		37
Total purchase consideration		990
Fair value of net assets acquired		(396)
Goodwill	10	594

The Goodwill is attributable to the workforce of the acquired business and synergies expected to arise after acquisition within the Microfiltration segment.

25 Acquisitions continued

The deferred consideration is unsecured loan notes paid in equal instalments over a 3 year period expiring in March 2011. The unsecured loan notes are interest bearing at National Westminster Bank plc base rate.

The total adjustments required to the book values of the assets and liabilities acquired in order to present the net assets at fair value in accordance with Group accounting principles were £4,000. The purchase has been accounted for as an acquisition.

The assets and liabilities as of 28 March 2008 arising from the acquisition are as follows:

	Note	Fair value £'000	Acquiree's carrying amount £'000
Property plant and equipment	9	444	444
Inventories		72	81
Trade and other receivables		373	365
Cash and cash equivalents		(106)	(106)
Trade and other payables		(195)	(191)
Deferred tax liability		(54)	(54)
Finance leases		(138)	(139)
Net assets acquired		396	400
Purchase consideration settled in cash		690	
Cash and cash equivalents in assets acquired		106	
Cash outflow on acquisition		796	

Acquisition of Seal Analytical Limited Group

On 9 July 2008, the Group purchased 100% of the issued share capital of Seal Analytical Limited. The total consideration was £3,934,000, on acquisition external loans included in the net liabilities acquired totalling £2,056,000 were paid. The Group contributed external revenues of £3,198,000 and a net profit of £130,000 to the Group for the period 9 July 2008 to 30 November 2008. If the acquisition had occured on 1 December 2007, the Group would have contributed external revenues of £7,957,000 and a net profit of £293,000 for the year ended 30 November 2008.

	Note	£'000
Purchase consideration:		
Cash paid		2,274
Fair value of shares issued	22	1,286
Direct costs relating to the acquisition		374
Total purchase consideration		3,934
Fair value of net liabilities acquired		1,145
Goodwill	10	5,079

The fair value of shares issued was based on the published average mid-market price of a buyer share for the 5 business days prior to acquisition.

The Goodwill is attributable to the workforce of the acquired business, the synergies and potential for development expected to arise after the Group's acquisition.

The total adjustments required to the book values of the assets and liabilities acquired in order to present the net assets at fair value in accordance with Group accounting principles were £495,000. The purchase has been accounted for as an acquisition.

Notes to the consolidated financial statements continued

25 Acquisitions continued

	Note	Fair value £'000	Acquiree's carrying amount £'000
Property plant and equipment	9	109	109
Software	10	487	348
Trademarks (included in intangibles)	10	32	–
Inventories		943	909
Trade and other receivables		1,767	1,482
Cash and cash equivalents		379	379
Trade and other payables		(2,536)	(2,541)
Borrowings		(2,116)	(2,116)
Finance leases		(272)	(272)
Corporation tax debtor		62	62
Net liabilities acquired		(1,145)	(1,640)
Purchase consideration settled in cash		2,648	
Cash and cash equivalents in subsidiary acquired		(379)	
Repayment of acquired borrowings		2,056	
Cash outflow on acquisition		4,325	

Omnifilter & Manufacturing Inc. was acquired in the year ended 30 November 2007.

Acquisition of Omnifilter in 2007

On 18 January 2007, the Group purchased the trade and assets of Omnifilter & Manufacturing Inc. for a total consideration of US$2,060,000 (£1,059,000). The acquired business contributed revenues of £1,021,000 and net profit of £120,000 to the Group for the period from 18 January 2007 to 30 November 2007.

	Note	£'000
Purchase consideration:		
Cash paid		1,049
Direct costs relating to the acquisition		10
Total purchase consideration		1,059
Fair value of net assets acquired		(310)
Goodwill	10	749

The Goodwill was attributable to the workforce of the acquired business and synergies expected to arise after acquisition within the Microfiltration segment.

The total adjustments required to the book values of the assets and liabilities acquired in order to present the net assets at fair value in accordance with Group accounting principles were £16,000. The purchase was accounted for as an acquisition.

The assets and liabilities as of 18 January 2007 arising from the acquisition were as follows:

	Note	Fair value £'000	Acquiree's carrying amount £'000
Property plant and equipment	9	62	78
Inventories		158	158
Trade and other receivables		103	103
Cash and cash equivalents		13	13
Trade and other payables		(26)	(26)
Net assets acquired		310	326
Purchase consideration settled in cash		1,059	
Cash and cash equivalents in assets acquired		(13)	
Cash outflow on acquisition		1,046	

26 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme is disclosed on page 20 of the Directors' report. The Group uses derivative financial instruments to hedge certain risk exposures.

Foreign exchange risk

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

(i) US dollar

The Group has investments in its US based subsidiaries denominated in US dollars. Currency exposure arising from the net assets of the Group's net operations is managed through borrowings denominated in relevant foreign currencies. The UK operations generate signficant US revenues and forward contracts are used to reduce the impact of movements in the US dollar exchange rate.

The Group has the following outstanding US dollar forward contracts:

	2008 $'000	2007 $'000
Outstanding forward contracts	1,800	1,500

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

	2008 $'000	2007 $'000
Trade receivables denominated in US dollars	8,519	7,127
Other receivables denominated in US dollars	6,064	4,304
Cash balances denominated in US dollars	2,043	1,641
Trade payables denominated in US dollars	(3,670)	(3,128)
Other creditors denominated in US dollars	(2,447)	(917)
	10,509	9,027

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

	2008 £'000	2007 £'000
US dollar strengthens	761	510
US dollar weakens	(623)	(417)

(ii) Euro

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

The Group has a long term debtor denominated in Euros which is offset by foreign denominated borrowings.

The UK operations generate Euro revenues and forward contracts are used to reduce the impact of Euro exchange rate movements.

The Group has the following outstanding Euro forward contracts:

	2008 €'000	2007 €'000
Outstanding forward contracts	500	–

Notes to the consolidated financial statements continued

26 Financial risk management continued

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

	2008 €'000	2007 €'000
Trade receivables denominated in Euros	1,884	567
Other receivables denominated in Euros	740	–
Cash balances denominated in Euros	1,193	368
Trade payables denominated in Euros	(1,030)	(357)
Other creditors denominated in Euros	(347)	–
	2,440	578

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

	2008 £'000	2007 £'000
Euro strengthens	224	46
Euro weakens	(183)	(38)

Cash flow interest rate risk

The Group's interest rate risk arises from long term borrowings. Borrowings in the years ended 30 November 2008 and 2007 were issued at variable rates and are denominated in US dollars, Euros and Sterling. Post year end, the Group has entered into an interest rate swap agreement on 66% of the US denominated borrowings to reduce the impact of future changes in US interest rates.

The Group is exposed to cash flow risk in respect of loans not covered by the interest rate swap agreement entered into post year end.

If interest rates had been 1% higher/lower on borrowings throughout the year with all other variables held constant, the post tax profit for the year would have been £141,000 (2007: £102,000) lower/higher respectively.

The Group acquired finance leases during the year which are secured on the assets to which the lease relates. The leases commit the Group to make monthly payments of £17,000. The Group does not believe there is significant cash flow risk associated with these leases as the Group has cash reserves. However, should the Group be unable to meet the finance lease obligations, then the lenders have recourse against the assets in order to reclaim the debt due.

Credit risk

Credit risk is disclosed in note 14.

Liquidity risk

Banking facilities were renegotiated in July 2008. Further details including a maturity profile are disclosed in note 17. The term loan commits the Group to quarterly repayments of the principal of £125,000. Interest is payable based on the length of the revolving facilities, typically between 1 and 3 months and on a quarterly basis for the term loan. The Group is required to meet banking covenants on a quarterly basis. Whilst the Group has sufficient cash reserves and expects future trading to enable it to meet its cash flow obligations, should trading performance prevent it from doing so then the lender has recourse over the Group's assets.

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability as a going concern in order to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated balance sheet less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet. The gearing ratio at 30 November 2008 was 40% (2007: 20%).

27 Commitments

Capital and other financial commitments

Contracts placed for future capital expenditure not provided in the financial statements at 30 November 2008 were £306,000 (2007: £637,000).

Operating lease commitments - minimum lease payments

	2008		2007	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Commitments under non-cancellable operating leases expiring:				
Within one year	**142**	**54**	92	56
Later than one year and less than five years	**960**	**418**	584	201
After five years	**6,068**	**–**	7,242	–
	7,170	**472**	7,918	257

28 Contingent liability

The Group transferred its ongoing liability under a property lease to a third party in March 2008. Under the terms of the lease, should the third party default on payment, the lessor has recourse to the Group. The lease term ends in September 2012 and the potential liability at 30 November 2008 totalled £123,000 (2007: £nil).

29 Key management compensation

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

	2008 £'000	2007 £'000
Salaries and other short term employee benefits	**582**	718
Other long term benefits	**45**	70
Share based payments	**63**	74
	690	862

30 Principal subsidiaries

The principal operating companies at 30 November 2008 are as follows:-

Name	Country of incorporation and operation	% holding
Selee Corporation	USA	100%
Porvair Advanced Materials	USA	100%
Porvair Selee Advanced Materials (Wuhan) Co Limited	China	100%
Omnifilter	USA	100%
Porvair Filtration Group Limited	England	100%
Toolturn Engineering Limited	England	100%
Porvair Sciences Limited	England	100%
Seal Analytical Limited	England	100%
Seal Analytical GmbH	Germany	100%
Seal Analytical Inc.	USA	100%

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

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 2008 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 2008.

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 other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. This other information comprises the Chairman and Chief Executive's statement (pages 4, 6, 8), the Finance Director's review (pages 10, 12, 13, 14), the Board of Directors, the Board committees, Secretary and advisers, the Directors' report, the unaudited part of the Report of the Remuneration Committee, the Corporate governance statement and all of the other information listed on the contents page. 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 2008;
- 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
Chartered Accountants and Registered Auditors
Cambridge
26 January 2009

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

As at 30 November	Note	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	4	44	15
Investments	5	63,550	53,811
		63,594	53,826
Current assets			
Debtors: amounts falling due after more than one year	6	79	73
Debtors: amounts falling due within one year	6	196	137
		275	210
Creditors: amounts falling due within one year	7	(5,067)	(5,205)
Net current liabilities		(4,792)	(4,995)
Total assets less current liabilities		58,802	48,831
Creditors: amounts falling due after more than one year	7	(18,280)	(9,536)
Net assets		40,522	39,295
Capital and reserves			
Called up share capital	10	841	814
Share premium account	11	34,024	32,765
Exchange reserves	11	(1,078)	(1,623)
Profit and loss account	11	6,735	7,339
Total shareholders' funds		40,522	39,295

The financial statements on pages 61 to 67 were approved by the Board of Directors on 26 January 2009 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 profit after tax attributable to the Company which has been dealt with in the accounts is £200,000 (2007: £834,000).

The Company has no other gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

Reconciliation of movements in shareholders' funds

For the year ended 30 November	Note	2008 £'000	2007 £'000
Profit for the financial year		**200**	834
Dividends		**(909)**	(853)
		(709)	(19)
Exchange differences	11	**545**	(137)
Net proceeds from issue of ordinary share capital	10,11	**1,286**	153
Share based payments	11	**105**	104
Net increase in shareholders' funds		**1,227**	101
Opening shareholders' funds		**39,295**	39,194
Closing shareholders' funds		**40,522**	39,295

Notes to the financial statements

1 Summary of significant 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 where noted:

Tangible fixed assets
Tangible fixed assets are capitalised at cost and are depreciated by equal annual amounts over their estimated useful lives. Annual depreciation rates are 10% to 33.33% 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 in value.

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 at which point the risks and rewards of ownership are transferred.

Patents and trademarks
All expenditure on the registration, renewal and maintenance of patents and trademarks 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 the profit and loss account 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 shares of the assets and liabilities of the scheme.

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

The Company has adopted Urgent Issues Task Force (UITF) Abstract 44, 'Financial Reporting Standard 20 - Group and Treasury Share Transactions'. Where the parent company has granted rights over its equity instruments to the employees of subsidiary companies, there is a corresponding increase recognised in the investment in subsidiary undertakings in those years.

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

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

Notes to the financial statements continued

2 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:	2008 £'000	2007 £'000
Staff costs		
Wages and salaries	**920**	823
Social security costs	**82**	83
Other pension costs	**69**	98
Share based payments	**72**	75
	1,143	1,079
Average number of employees	**7**	7

Directors' share based payments are shown in note 29 of the Group's accounts.

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 audit of parent company	**13**	13
Tax services	**43**	41
	56	54

In addition to the above services, the Company'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 Company. The aggregate fees paid to the Company's auditors for the audit services to the pension plan during the year was £13,000 (2007: £11,000).

3 Directors' emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the Report of the Remuneration Committee on pages 21 to 24.

4 Tangible fixed assets

	Plant, machinery and equipment £'000	Assets in the course of construction £'000	Total £'000
Cost			
At 1 December 2007	111	–	111
Additions	3	33	36
At 30 November 2008	**114**	**33**	**147**
Depreciation			
At 1 December 2007	(96)	–	(96)
Charge for year	(7)	–	(7)
At 30 November 2008	**(103)**	**–**	**(103)**
Net book value			
At 30 November 2008	**11**	**33**	**44**
At 30 November 2007	15	–	15

There were no capital commitments, authorised and contracted for, in the Company at 30 November 2008 (2007: £nil).

5 Fixed asset investments

	2008			2007		
	Investment in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000	Investment in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Cost						
At 1 December	42,324	27,561	69,885	42,295	29,144	71,439
Additions in the year	4,058	–	4,058	–	–	–
Advances/(repayments)	–	2,432	2,432	–	(1,183)	(1,183)
Capital contributions arising from FRS 20 share based payments charge	33	–	33	29	–	29
Exchange differences	–	3,216	3,216	–	(400)	(400)
At 30 November	46,415	33,209	79,624	42,324	27,561	69,885
Provisions						
At 1 December	(2,598)	(13,476)	(16,074)	(2,598)	(13,476)	(16,074)
At 30 November	(2,598)	(13,476)	(16,074)	(2,598)	(13,476)	(16,074)
Net book value						
At 30 November	43,817	19,733	63,550	39,726	14,085	53,811
At 1 December	39,726	14,085	53,811	39,697	15,668	55,365

The additions in the year relate to the Seal Analytical Limited Group acquisition (note 25 of the Group accounts) and a £125,000 investment in Porvair Selee Advanced Materials (Wuhan) Co Limited based in China.

The capital contributions arising from FRS 20 charges represents the Company granting rights over its equity instruments to the employees of subsidiary undertakings. Application of UITF 44 results in a corresponding increase in investments in subsidiary undertakings.

Details of the subsidiary undertakings are given in note 30 of the Group accounts.

6 Debtors

	Note	2008 £'000	2007 £'000
Amounts falling due within one year:			
Corporation tax recoverable		–	108
Prepayments		196	29
		196	137
Amounts falling due after more than one year:			
Deferred taxation	9	79	73
		79	73

7 Creditors

	Note	2008 £'000	2007 £'000
Amounts falling due within one year:			
Bank overdraft and other loans	8	4,246	4,638
Trade creditors		315	83
Taxation and social security		69	59
Accruals and deferred income		431	425
Corporation tax payable		6	–
		5,067	5,205
Amounts falling due after more than one year:			
Bank loans	8	18,116	9,364
Retirement obligations		164	172
		18,280	9,536

Notes to the financial statements continued

8 Bank and other loans

	2008 £'000	2007 £'000
Secured multi-currency revolving credit facility of US$25 million (2007: US$20 million) maturing in July 2011 with interest at 1.825% (2007: 1.655%) above US dollar LIBOR	14,919	8,364
Secured five year amortising debt facility of £2.375 million (2007: £1.5 million) expiring in July 2011 with interest at 1.825% (2007: 1.655%) above LIBOR	2,359	1,500
Secured revolving credit facility of Euro €1.6 million (2007: €nil) maturing January 2011 with interest at 1.825% above EURIBOR	1,320	–
Bank loans offset against cash balances in other Group companies under a Group banking offset arrangement	3,764	4,138
	22,362	14,002

	£'000	£'000
Bank and other loans of the Company are repayable as follows:		
Within one year	4,246	4,638
One to two years	482	8,864
Two to five years	17,634	500
	22,362	14,002

On 7 July 2008, the Group renegotiated its banking facilities on the acquisition of Seal Analytical Limited Group (note 25 of the Group accounts) and to extend the maturity date. The loans are shown net of issue costs of £82,000 (2007: £nil) which are being amortised over the life of the loan agreement.

At 30 November 2008 the Group had £1,310,000 (2007: £1,363,000) of unutilised borrowing facilities under the existing bank facility and a £1,500,000 (2007: £3,000,000) overdraft facility.

The carrying values of bank borrowings approximate their fair value.

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

9 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 provided for as follows:

Assets	2008 £'000	2007 £'000
Accelerated capital allowances	–	14
Short term timing differences	79	59
	79	73

There were no other unprovided deferred tax amounts at 30 November 2008 (2007: £nil).

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

10 Called up share capital

	2008 £'000	2007 £'000
Authorised:		
75,000,000 ordinary shares of 2 pence each (2007: 75,000,000)	**1,500**	1,500
Allotted, called up and fully paid:		
42,073,640 ordinary shares of 2 pence each (2007: 40,698,506)	**841**	814
Shares issued as fully paid		
At 1 December	**40,698,506**	40,574,586
Issued during the year	**1,375,134**	123,920
At 30 November	**42,073,640**	40,698,506

Details of shares issued during the year and share options are disclosed in note 22 of the Group accounts.

11 Reserves

	Share premium account £'000	Exchange reserve £'000	Profit and loss account £'000	Total £'000
At 1 December 2007	32,765	(1,623)	7,339	38,481
Premium on shares issued	1,259	–	–	1,259
Deficit for the year	–	–	(709)	(709)
Exchange differences	–	545	–	545
Share based payments	–	–	105	105
At 30 November 2008	**34,024**	**(1,078)**	**6,735**	**39,681**

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

12 Financial commitments

At 30 November 2008, the Company had annual commitments under non-cancellable operating leases expiring as follows:

	2008		2007	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Commitments under non-cancellable operating leases expiring:				
Within one year	**13**	**–**	13	–
Later than one year and less than five years	**–**	**2**	–	5
After five years	**45**	**–**	–	–
	58	**2**	13	5

Financial calendar 2009

27 January 2009
Full year 2008 results

7 April 2009
AGM/Interim Management Statement

29 April 2009
Ex-dividend date

1 May 2009
Record date for dividend

31 May 2009
Half year 2009 period end

12 June 2009
Payment date for dividend

23 June 2009
Half year 2009 results announcement

5 August 2009
Ex-dividend date

7 August 2009
Record date for dividend

11 September 2009
Payment date for dividend

13 October 2009
Interim Management Statement

30 November 2009
Financial Year end 2009

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