

Our specialist filtration solutions and consistent
strategy drive long term sustainable growth



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

The Group develops, designs and manufactures specialist filtration and separation equipment. We serve a range of markets of which aviation, energy and industrial process, environmental laboratories and molten metals are the most important.

At the heart of what we do is 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.

Our Business

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Key performance highlights in 2011

Financial highlights

Financial performance ahead of expectations

- Revenues up 7% to £68.1 million (2010: £63.6 million).
- Profit before tax up 44% to £4.5 million (2010: £3.1 million)
- Earnings per share up 40% to 7.3 pence (2010: 5.2 pence).
- Cash generated from operations was £8.1 million (2010: £8.1 million)
- Net debt reduced by 47% to £5.1 million (2010: £9.7 million; 2009: £13.9 million)
- Net debt to EBITDA ratio was 0.6 times (2010: 1.6 times)
- Final dividend increased to 1.4 pence per share (2010: 1.3 pence per share)

Operating highlights

Microfiltration division

- Revenues up 4%. Strong performance in aviation and energy markets.
- Several large contract wins, record order intake
- Finished year with record opening order book for 2012.

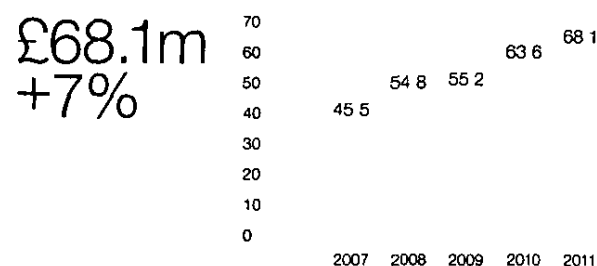
Metals Filtration division.

- Revenues up 15% in constant currency (12% as reported)
- Margin enhancement and market share gains from patented products continues
- Further transfer of un-patented products to China on track.

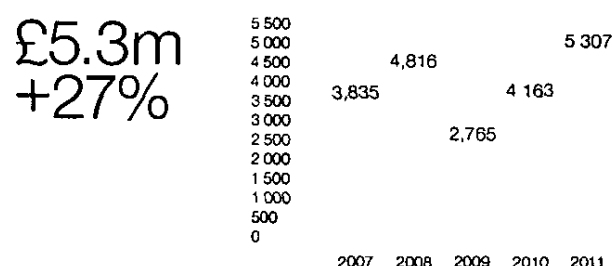
2012 has started well

- US\$25 million contract won to supply filters onto the Boeing 787 over the next 15 years
- Acquisition of the Block Digester product line from Aim Laboratories expected to be immediately earnings enhancing

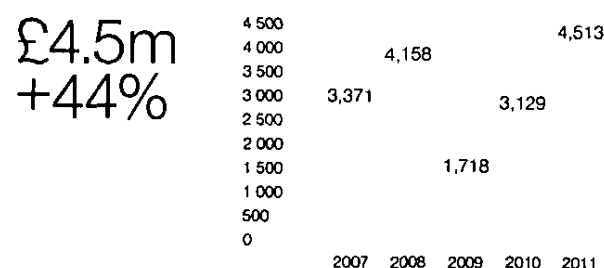
Turnover (£'m)



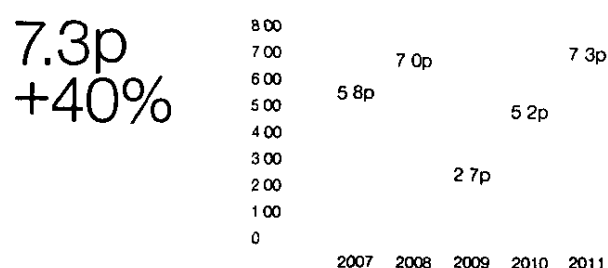
Operating profit (£'000)



Profit before tax (£'000)



Basic earnings per share (pence)



*All amounts shown before exceptional items

Porvair at a glance

Porvair specialises in filtration and related environmental technology. We operate two divisions. The Microfiltration division principally serves aviation, environmental laboratory and energy markets. The Metals Filtration division serves global aluminium, NAFTA iron foundry and super alloy markets.

Business divisions

Microfiltration

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 370 people. Its sales are global.

Metals Filtration

The Metals Filtration division serves the market for the filtration and handling of molten metal. It has operations in the US and China and employs 150 people. Its sales are global.

Main operating companies

- ▶ Porvair Filtration Group
- ▶ Seal Analytical
- ▶ Porvair Sciences

- ▶ Selee Corporation

Principal markets served

Aviation

Energy and industrial process

Environmental laboratory supplies

Molten metals

Contribution to Group sales

15%

25%

25%

35%

Applied technology

- ▶ Metallic and polymeric filtration technologies
- ▶ Instrumentation

- ▶ Ceramic filtration technology

Annual sales and revenue growth by division

Annual sales

£42.2m

Revenue growth

+4%

Annual sales

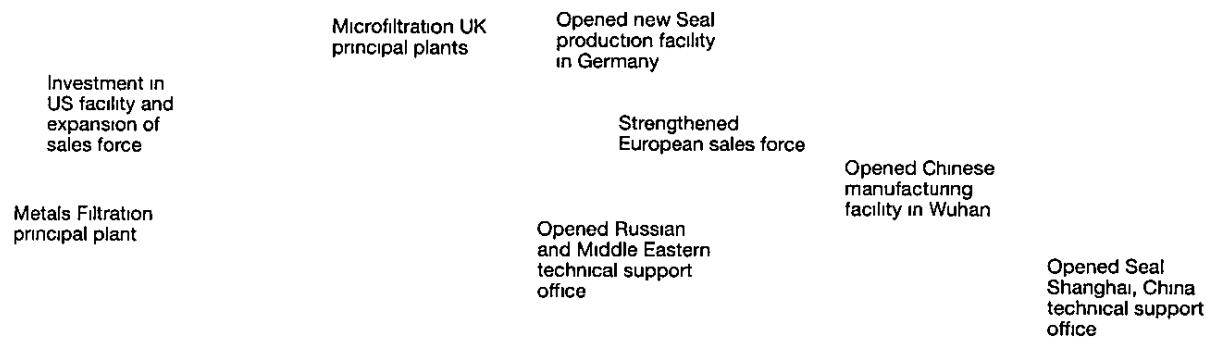
£25.9m

Revenue growth

+15%

Our global operations support our key markets

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



Microfiltration
Metals Filtration

Revenue by destination (%)

Americas	47%
UK	22%
Europe	15%
Asia	12%
ROW	4%

Revenue by origin (%)

Americas	45%
UK	44%
Europe	9%
Asia	2%

Chairman and Chief Executive's statement

"Since 2007, Porvair has achieved 50% revenue growth (11% CAGR), generated over £30 million in cash from operations, and this year posted a 21% operating profit return on capital."

Charles Matthews
Chairman

Overview

In 2011 Porvair made further progress towards its financial and strategic objectives. Sales revenues grew 7%, profit before tax increased 44%, and robust cash generation reduced net borrowings by 47%. Both divisions achieved their strategic objectives for the year, thereby enhancing opportunities for further progress in 2012 and beyond.

Revenues in the year to 30 November 2011 were £68.1 million (2010: £63.6 million). Microfiltration revenues grew 4% to £42.2 million (2010: £40.4 million) and Metals Filtration revenues grew 12% (15% in constant currency) to £25.9 million (2010: £23.2 million).

Operating profit increased 27% to £5.3 million (2010: £4.2 million) and profit before tax was up 44% to £4.5 million (2010: £3.1 million).

Cash generation was again strong. Cash generated from operations was £8.1 million (2010: £8.1 million). Net debt at 30 November 2011 reduced by 47% to £5.1 million (2010: £9.7 million, 2009: £13.9 million).

Ben Stocks
Group Chief Executive

Porvair's strategy and operating objectives have remained consistent for several years. Since 2007, Porvair has achieved 50% revenue growth (11% CAGR), generated over £30 million in cash from operations, and this year posted a 21% operating profit return on capital.

Progress made in 2011 against key strategic objectives included:

- New products in the Metals Filtration division boosted revenue and margin percentage, with further improvements in product formulations introduced through the year. Trials of the next new product have already started.
- The Microfiltration division's Seal Analytical business ("Seal") introduced its second major new product under Porvair management. More are in the pipeline for 2012.
- The Microfiltration division's aerospace and energy segments had strong years with aviation fuel tank inerting work growing quickly and significant contract wins on new airframes. A record US\$10 million+ order from POSCO for Porvair designed gasification filtration was announced in November 2011.
- Further investment was made in the Metals Filtration division's plant in Wuhan, China, where sales doubled, and
- Seal's US facilities were expanded to accommodate the acquisition of Air Laboratories block digestion product line.

Given the number of attractive opportunities in prospect, the Board has decided to reduce the number of markets served by the Group in 2012. As a result, Porvair's activities in the UK natural gas transmission market have ceased. A small production facility in Poole, UK, was closed in November. Some manufacturing was transferred to other plants. A site closure charge of £0.5 million is included within Microfiltration's reported profits. The site will be marketed for sale in 2012.

Porvair's activities and strategy

Porvair specialises in filtration and related environmental technology. We operate two divisions. The Microfiltration division principally serves aviation, laboratory and energy markets. The Metals Filtration division serves global aluminium, NAFTA iron foundry and super alloy markets.

The Group manufactures principally in the UK, US, Germany and China. Its sales are global. Over 80% of sales are from consumable products for which replacement sales recur on a regular basis.

Porvair's strategy is to develop value-added products for growing markets. In practice this means:

- Develop filtration and environmental technology products in markets where typically:
 - specialist design or engineering skills win business,
 - regulation or quality accreditation requirements mandate product use,
 - products are consumable, replaced as part of a maintenance routine in order to protect more costly downstream components, and
 - products, once designed into a specification, have very long lifecycles.
- Focus on markets with good long term growth characteristics, where demand is driven by regulation, specifically aviation, energy & industrial, environmental laboratory supplies and aluminium filtration.
- Invest consistently in specified new products. Make new product development a priority for the business and central to Porvair management culture.
- Expand geographically, where appropriate, in our chosen markets.
- Acquire complementary businesses that meet Group financial and commercial criteria.
- Maintain an appropriately funded balance sheet and generate sufficient cash to sustain a progressive dividend policy.

Our specialist filtration solutions and consistent strategy drive long term sustainable growth:

Our strategy and operating objectives have remained consistent for several years. We hold attractive niche positions in growing markets and have a clear strategy for growth.

Our key priorities are focused on:

NICHE POSITIONS
in growing, regulated markets

Long term focus on new **PRODUCT DEVELOPMENT** and intellectual property

Our operational objectives:

We are focused on delivering long term growth from developing specialist filtration and environmental technology businesses both organically and by acquisition:

- | | | | |
|--|---|---|---|
| 1 A focus on regulated markets with long term growth prospects <ul style="list-style-type: none"> • four key markets | 2 Concerted new product development <ul style="list-style-type: none"> • now 33% of total revenue | 3 Geographic expansion to support key markets <ul style="list-style-type: none"> • China investment | 4 Generate cash to invest in <ul style="list-style-type: none"> • organic growth • acquisitions • dividends |
|--|---|---|---|

Progress and developments in key markets:

In 2011, 33% of the Group's revenues came from sales of products that have recently been commercially released by the Group. A summary of progress on new product development is given below:

Progress

Microfiltration

AVIATION

Inerting filter US\$40m over 10 years
Airbus A380 and Boeing 787 coolant filters
A350 programmes from 2013

ENERGY AND INDUSTRIAL PROCESS

Orders secured
SG Solutions
Posco – US\$10 – 15m
Melox
Sasol
British Energy

ENVIRONMENTAL LABORATORY SUPPLIES

New products AQ1, AA1
Block digester acquisition
Chromatrap™ and epigenetics

Metals Filtration

MOLTEN METALS

IP protected ranges
Demonstrable market share and margin improvement
China expansion

Future developments

Microfiltration

AVIATION

- ▶ Long term market growth 5-1%
- ▶ US sales and manufacturing growth
- ▶ Inerting filtration for regional jets

ENERGY AND INDUSTRIAL PROCESS

- ▶ US sales and manufacturing growth
- ▶ Longer life hot gas filters
- ▶ US sales and manufacturing

ENVIRONMENTAL LABORATORY SUPPLIES

- ▶ Seal distribution and range extensions
- ▶ Seal acquisitions
- ▶ Epigenetics market growth

Metals Filtration

MOLTEN METALS

- ▶ Future IP protected products to increase market share and margins

Chairman and Chief Executive's statement continued

Operating review

Divisional performance – Microfiltration
Revenues at the Microfiltration division were up 4% to £42.2 million (2010: £40.4 million). Operating profits were £5.6 million (2010: £5.5 million). Reported operating profits include a charge of £0.5 million for the costs of closure of the Poole facility. The charge covers redundancies, substantially incurred in the year, and inventory provisions and property impairment costs. Underlying operating profit growth was 11%.

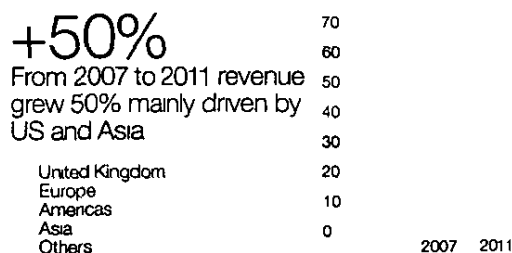
There are two principal businesses in this division: the Porvair Filtration Group ("PFG") and Seal Analytical ("Seal").

PFG had a good year. Revenues increased 10% and order books at the end of the year were at record levels.

The largest market served by PFG is aviation, where sales in the year grew 15%. Aviation orders at the end of the year were strong for the third year running. Porvair's aviation filters are specified on almost all commercial airframes; we serve both new build and after market demand. Fuel tank inerting filter sales and orders grew throughout the year. Further developments of this specialist product are currently being considered by customers both in the US and Asia. Looking ahead, production orders for components on the Airbus A380 fleet have started and are expected to increase in 2012. Sales of filters on the Boeing 787, including those covered by a US\$25 million, 15 year contract, will begin this year. We see plenty of opportunities in aviation filtration.

We have previously commented that Porvair's long track record in both nuclear and gasification filtration is an increasingly useful asset to the business, and this was demonstrated in 2011 with the contract announced in November. This work will generate revenues of US\$10-15 million depending on final configuration. We will design and build char filtration equipment for the Gwangyang coal-to-substitute natural gas ("SNG") project under construction by POSCO, one of the world's largest steel manufacturers. Under the terms of the contract, Porvair also becomes POSCO's preferred supplier for any future SNG projects. Manufacturing on this project will start early in 2012, with first deliveries expected early in 2013. The financial impact will spread over three years from 2012.

Revenue growth by geography (£'m)



Whilst this was the headline success of the year, a number of other significant contracts were signed, notably with Melox and British Energy for nuclear installations, and with Sasol and SG Solutions in the gasification field. Further gasification and nuclear projects are a key growth opportunity for the Group.

PFG has a number of other niche positions that are either showing promise or already growing steadily.

- Its US subsidiary had a good year, growing revenues by 11% and increasing its capabilities. This is expected to continue in 2012 and remains an important growth opportunity for the Group.
- As reported at the interim stage, a new bioscience filter, Chromatrap™, was introduced to the epigenetics research market earlier in the year. Beta testing and early commercial sales are progressing well, and
- Sales of filters into the industrial ink jet market also grew in 2011.

Seal, as reported at the time, had a more difficult first half with sales at constant currencies falling 7%. The second half was better however, and for the full year Seal's revenues were 5% lower than 2010. Nevertheless, profits in 2011 were marginally ahead of the prior year due to improving margins. Seal has developed substantially under Porvair ownership. Sales are c25% higher than at the time of acquisition in 2008. Both profitability and cash generation are good. Substantial new products are being launched, facilities in both Germany and the US have been upgraded, a technical support team in Asia has been hired and trained, and the number of technically qualified staff has increased. All these actions, along with the robust market fundamentals associated with the growing need for clean water across the world, give us confidence that there are plenty of opportunities for growth in Seal. Organically this will be driven by new products – two introduced in the last two years and more in the pipeline for 2012, by a more structured approach to distributor training, and by improving services to our installed base of customers. These initiatives will be helped by the acquisition of Aim Laboratories' block digestion product line, completed subsequent to the year end. Block digestion is an integral part of the water analysis process, and these

In January 2012, we announced a US\$25 million, 15 year contract to supply coolant filtration for the Boeing 787.

Our technology advantage

Porvair is a world leader in specialist filtration components and assemblies to meet the technology and safety challenges of the aviation industry

With over 312 miles of electrical wiring on the Airbus A380, we supply a range of equipment to condition air for systems including air intake, crew comfort and the vital protection of sensitive electronic equipment

Key market

Aviation

▸ Niche positions

- Fuel tank inerting
- Coolant systems
- Fuel systems
- Hydraulics

▸ Growth drivers

- Aircraft build rates
- Maintenance schedules
- Passenger miles
- New programmes
- Fuel tank inerting retrofit

▸ Recent new products

- Boeing, Airbus and other fuel tank inerting filters
- A380 and Boeing 787 coolant filter assemblies

Chairman and Chief Executive's statement continued

We develop filtration products for markets where specialist design or engineering skills win business

products and the consumables that support them will be sold through existing sales channels. This small acquisition, announced in December 2011, will be immediately earnings enhancing.

Divisional performance – Metals Filtration
Revenues in the Metals Filtration division were £25.9 million (2010: £23.2 million), a 12% increase (15% in constant currency). Operating profits were £1.5 million (2010: £0.5 million). The division remains cash generative. Revenues at the satellite plant in Wuhan, China more than doubled and this site reported a maiden profit for the year.

Operating profit margins in this division have improved substantially but remain relatively low at 6%. The Board can see a clear route to achieving 10% margins and the division's management team continue to make good progress towards this goal.

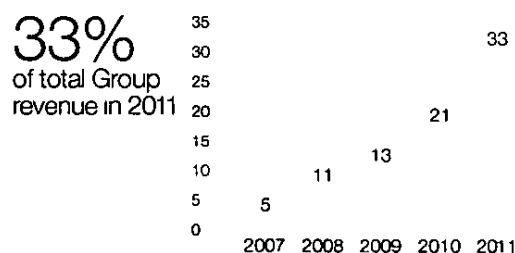
Market share and margin growth are being driven by the new and patented products we have introduced in recent years and the development of our capabilities in China.

We see further opportunities with the new and patented products. The Selee CSX™ Aluminium cast house filter has a greater than 50% global market share. It has several unique advantages, including a much lower environmental impact, and new customers are converting to it steadily. The Selee IC™ iron foundry filter has now been adopted by 80% of our customer base in the NAFTA region, where we have a leading market share for this sort of filter. It offers customers a more robust formulation and uses domestically sourced raw materials that have historically seen more stable pricing. The Selee SA™ filter is used in specialist nickel-cobalt castings and has a dominant market share.

Switching to these patented products enabled us to shut down one production line in the US in 2011 and move some more manufacturing to China. Overall costs in the division were reduced as a result, and the full benefits of this will be seen in 2012.

Work is well underway on the next generation of new products in this division, the first of which is already in customer trials.

New generation products revenue (%)



EPS, dividend and financing

Earnings per share were 7.3 pence (2010: 5.2 pence), an increase of 40%.

Cash generated from operations was £8.1 million (2010: £8.1 million). After interest and tax, net cash generated from operating activities was £6.4 million (2010: £6.9 million). Net debt at 30 November 2011 was £5.1 million (2010: £9.7 million). In the last three years net debt has reduced by £11.6 million. The ratio of net debt to EBITDA at 30 November 2011 was 0.6 times (2010: 1.6 times).

The Directors recommend an improved final dividend of 1.4 pence (2010: 1.3 pence) making the full year dividend 2.4 pence (2010: 2.3 pence).

Staff

Porvair has developed and strengthened over the last few years, and sales have grown 50% since 2007. This is entirely due to our staff, who can see the fruits of their work in the 2011 results. Much has changed since the recession of 2009. The manufacturing and product base of the Metals Filtration division is very different. In the Microfiltration division, Seal has undergone significant changes in product lines and facilities and PFG has dealt admirably with both underlying growth and the effort involved in a good record of major contract wins. The Board is pleased to acknowledge these successes and all the hard work by our staff required to achieve them.

Current trading and outlook

2011 was a good year with progress towards strategic objectives made across the business. 2012 has started well, with revenues in December and January ahead of the prior year. Order books are at record levels, boosted by the large POSCO order that is expected to be mostly delivered early in 2013. Leaving this order aside, underlying demand is also currently healthy. Porvair holds attractive niche positions in growing markets and has a clear strategy for growth. Provided the macroeconomic situation remains stable, the Board sees plenty of opportunity for 2012 and beyond.

Charles Matthews, Chairman
Ben Stocks, Group Chief Executive

30 January 2012

Our technology advantage

Gasification is a fast growing industrial process, with 25% capacity growth between 2009 and 2011, almost all of which is in Asia and the Americas

Porvair has unmatched experience in the design and manufacture of hot gas filtration systems for gasification processes which benefit both the capability of our customers' systems and the environment

Key market

Energy
& industrial
process

► Niche positions

- Pulse jet systems
- Hot gas and gasification
- Nuclear remediation and fuel cycle
- Polymer production

► Growth drivers

- Gasification build rates
- Government nuclear clean up spend
- Energy efficiency and security

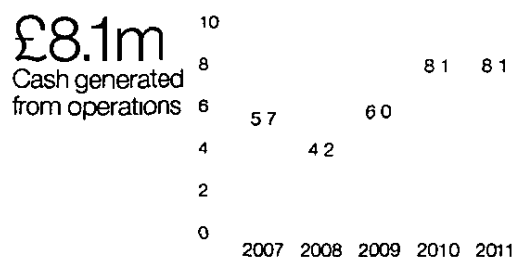
► Recent new products

- E-gas filtration solutions
- Thor filtration systems

Finance Director's review

"Cash generated from operations was £8.1 million. Net working capital was tightly controlled and only increased marginally, although revenue rose by 7% in the year"

Cash generated from operations (£'m)



Group operating performance

Group revenues were £68.1 million (2010: £63.6 million) and operating profit was £5.3 million (2010: £4.2 million). The operating performance and key performance indicators of the Microfiltration and Metals Filtration divisions are described in detail in the Chairman and Chief Executive's statement and below. The operating loss associated with the Other Unallocated segment was £1.8 million (2010: £1.8 million), which mainly comprises Group corporate costs. These include new business development costs, some research and development costs and general financial costs.

Key performance indicators

The Group considers its key performance indicators to be: revenue growth and operating margins of its principal operations, revenue from new generation products, profit before tax growth, earnings per share growth, interest cover, net debt to EBITDA, gearing, and return on capital employed. The table below summarises these indicators.

Key performance indicators	2011	2010
Revenue growth	7%	15%
Revenue growth at constant currency	9%	15%
Revenue growth – Metals Filtration (US dollars)	15%	24%
Revenue growth – Microfiltration	4%	11%
Revenue from new generation products	33%	21%
Operating margin – Group	8%	7%
Operating margin – Metals Filtration	6%	2%
Operating margin – Microfiltration	13%	14%
Profit before tax growth	44%	82%
Earnings per share growth	40%	93%
Interest cover	7 times	4 times
Net debt to EBITDA ratio	0.6 times	1.6 times
Gearing	12%	24%
Post tax return on capital employed	7%	6%
Post tax return on operating capital employed	21%	15%

The Board considers that the Group has performed ahead of the expectations set at the start of the financial year as measured by these Key Performance Indicators.

Impact of exchange rate movements on performance

The international nature of the Group's business means that relative movements in exchange rates can have a significant impact on the

reported performance. The average rate used for translating the results of US operations into Sterling was \$1.60/£ (2010: \$1.55/£), holding back the reported performance of the Metals Filtration operations compared with 2010 and reducing the growth of Group revenue from 9% at constant currency to 7% as reported. The results of the Group's Euro denominated operations were translated at €1.15/£ (2010: €1.16/£) giving minimal currency impact compared with 2010. The Group sold forward the majority of its UK business's 2011 US dollar revenue at the start of the financial year and achieved rates of \$1.56/£ (2010: \$1.58/£) giving a small benefit to the reported performance compared with 2010.

Finance costs

Net interest payable reduced to £0.8 million (2010: £1.0 million). Included within interest payable are finance costs in relation to the defined benefit pension scheme, which reduced to £0.2 million (2010: £0.4 million) in the year. Other net interest payable reduced as a result of lower borrowings throughout the year.

The Group has a policy of maintaining between 40% and 60% of its borrowings on fixed interest terms. It achieves this by taking out interest rate swaps to fix the interest rates on certain of its borrowings. These provide some protection for the Group in the event of interest rate rises. However, since the Group took out its most recent fixed rate contracts, it has reduced its borrowings faster than expected and consequently the Group had approximately 70% of its borrowings held at a fixed rate at 30 November 2011. The contracts in place are summarised below.

Fixed rate	Principal amount	Principal terms
2.21%	\$5 million	Matured on 12 December 2010
2.43%	\$5 million	Matured on 12 December 2011
3.03%	£3 million	Reducing by £1 million on each of 30 November 2010, 2011 and 2012
1.88%	\$5 million	Effective from 12 December 2010 to 12 December 2013
2.29%	\$2.5 million	Effective from 12 December 2011 to 12 December 2013

Interest cover was 7 times (2010: 4 times)

Christopher Tyler
Group Finance Director

Our technology advantage

Since acquiring Seal in 2008, Porvair has focused on developing the business through improved distribution and new product introduction.

In 2010, we introduced the AQ1, a new discrete analyser and in 2011 we introduced the AA1, a new continuous flow analyser.

Key market

Environmental laboratory supplies

► Niche positions

- Water analysis equipment and consumables
- Laboratory consumables
- Porous plastics

► Growth drivers

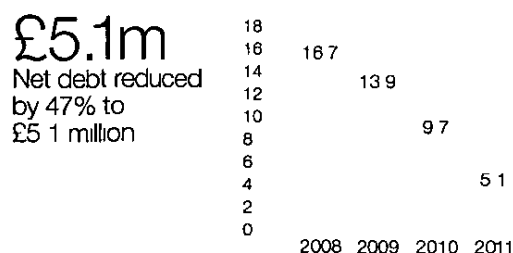
- Water analysis regulation
- Environmental monitoring requirements
- Developing markets
- Bioscience growth

► Recent new products

- AA1 continuous flow analyser
- AQ1 discrete analyser
- Chromatrap™
- Epigenetic product range
- Treated frits

Finance Director's review continued

Net debt (£'m)

**Tax**

The Group tax charge was £1.4 million (2010 £1.0 million). This is an effective rate of 31% (2010 31%), higher than the standard corporate tax rate of 26.7% (2010 28%), mainly as a result of higher tax rates on profits made in Germany and the US. The tax charge comprises current tax of £0.8 million (2010 £0.7 million) and a deferred tax charge of £0.6 million (2010 £0.3 million). The Group carries a deferred tax asset principally relating to the past losses in its US operations, the deficit on the pension fund and share based payments. The tax asset related to the past losses is limited to the amount expected to be recovered in the foreseeable future.

Total equity

Total equity at 30 November 2011 was £42.1 million (2010 £40.5 million), an increase of 4% over the prior year. Increases in total equity arose from profit after tax of £3.5 million (2010 £2.4 million), after adding back the charge for employee share option schemes, £0.5 million (2010 £nil) from the issue of shares on the exercise of share options and smaller movements in relation to exchange. Dividends paid of £1.0 million (2010 £0.9 million) and an actuarial loss of £1.6 million net of tax (2010 gain of £2.3 million net of tax) reduced total equity.

Cash flow

Cash generated from operations was £8.1 million (2010 £8.1 million). Net working capital was tightly controlled and only increased marginally, although revenue rose by 7% in the year.

Net interest paid was £0.5 million (2010 £0.7 million), in line with the bank interest charged in the year. Tax paid was £1.2 million (2010 £0.6 million), higher than the current tax charge as a result of accrued taxation relating to prior periods paid to the German tax authorities.

Capital expenditure was £1.4 million (2010 £1.3 million). The principal investments in 2011 were for plant to increase capacity and IT infrastructure in the Microfiltration division.

Borrowings and bank finance

At the year end, the Group had net borrowings of £5.1 million (2010 £9.7 million), comprising gross borrowings of £10.2 million (2010 £15.5 million) and finance lease obligations of £nil

(2010 £0.1 million) offset by cash balances of £5.1 million (2010 £5.9 million). Borrowings of £6.6 million (US\$10.4 million) (2010 £9.6 million (US\$15.0 million)) are held in US dollars.

The Group has adequate facilities and operating headroom under its facilities, which extend out to December 2013. At 30 November 2011 the Group had £3.0 million of unused facilities (2010 fully drawn down), an unutilised overdraft facility of £2.5 million (2010 £2.5 million) and cash balances of £5.1 million (2010 £5.9 million).

During the year, the Group collected its €1.6 million interest bearing debtor and repaid and cancelled its secured Euro revolving credit facility of €1.6 million.

The Group's net debt to EBITDA ratio improved to 0.6 times (2010 1.6 times). The Group's gearing ratio (net debt as a percentage of total equity) reduced to 12% (2010 24%).

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\$10.4 million (2010 US\$15.0 million) of US dollar borrowings exposure which hedged underlying US net assets on the balance sheet of US\$33.1 million (2010 US\$27.5 million).

The Group finances its operations and working capital by a combination of share capital and retained profits, and short and long term loans.

Pension schemes

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

The Group recorded a retirement benefit obligation of £7.2 million (2010 £5.6 million). The increase in the deficit arose principally from

In 2011, our patented Selee IC™ filter for iron foundry castings was adopted by over 80% of our customer base.

Our technology advantage

Porvair has a high market share in the filtration of super alloys

Our filters are used to remove impurities from the metal and regulate its flow as the metal is poured into turbine blade castings, improving the quality of the final casting. These turbine blades are fitted to many of the world's jet engines

Key market

Molten metals

▸ Niche positions

- Aluminium cast house filtration
- Gray and ductile iron filtration
- Super alloys

▸ Growth drivers

- Aluminium consumption
- US auto and light truck production
- Increased use of high grade and exotic alloys
- IP protected

▸ Recent new products

- Selee CSX™ for aluminium
- Selee IC™ for gray and ductile iron
- Selee SA™ for super alloys

Finance Director's review continued

an actuarial loss in the year of £1.8 million (2010 gain of £3.1 million), comprising a loss in the value of the assets of £0.5 million and a loss arising on changes in financial and demographic assumptions of £1.3 million

The life expectancy of members of the scheme at age 65 is assumed to be 19.6 years (2010 19.5 years) for men and 22.2 years (2010 22.1 years) for women

A full triennial actuarial valuation of the assets and liabilities of the defined benefit scheme was completed in 2010, based on data at 31 March 2009. As a result of this review, the Group and the Trustees agreed to alter the employer's contributions from 8% of salary to 8.2% of salary plus a £175,000 annual contribution towards the running costs of the scheme commencing in March 2011 and increasing by 3.25% per annum. The Group also committed to make additional annual contributions, to cover the past service deficit, of £300,000 per annum increasing by 5% per annum commencing in December 2010, with an increase to £450,000 per annum in December 2013, increasing by 5% per annum thereafter. The funding shortfall is expected to be eliminated by December 2027. The next full actuarial valuation of the scheme will be based on the pension scheme's position at 31 March 2012.

Principal 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 25% of revenue. However, four key markets – aviation filtration, energy and industrial process filtration, environmental laboratory supplies and aluminium filtration – each contribute more than 10% of the Group's revenue and the Group would be exposed to a significant decline in any of these markets.

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

The energy and industrial process products serve a range of customers who use filters as an integral part of processes in their plants. Sales are both for new build and after market spares. A sustained economic downturn, as experienced in 2009, will affect demand in these markets.

Environmental laboratory supplies are chiefly sold to laboratories engaged in meeting the regulatory requirements for clean water. This market is expected to grow as water regulations tighten throughout the world and demand for clean water in the developing world increases. Whilst revenue will be affected by access to capital in customer markets (municipal/utilities and industrial labs) it is expected that the regulated nature of this market will mitigate cyclical changes.

Aluminium production tends to be cyclical and the Group's revenue is affected by the levels of production. However, the Group now has a stronger market position having successfully converted its customers to a new improved filter formulation. The production of aluminium is gradually moving to larger smelters in regions of low cost energy. The Group is developing its sales presence accordingly.

New products and markets risk

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

The Group has brought a number of these products to market recently and the risks related to new products is reduced. However, 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.

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 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. The recently developed patented

products in the Metals Filtration division generally utilise lower cost and more price stable raw materials than the predecessor products. Nevertheless, 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.

Competitive risk

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

The Group carefully selects its development prospects and monitors their progress. 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.

Financing risk

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

Treasury and exchange rate risk

The Group has operations in the UK, US, Germany and China 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.

Christopher Tyler,
Group Finance Director

30 January 2012

Board of Directors

Executive Directors

1 Ben Stocks (49), Group Chief Executive
Joined the Group in February 1998. He was previously UK Managing Director of the Speciality Packaging Division of Carnaud Metal Box. He holds an MBA from INSEAD.

2 Christopher Tyler (49), 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* (67), Senior Non-Executive Director
Appointed to the Board in June 2002. He is Chairman of Alliance Pharma PLC. He is a chartered accountant.

4 Charles Matthews* (58), Chairman
Appointed to the Board in January 2005 and became Chairman on 12 April 2006. He is also Chairman of Norican Group and AG Holding Ltd. He was previously Non-Executive Director of FKI plc, Chief Executive of Cosworth, Managing Director of Rolls Royce and Bentley Motor Cars and a member of the Vickers Group plc Executive Board.

5 Andrew Walker* (60)
Appointed to the Board in January 2005. He is a Non-Executive Director of API Group plc, Manganese Bronze Holdings plc, Plastics Capital plc and May Gurney Integrated Services plc. He is Chairman of Metalrax plc. 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

Company Secretary and registered office
Christopher Tyler
7 Regis Place
Bergen Way
King's Lynn PE30 2JN

Company registration number
1661935

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

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

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

Solicitors
Travers Smith LLP
10 Snow Hill
London EC1A 2AL

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

Directors' report

The Directors are pleased to present their Annual Report and the audited accounts of the Group for the year ended 30 November 2011

Principal activities and results

The Group's principal activities are in the areas of specialist filtration and environmental technologies in the UK, US, Germany and China. The profit for the financial year was £3.1 million (2010: £2.2 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 15. The Group's strategy, objectives and likely future developments of the business 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. The risks and uncertainties facing the business are described in the Finance Director's review on pages 14 to 15 and in the financial risk management section on page 20.

Dividends

An interim dividend of 1.0 penny per share (2010: 1.0 penny per share) was paid on 9 September 2011. The Directors recommend the payment of a final dividend of 1.4 pence per share (2010: 1.3 pence per share) on 8 June 2012 to shareholders on the register on 4 May 2012; the ex-dividend date is 2 May 2012. This makes a total dividend for the year of 2.4 pence per share (2010: 2.3 pence per share).

Directors and their interests

The names and biographical details of the Directors, all of whom served throughout the year under review and up to the date of signing these financial statements, are set out on page 16.

In accordance with the articles of association of the Company ("the Articles"), Michael Gatenby and Christopher Tyler retire by rotation and offer themselves for re-election.

The appointment and replacement of Directors is governed by the Articles, the Companies Act 2006, the UK Corporate Governance Code and related regulation and legislation applying to UK listed companies. The Articles require there to be a minimum of three Directors (and permit a maximum of 15) and provide that the business of the Company shall be managed by the Board of Directors which may exercise all powers of the Company. The Board of Directors may make such arrangements as they see fit to delegate those powers except that the Board retains specific authority over the matters reserved for the Board, which are summarised in the Board of Directors section in the Corporate Governance report on page 26.

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 22 to 25. None of the

Directors had a material interest in any contract of significance in relation to the Company or its subsidiaries during the year.

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

The Company has in place procedures to deal with conflicts of interest, which have operated effectively throughout the year. The Company follows the guidance on conflicts of interest issued by the Association of General Counsel and Company Secretaries of the FTSE.

Research and development

The Group continues to undertake a research and development programme with the objective of identifying and developing new materials and products which have the potential to transform the growth of the Group. The cost to the Group in the year under review was £2.6 million (2010: £2.7 million), which was written off to the income statement and no development expenditure was capitalised in the year or the preceding year. The expenditure is of a development nature and is largely undertaken in-house rather than by third parties. In accordance with International Accounting Standard (IAS) 38, 'Intangible Assets', development expenditure is largely written off as incurred but where a product has, amongst other conditions, been shown to be technically feasible and the Group can demonstrate, through customer acceptance or otherwise, that there is a market for the product, subsequent 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. All of the Company's shares in issue are fully paid and each share carries the right to vote at general meetings of the Company. During the year, the Company issued 487,232 shares to satisfy the exercise of share options.

Further details of the share capital of the Company are given in note 21 to the financial statements on pages 51 to 53.

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

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

Contracts

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

Directors' report continued

Substantial shareholders

As at 30 January 2012, the Company has been notified of the following substantial shareholdings comprising 3% or more of the issued share capital of the Company

	Ordinary shares (number)	Percentage (%)
GGG Spa	7,329,427	17.22
M&G Group Limited	6,080,987	14.29
Impax Environmental plc	4,162,031	9.78
Morley Investment Management	3,946,910	9.27
Henderson Group plc	1,740,500	4.09
Cavendish Asset Management	1,527,000	3.59

Corporate governance

The disclosure requirements set out in the Disclosure and Transparency rules, paragraph 7.2, are included within the Corporate governance report on pages 26 to 27, which forms part of this report

Employment policies

The Group's employment policies are described in the Corporate and social responsibility report on page 21

Donations

The Group made a number of charitable donations totalling £15,000 (2010: £15,000) during the year. Substantially all charitable donations were made to local charities operating in Hendersonville, North Carolina. In accordance with Group policy, no political donations were made in the year (2010: £nil)

Annual General Meeting

The Annual General Meeting of the Company is to be held on Wednesday 11 April 2012. The notice for this meeting and proxy forms have been sent to shareholders separately.

Resolutions 4 and 5 – Re-election of Michael Gatenby and Christopher Tyler as Directors

The Articles and the UK Corporate Governance Code require Directors who have served for longer than nine years to offer themselves for re-election. Michael Gatenby has served for longer than nine years and accordingly Resolution 4 proposes his re-election. The Board has given specific consideration to the matter of independence of Michael Gatenby and is satisfied that, notwithstanding the length of time he has served as a Director, he remains independent in character and judgement making a valued contribution as the Senior Independent, Non-Executive Director. The Articles and the UK Corporate Governance Code also require each of the Directors to retire by rotation at the third General Meeting following their previous election. Christopher Tyler will therefore retire and offer himself for re-election at the Meeting. Resolution 5 proposes his re-election. Brief biographies of the Directors are set out on page 16 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 551 of the Companies Act 2006. Paragraph 7.1 gives the Directors customary authority to allot ordinary shares or grant such subscription or conversion rights as are contemplated by sections 551(1)(a) and (b) respectively of the Companies Act 2006 up to an aggregate nominal amount of £283,770, being an amount equal to one third of the Company's issued share capital as at 30 January 2012. As at 30 January 2012, the Company did not hold any treasury shares. Paragraph 7.2 gives the Directors authority to issue an additional aggregate nominal amount of up to £283,770, being an amount equal to one third of the Company's issued share capital as at 30 January 2012. 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 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. Resolution 7 replaces a similar resolution passed at the Annual General Meeting of the Company held on 5 April 2011.

If the Directors wish to allot shares or other equity securities for cash or sell any shares which the Company holds in treasury, following a purchase of its own shares pursuant to the authority in Resolution 9, the Companies Act 2006 requires that such shares or other equity securities are offered first to existing shareholders in proportion to their existing holding. Resolution 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 £42,565 (being 5% of the Company's issued ordinary share capital as at 30 January 2012), without first offering the securities to existing shareholders. The resolution also disapplies the statutory pre-emption provisions in connection with a rights issue and allows the Directors, in the case of a rights issue, to make appropriate arrangements in relation to fractional entitlements or other legal or practical problems which might arise. The Directors confirm that they do not intend to issue in excess of 7.5% of the Company's issued ordinary share capital within any rolling three year period without prior consultation with shareholders. The authority will expire at the next Annual General Meeting of the Company.

Resolution 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 30 January 2012. The maximum price payable for the purchase by the Company of its own ordinary shares will be limited to the higher of (i) 5% above the average of the middle market quotations of the Company's ordinary shares,

as derived from the Daily Official List of the London Stock Exchange, for the five business days prior to the purchase and (ii) the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System SETS. The minimum price payable by the Company for the purchase of its own ordinary shares will be 2 pence per share (being the nominal value of an ordinary share). The authority to purchase the Company's own ordinary shares will only be exercised if the Directors consider that there is likely to be a beneficial impact on earnings per ordinary share and that it is in the best interests of the Company at the time. The resolution renews a similar resolution passed at the Annual General Meeting of the Company held on 5 April 2011. 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 2,278,609 ordinary shares have been granted and are outstanding as at 30 January 2012 (being the latest practicable date prior to publication of this document) which if issued would represent 5.1% of the issued ordinary share capital at that date. If the Directors were to exercise in full the power for which they are seeking authority under Resolution 9 the options outstanding as at 30 January 2012 would represent 5.6% 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 Articles and the Companies Act 2006. However, pursuant to the EU Shareholders' Rights Directive and in accordance with published guidance from the Department for Business, Innovation and Skills, specific shareholder approval is required annually. 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. Accordingly, the Directors believe that it is important for the Company to retain this flexibility. Resolution 10 renews a similar resolution passed at the Annual General Meeting of the Company held on 5 April 2011.

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 2011 were 35 days (2010 43 days).

Statement of Directors' responsibilities

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

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

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

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

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

Each of the Directors, whose names and functions are listed on page 16 confirm 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, foreign exchange risk, credit risk, liquidity risk and interest rate cash flow risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs

The Group seeks to maintain between 40% and 60% of its borrowings at fixed interest rates. The Group has entered into swaps to fix certain of its interest rate exposure on its borrowings for up to three years. The Group applies hedge accounting to these instruments. As a result of paying down its borrowings faster than previously expected, the Group had 70% of its borrowings held at fixed rates at 30 November 2011

The Group seeks to manage its exposure to the impact of exchange rate movements on its net investments by maintaining some borrowings in US dollars. Previously it sought to maintain borrowings in US dollars equivalent to around 60% of the carrying value of its US dollar net tangible assets in its US operations. However as the Group's overall borrowings have reduced, so the US dollar borrowings have reduced, to around 30% of its US dollar net assets

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

Given the size of the Group, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Company's finance department, which has a policy and procedures manual that sets out specific guidelines to manage interest rate risk and credit risk and circumstances where it would be appropriate to use financial instruments to manage these

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. Debtor finance is very rarely used and is reviewed on a case by case basis by the Board of Directors. The Group monitors the level of deposits held with overseas banks and financial institutions and repatriates cash as part of its treasury management

Interest rate cash flow risk

The Group has only interest bearing liabilities. The Group seeks to maintain between 40% and 60% of its borrowings at a fixed interest rate, typically through fixed rate swap agreements. The Directors will revisit the appropriateness of this policy should the Group's operations change in size or nature. Further information on this risk is given in the Finance Director's review

Post balance sheet event

On 5 December 2011, the Group acquired, through its subsidiary, Seal Analytical Limited, the Block Digestion product range from AIM Lab Automation Technologies Pty Limited based in Australia. The total consideration was £458,000 with further consideration payable three months after the acquisition date equal to the fair value of the remaining inventory. See note 27 of the consolidated financial statements for further details

Going concern

After having made appropriate enquiries, including a review of the Group's budget for 2012, its medium term plans and taking into account the banking facilities available until December 2013, the Directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these accounts

Independent auditors

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

By order of the Board

Christopher Tyler,
Company Secretary



30 January 2012

Corporate and social responsibility report

Policy

The Board's policy is to enhance shareholder value in an ethical and socially responsible manner. The Board believes that operating efficiently with high quality standards includes promoting high standards of health and safety and helping to protect the environment. As a minimum, the Group operations are required to meet the legal and regulatory requirements of operating in their local jurisdiction.

Employment policies

Porvair prides itself on its 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. Porvair provides employment in a wide range of disciplines associated with the design and manufacture of filtration and separation equipment.

The Group involves employees through both formal and informal systems of communication and consultation. Managers have a responsibility to communicate effectively and to promote a better understanding by employees of the activities and performance of the Group. Employee consultative committees regularly meet to ensure that management obtains 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, sexual orientation, 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 and safety

The Group recognises its clear responsibilities for the health and safety of its employees and to the communities in which the Group operates. A health and safety committee, comprising representatives from management and employees, regularly reviews and inspects the conditions in which our employees work.

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

Local management is responsible for implementing policies that protect and improve the health and safety of their employees. Discretionary health and safety benefits for employees include the availability of gyms and onsite nursing staff at certain operations.

The Group's regular reporting procedures include a review of accidents in the workplace.

Upgrades to Group facilities in the year have included

- improved air handling systems at three of the Group's Microfiltration plants in the UK,
- improved laboratory facilities and better air extraction at one of the Group's Microfiltration operations in the US, and
- Safety guards installed on rotating machinery in the Group's Fareham operation.

The environment

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

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

The Group consistently considers methods of improving its environmental profile. Environmental impacts are managed in conformity with local regulatory requirements. The Group's manufacturing processes have only a limited potential emissions impact. The Group uses solvents in certain of its processes and in its Metals Filtration division manages the emissions from its kiln firing operations.

Recent developments in the Group's management of emissions include the installation of a 100% solvent recovery system in the Group's operations in Fareham and enhanced emissions control processes in the Metals Filtration operations to capture emissions from the new aluminium filter production. In addition, the Group has undertaken a full review of the environmental impact of the Group's principal Metals Filtration operation. The operation was found to have made very little impact on the local environment and the minor recommendations made by the consultants have been implemented.

Anti-bribery and corruption policy

The Group prohibits all forms of bribery and corruption within its business and complies with the requirements of all applicable laws designed to combat bribery and corruption. We require all employees, agents, intermediaries and consultants to conduct themselves in accordance with our anti-bribery and corruption policy.

Porvair and the local community

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

Report of the Remuneration Committee

This part of the report of the Remuneration Committee is unaudited

This report complies with the UK Corporate Governance Code published in June 2010 and sets out the Group's remuneration policy and details of Directors' remuneration. A resolution to approve this report will be proposed at the Annual General Meeting in April 2012.

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, medical and health insurance and company car or allowance.

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 with six month notice terms, and are subject to periodic re-election in accordance with the UK Corporate Governance Code and the Articles at Annual General Meetings 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. Bonuses to be paid in 2012 relating to the Group's profit targets in 2011 are shown in the table of Directors' remuneration on page 23.

This part of the Report of the Remuneration Committee is audited

Pension entitlements

The Porvair plc Pension and Death Benefit Plan ("the Plan") is a contributory defined benefit scheme, which is now closed to new employees. Pension benefits from the Plan were subject to the HMRC earnings cap and the Group has continued to maintain an earnings cap since the HMRC limits were removed in April 2006. Pension benefits up to the capped limit 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 Plan. Pension benefits are provided for Christopher Tyler by a contribution of 15% of full salary to a SIPP.

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 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 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 2011 £ 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 2011 £	Transfer value of accrued pension at 30 November 2010 £	Increase in transfer value in respect of accrued pension over the year net of Director's contributions £
B D W Stocks	23,670	2,459	1,273	148,900	140,934	370

The Company paid £19,898 (2010: £19,178) to a SIPP for Ben Stocks and £27,853 (2010: £25,650) to a SIPP for Christopher Tyler in respect of the financial year 2011.

Directors' remuneration

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

	Basic salary and fees £'000	Bonus £'000	Benefits £'000	Total 2011 £'000
2011				
<i>Executive Directors</i>				
B D W Stocks	260	136	24	420
C P Tyler	181	95	21	297
<i>Non-Executive Directors</i>				
M R B Gatenby	28	–	–	28
C L Matthews	71	–	–	71
A J Walker	28	–	–	28
	568	231	45	844
2010				
<i>Executive Directors</i>				
B D W Stocks	251	113	23	387
C P Tyler	175	79	20	274
<i>Non-Executive Directors</i>				
M R B Gatenby	27	–	–	27
C L Matthews	68	–	–	68
A J Walker	27	–	–	27
	548	192	43	783

Benefits include company cars or allowances, medical insurance, life insurance and permanent health insurance

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 2010 (number)	Granted/ (exercised/lapsed) in the year (number)	At 30 November 2011 (number)	Exercise price	Scheme	Grant date	Date from which exercisable	Expiry date
B D W Stocks	150,000	(150,000)	–	98 00p	1997		25/01/2008	25/01/2012
	76,330	–	76,330	131 00p	2005 EMI		27/01/2009	27/01/2016
	123,670	–	123,670	131 00p	2005		27/01/2009	27/01/2016
	100,000	(100,000)*	–	114 00p	2005		10/03/2011	10/03/2018
	11,750	(11,750)	–	80 00p	SAYE		01/10/2011	01/04/2012
	200,000	–	200,000	69 50p	2005		30/01/2012	30/01/2019
	300,000	–	300,000	2 00p	LTSP2008		28/01/2013	28/01/2020
	–	250,000	250,000	2 00p	LTSP2008	27/01/2011	27/01/2014	27/01/2021
	–	9,704	9,704	93 00p	SAYE	01/10/2011	01/10/2014	01/04/2015
	–	–	–	–	–	–	–	–
C P Tyler	60,000	(60,000)	–	101 50p	1997		16/09/2007	16/09/2011
	100,000	(100,000)	–	98 00p	1997		25/01/2008	25/01/2012
	76,330	–	76,330	131 00p	2005 EMI		27/01/2009	27/01/2016
	23,670	–	23,670	131 00p	2005		27/01/2009	27/01/2016
	50,000	(50,000)*	–	114 00p	2005		10/03/2011	10/03/2018
	11,750	(11,750)	–	80 00p	SAYE		01/10/2011	01/04/2012
	100,000	–	100,000	69 50p	2005		30/01/2012	30/01/2019
	200,000	–	200,000	2 00p	LTSP2008		28/01/2013	28/01/2020
	–	175,000	175,000	2 00p	LTSP2008	27/01/2011	27/01/2014	27/01/2021
	–	16,586	16,586	93 00p	SAYE	01/10/2011	01/10/2016	01/04/2017

* indicates lapsed

Report of the Remuneration Committee continued

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 unexpired options with a value of more than four years' salary at the date of grant. The remaining options under this scheme lapsed in the year.

Options granted between 2005 and 2008 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, similar performance conditions apply, 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.

In January 2011 the Committee, having consulted with a number of shareholders, decided to vary the performance conditions on the 69.5 pence options issued on 30 January 2009 under the 2005 scheme. Under the revised performance conditions these options would vest in full if the Group's earnings per share is above 7.0 pence for the financial year ended 30 November 2011. Earnings per share must be at least 6.5 pence before any options vest. A sliding scale operates between earnings per share of 6.5 pence and 7.0 pence. None of the options vest at earnings per share of 6.5 pence and 50% of the options vest at earnings per share of 7.0 pence. If the vesting conditions are not met the share options will lapse. The Committee believes that varying the performance conditions provided a better incentive for management than the previously set conditions.

Options granted in 2010 under the Porvair Long Term Share Plan 2008 can only be exercised in full if the Committee is satisfied that in the financial year ending 30 November 2012, the Group has achieved earnings per share of at least 11.0 pence per share. 30% of the award will vest if the Group has achieved earnings per share of 7.4 pence per share in the year ending 30 November 2012. 50% of the award will vest if the Group has achieved earnings per share of 8.0 pence per share in the year ending 30 November 2012. A sliding scale operates if the earnings are between 8.0 pence and 11.0 pence.

Options granted in 2011 under the Porvair Long Term Share Plan 2008 can only be exercised in full if the Committee is satisfied that in the financial year ending 30 November 2013, the Group has achieved earnings per share of at least 12.5 pence per share. 30% of the award will vest if the Group has achieved earnings per share of 8.0 pence per share in the year ending 30 November 2013. 50% of the award will vest if the Group has achieved earnings per share of 9.5 pence per share in the year ending 30 November 2013. A sliding scale operates if the earnings are between 8.0 pence and 9.5 pence and between 9.5 pence and 12.5 pence.

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

Options were granted in 2007, 2008 and 2011 under a 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 2011 was 101.5 pence (2010: 93.5 pence).

The range of market prices during the year was 78.5 pence to 133.5 pence.

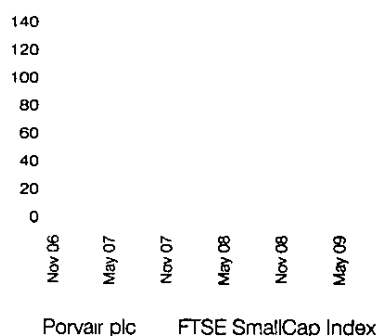
The Directors exercised the following share options in the year ended 30 November 2011 (2010: none)

	Scheme	Year of grant	Exercise period	Exercise date	Number	Exercise price	Share price on date of exercise	Gain £
B D W Stocks	1997	2005	2008-2012	2 Feb 2011	150,000	98p	123p	37,500
	SAYE	2008	2011-2012	3 Oct 2011	11,750	80p	86p	705
C P Tyler	1997	2004	2007-2011	2 Feb 2011	60,000	101.5p	123p	12,900
	1997	2005	2008-2012	2 Feb 2011	100,000	98p	123p	25,000
	SAYE	2008	2011-2012	3 Oct 2011	11,750	80p	86p	705

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 five years and the last one year to 30 November 2011, with both rebased to 100 at the start of each period. Given the nature of the Group, the FTSE SmallCap Index is the logical comparator index.

5 year total shareholder return



1 year total shareholder return

**Directors' interests**

The beneficial interests at 30 November 2011 and 30 November 2010 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.

	2011		2010	
	Ordinary shares (number)	Share options (number)	Ordinary shares (number)	Share options (number)
<i>Executive Directors</i>				
B D W Stocks	131,553	959,704	103,185	961,750
C P Tyler	65,250	591,586	39,000	621,750
<i>Non-Executive Directors</i>				
M R B Gatenby	14,000	–	14,000	–
C L Matthews	20,000	–	10,000	–
A J Walker	29,369	–	29,274	–

Andrew Walker, Chairman Remuneration Committee
30 January 2012

Corporate governance

Compliance

The following sets out the main principles of good governance in the UK Corporate Governance Code that have been followed by the Board and how those principles have been applied. The Directors are of the opinion that the Company has complied with the provisions of the UK Corporate Governance Code (which is publicly available at www.frc.org) throughout the year except where explicitly set out below.

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 Independent 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, and
- Approval of the funding policies of the defined benefit pension scheme.

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

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

The Non-Executive Directors' terms of appointment do not specify a specific period for their appointment and therefore the terms are not in compliance with provision B 2.3 of the UK Corporate Governance Code. However, in accordance with the UK Corporate Governance Code, the Articles require each of the Directors to retire from office at the third Annual General Meeting after the General Meeting at which he was elected, and, if eligible, such Directors may offer themselves for re-election at such Annual General Meeting. All newly appointed Directors offer themselves for election at the first Annual General Meeting following their appointment.

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

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

The Company maintains Directors' and Officers' liability insurance.

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

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

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

The Board considers that all members of the Audit 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 internal audit work done 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, and
- reviewed arrangements by which staff of the Company may raise concerns about possible improprieties in matters of financial reporting or other matters.

The Audit 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 and objectivity of the Company's auditors when acting as auditor of the Group accounts. The policy governs the provision of audit and non-audit services provided by the auditor and, in summary, requires significant non-audit services other than routine tax compliance services to be subjected to a competitive tendering process. The fees paid to the auditor for audit services, audit related services and other non-audit services are set out in note 3 of the consolidated financial statements.

The Audit 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 with the exception of Andrew Walker, who missed one meeting.

Remuneration Committee

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

The Report of the Remuneration Committee on pages 22 to 25 includes details on remuneration policy, practices and the remuneration of the Directors.

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

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

Nomination Committee

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

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

Any Director appointed since the last Annual General Meeting is required, under the Articles, to retire and seek election by the shareholders at the next Annual General Meeting.

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

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.

Takeover Directive

Disclosures relating to the Takeover Directive are included in the Directors' Report (under "Share capital") on page 17.

Internal control

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

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

Control environment – each operating business has its own management group which meets regularly to monitor operational matters. 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 an internal audit cycle conducted by peer review by the Group's financial controllers directed by the Group Finance Director, following the retirement of the Group internal auditor. The Board considers the peer review process provides an appropriate level of review. The Group has a formal whistle blowing procedure which gives employees the opportunity to escalate their concerns, ultimately to the Senior Non-Executive Director.

Consolidation process – full management accounts for each entity in the Group are consolidated each month and review and analysis is carried out on those results. These consolidated accounts form the basis of reports that are provided to Board members every month.

The Audit Committee and the Board have reviewed the effectiveness of the Group's internal controls for the period 1 December 2010 up to the date of approval of the Annual Report and Accounts and have addressed issues as they have been identified.

Christopher Tyler, Company Secretary
30 January 2012

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 2011 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated cash flow statement, the Reconciliation of net cash flow to movement in net debt, the Consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 30 November 2011 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 20, in relation to going concern,
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Porvair plc for the year ended 30 November 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.



Christopher Maw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
30 January 2012

Consolidated income statement

For the year ended 30 November	Note	2011 £'000	2010 £'000	Group
Revenue	2	68,090	63,563	
Cost of sales		(45,385)	(42,955)	
Gross profit		22,705	20,608	
Distribution costs		(851)	(780)	
Administrative expenses		(16,547)	(15,665)	
Operating profit	2	5,307	4,163	
Interest payable and similar charges	5	(806)	(1,225)	
Interest receivable	5	12	191	
Profit before income tax	3	4,513	3,129	
Income tax expense	6	(1,414)	(961)	
Profit for the year attributable to shareholders	22	3,099	2,168	
Earnings per share (basic)	7	7.3p	5.2p	
Earnings per share (diluted)	7	7.3p	5.2p	

Consolidated statement of comprehensive income

For the year ended 30 November	Note	2011 £'000	2010 £'000
Profit for the year		3,099	2,168
Other comprehensive income			
Exchange differences on translation of foreign subsidiaries	22	81	379
Changes in fair value of interest rate swaps held as a cash flow hedge	22	90	(25)
Actuarial (losses)/gains in defined benefit pension plans net of tax	22	(1,576)	2,263
Net other comprehensive (expense)/income		(1,405)	2,617
Total comprehensive income for the year attributable to shareholders of Porvair plc		1,694	4,785

Consolidated balance sheet

Company registered number 1661935

As at 30 November

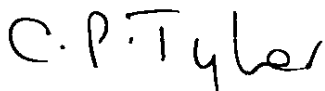
	Note	2011 £'000	2010 £'000
Non-current assets			
Property, plant and equipment	9	8,213	8,659
Goodwill and other intangible assets	10	37,070	37,916
Deferred tax asset	18	1,400	1,652
		46,683	48,227
Current assets			
Inventories	12	9,056	7,727
Trade and other receivables	13	11,604	11,330
Derivative financial instruments	11	13	–
Cash and cash equivalents	14	5,111	5,897
		25,784	24,954
Current liabilities			
Trade and other payables	15	(12,355)	(10,402)
Current tax liabilities		(361)	(777)
Bank overdrafts and loans	16	(865)	(2,344)
Finance lease liabilities	17	(6)	(34)
Derivative financial instruments	11	(180)	(284)
		(13,767)	(13,841)
Net current assets		12,017	11,113
Non-current liabilities			
Bank loans	16	(9,331)	(13,188)
Finance lease liabilities	17	–	(6)
Retirement benefit obligations	19	(7,171)	(5,594)
Provisions for other liabilities and charges	20	(107)	(71)
		(16,609)	(18,859)
Net assets		42,091	40,481
Capital and reserves			
Share capital	21	851	841
Share premium account	21	34,471	34,024
Cumulative translation reserve	22	883	802
Retained earnings	22	5,886	4,814
Total equity		42,091	40,481

The financial statements on pages 29 to 58 were approved by the Board of Directors on 30 January 2012 and were signed on its behalf by

B D W Stocks



C P Tyler



Consolidated cash flow statement

For the year ended 30 November	Note	2011 £'000	2010 £'000	Group
Cash flows from operating activities				
Cash generated from operations	23	8,137	8,142	
Interest received		85	156	
Interest paid		(629)	(886)	
Tax paid		(1,223)	(556)	
Net cash generated from operating activities		6,370	6,856	
Cash flows from investing activities				
Purchase of property, plant and equipment	9	(1,370)	(1,269)	
Purchase of intangible assets	10	(38)	(65)	
Proceeds from sale of property, plant and equipment		54	—	
Net cash used in investing activities		(1,354)	(1,334)	
Cash flows from financing activities				
Net proceeds from issue of ordinary share capital	21	457	—	
Repayment of borrowings		(5,271)	(1,945)	
Dividends paid to shareholders	8	(976)	(947)	
Capital element of finance leases		(34)	(142)	
Net cash used in financing activities		(5,824)	(3,034)	
Net (decrease)/increase in cash and cash equivalents		(808)	2,488	
Effects of exchange rate changes		22	25	
		(786)	2,513	
Cash and cash equivalents at 1 December		5,897	3,384	
Cash and cash equivalents at 30 November	14	5,111	5,897	

Reconciliation of net cash flow to movement in net debt

	2011 £'000	2010 £'000
Net (decrease)/increase in cash and cash equivalents	(808)	2,488
Effects of exchange rate changes	87	(340)
Repayment of borrowings	5,271	1,945
Repayment of finance leases	34	142
Net debt at 1 December	(9,675)	(13,910)
Net debt at 30 November	(5,091)	(9,675)

Consolidated statement of changes in equity

	Share capital £'000	Share premium account £'000	Cumulative translation reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 December 2009	841	34,024	423	1,107	36,395
Profit for the year	–	–	–	2,168	2,168
Other comprehensive income/(expense):					
Exchange differences on translation of foreign subsidiaries	–	–	379	–	379
Changes in fair value of interest rate swaps held as a cash flow hedge	–	–	–	(25)	(25)
Actuarial gains in defined benefit pension plans net of tax	–	–	–	2,263	2,263
Total comprehensive income for the year	–	–	379	4,406	4,785
Transactions with owners					
Employee share options scheme					
– Value of employee services net of tax	–	–	–	248	248
Dividends approved or paid	–	–	–	(947)	(947)
Balance at 30 November 2010	841	34,024	802	4,814	40,481
Balance at 1 December 2010	841	34,024	802	4,814	40,481
Profit for the year	–	–	–	3,099	3,099
Other comprehensive income/(expense)					
Exchange differences on translation of foreign subsidiaries	–	–	81	–	81
Changes in fair value of interest rate swaps held as a cash flow hedge	–	–	–	90	90
Actuarial (losses) in defined benefit pension plans net of tax	–	–	–	(1,576)	(1,576)
Total comprehensive income for the year	–	–	81	1,613	1,694
Transactions with owners:					
Employee share options scheme					
– Value of employee services net of tax	–	–	–	435	435
Proceeds from shares issued, net of costs	10	447	–	–	457
Dividends approved or paid	–	–	–	(976)	(976)
Balance at 30 November 2011	851	34,471	883	5,886	42,091

Notes to the consolidated financial statements

1 Summary of significant accounting policies

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

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union, the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee (IFRIC)) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its entity accounts in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and these are presented on pages 60 to 66.

The financial statements have been prepared on a going concern basis and under the historical cost convention as modified by the recognition of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 November each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Acquisition related costs are expensed as incurred.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

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

Use of assumptions and estimates

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

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

Material estimates and assumptions are made in particular with regard to establishing uniform depreciation and amortisation periods for the Group, goodwill and intangible assets valuation (cash flows and discount rate), impairment testing, parameters for measuring pension and other provisions 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, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

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. Revenue from service contracts is recognised on a straight-line basis over the contract period.

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

Leasing

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

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

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

Foreign currencies

The consolidated financial statements are presented in Pounds Sterling, which is the Company's functional and presentational currency. The Group determines the functional currency of each entity based on the primary economic environment in which the entity operates and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

On consolidation, the assets and liabilities of the Group's overseas operations, borrowings and other currency instruments are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

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

Government grants

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

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised in the consolidated statement of comprehensive income.

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.

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all, or part of the asset to be recovered.

Deferred tax is calculated at the tax rates which have been enacted or substantively enacted by the balance sheet date and are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the income statement, except when it relates to items recognised directly to other comprehensive income or directly to equity. In this case, the deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1 Summary of significant accounting policies continued**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, plant and equipment in the course of construction for production or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation for these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

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

Buildings	2.5 – 3%
Plant, machinery and equipment	10 – 33%

Freehold land is not depreciated

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

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

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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

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

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

Patents and trademarks

Patents and trademarks are classified as intangible fixed assets and 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.

Software

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

Impairment of tangible and intangible assets

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). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

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

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

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

Inventories

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

Loans and receivables

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

Trade receivables

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

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 initially recognised at fair value and subsequently held at amortised cost.

Equity instruments

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

Derivative financial instruments and hedge accounting

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

The Group uses foreign exchange forward contracts and interest rate swap agreements to hedge these exposures.

The Group does not use derivative financial instruments for speculative purposes.

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

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

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

The gain or loss on the effective portion of the interest rate swap agreements, that are designated and qualify as cash flow hedges is recognised in equity under hedge accounting. The ineffective portion is recognised immediately in the income statement within interest payable and similar charges.

Provisions

Provisions have been made for future dilapidations costs on leased property. These provisions are the Directors' best estimates as the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

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

Share based payments

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

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

1 Summary of significant accounting policies continued

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

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

Exceptional items

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

Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). An operating segment's operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operating segments are aggregated into reporting segments where they share similar economic characteristics as a result of the nature of the products sold or the services provided, the production processes used to manufacture the products, the type of customer for the products and services and the methods used to distribute the products or provide the services.

New standards, amendments and interpretations

(a) Standards, amendments and interpretations effective for the first time in the year ended 30 November 2011:

- Amendment to IAS 32 on classification of rights issues;
- Amendments to IFRS 2, Share-based payments group cash-settled transactions;
- Annual improvements 2009,
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'

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

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

- IAS 24 (revised), 'Related party disclosures';
- Amendment to IFRIC 14, 'Prepayments of minimum funding requirement';
- Annual improvements 2010,
- Amendments to IFRS 7 on derecognition

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

(c) Standards, amendments and interpretations that are not yet effective and have not yet been endorsed by the EU:

- IAS 19 (revised 2011), 'Employee benefits';
- Amendment to IAS 1, 'Financial statement presentation' on other comprehensive income (OCI),
- Amendment to IAS 12, 'Income taxes' on deferred tax;
- IFRS 9, 'Financial instruments' on 'Classification and measurement' of financial assets;
- IFRS 9, 'Financial instruments' on 'Classification and measurement' of financial liabilities;
- IFRS 10, 'Consolidated financial statements',
- IFRS 11, 'Joint arrangements',
- IFRS 12, 'Disclosure of interests in other entities';
- IFRS 13, 'Fair value measurement',
- IAS 27 (revised), 'Separate financial statements',
- IAS 28 (revised), 'Investments in associates and joint ventures'.

The Directors do not anticipate that the adoption of these standards, amendments and interpretations, where relevant, in future periods will have a material impact on the Group's financial statements, other than the adoption of IAS 19 (revised 2011), 'Employee benefits'.

IAS 19, 'Employee benefits' was amended in June 2011 and is effective for annual periods beginning on or after 1 January 2013. The impact will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in the Consolidated statement of comprehensive income as they occur, to immediately recognise all past service costs, and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. The Group is yet to assess the full impact of the amendments.

Notes to the consolidated financial statements continued

2 Segment information

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

At 30 November 2011, the Group is organised on a worldwide basis into two operating segments

(1) Metals Filtration

(2) Microfiltration

Other Group operations are included in "Other unallocated". These mainly comprise Group corporate costs and include new business development costs, some research and development costs and general financial costs.

The segment results for the year ended 30 November 2011 are as follows

	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
30 November 2011					
Revenue		25,897	42,193	–	68,090
Operating profit/(loss)		1,460	5,624	(1,777)	5,307
Net finance costs	5	–	–	(794)	(794)
Profit/(loss) before income tax		1,460	5,624	(2,571)	4,513
Income tax expense		–	–	(1,414)	(1,414)
Profit/(loss) for the year		1,460	5,624	(3,985)	3,099

The segment results for the year ended 30 November 2010 are as follows

	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
30 November 2010					
Revenue		23,177	40,386	–	63,563
Operating profit/(loss)		471	5,486	(1,794)	4,163
Net finance costs	5	–	–	(1,034)	(1,034)
Profit/(loss) before income tax		471	5,486	(2,828)	3,129
Income tax expense		–	–	(961)	(961)
Profit/(loss) for the year		471	5,486	(3,789)	2,168

2 Segment information continued

Other segment items included in the income statement are as follows

30 November 2011

Depreciation and amortisation (tangible and intangible assets)

Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
9,10	804	1,132	—	1,936

30 November 2010

Depreciation and amortisation (tangible and intangible assets)

Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
9,10	986	1,000	20	2,006

The segment assets and liabilities at 30 November 2011 are as follows

30 November 2011Segmental assets
Cash and cash equivalents

Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
	26,005	39,068	2,283	67,356
14	—	—	5,111	5,111
Total assets	26,005	39,068	7,394	72,467

Segmental liabilities
Retirement benefit obligations
Borrowings

	(3,042)	(8,466)	(1,495)	(13,003)
19	—	—	(7,171)	(7,171)
16,17	—	(6)	(10,196)	(10,202)
Total liabilities	(3,042)	(8,472)	(18,862)	(30,376)

The segment assets and liabilities at 30 November 2010 are as follows

30 November 2010Segmental assets
Cash and cash equivalents

Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
	25,873	38,061	3,350	67,284
14	—	—	5,897	5,897
Total assets	25,873	38,061	9,247	73,181

Segmental liabilities
Retirement benefit obligations
Borrowings

	(2,767)	(6,805)	(1,962)	(11,534)
19	—	—	(5,594)	(5,594)
16,17	—	(40)	(15,532)	(15,572)
Total liabilities	(2,767)	(6,845)	(23,088)	(32,700)

Notes to the consolidated financial statements continued

2 Segment information continued

Geographical analysis

	2011		2010	
	By destination £'000	By origin £'000	By destination £'000	By origin £'000
Revenue				
United Kingdom	14,919	29,697	13,136	27,645
Continental Europe	10,384	6,207	8,744	6,548
United States of America	27,865	30,763	27,864	28,692
Other NAFTA	2,403	–	2,745	–
South America	1,588	–	1,177	–
Asia	8,018	1,423	8,519	678
Australasia	1,341	–	614	–
Africa	1,572	–	764	–
	68,090	68,090	63,563	63,563
Non-current assets	2011 £'000		2010 £'000	
United Kingdom	18,711		18,902	
Continental Europe	3,698		3,393	
Americas	22,639		24,065	
Asia	235		215	
	45,283		46,575	
Capital expenditure (including intangibles)	2011 £'000		2010 £'000	
United Kingdom	918		557	
Continental Europe	39		300	
Americas	418		448	
Asia	33		29	
	1,408		1,334	

No single customer represents 10% or more of the Group's revenue in 2011 or 2010

3 Profit before income tax

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

	2011 £'000	2010 £'000
Staff costs	21,331	19,570
Inventories – Cost of inventories recognised as an expense (included in cost of sales)	24,634	24,006
Net realised foreign exchange (gains)/losses	(114)	15
Depreciation on tangible fixed assets – owned	1,631	1,618
Depreciation on tangible fixed assets – leased	13	17
Impairment charge on tangible fixed assets – owned	121	–
Amortisation of intangible fixed assets – owned	292	293
Amortisation of intangible fixed assets – leased	–	78
Impairment charge on intangible fixed assets – owned	492	–
(Profit)/loss on sale of tangible and intangible fixed assets	(34)	111
Other operating lease rentals payable		
– Plant and machinery	255	254
– Property	1,230	1,326
Repairs and maintenance on property, plant and equipment	1,558	1,045
Trade receivables impairment	110	40
Research and development expenditure	2,592	2,685

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 Company's auditors for audit of parent company and consolidated accounts	50	50
The audit of Company's subsidiaries pursuant to legislation	78	78
Other services pursuant to legislation	16	17
Tax services	102	91
	246	236

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 were £13,000 (2010: £12,000).

4 Employee benefit expense

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

	2011 Average	2010 Average
Number		
Metals Filtration	152	143
Microfiltration	367	354
Head office	7	7
	526	504
North American employees included above	154	147

	2011 £'000	2010 £'000
Staff costs		
Wages and salaries	17,704	16,377
Social security costs	2,492	2,406
Other pension costs	855	674
Share based payments	280	113
	21,331	19,570

Detailed disclosures of Directors' emoluments and interests in share options are shown in the Report of the Remuneration Committee on pages 22 to 25. The Directors comprise the key management and their remuneration is disclosed in note 28.

Notes to the consolidated financial statements continued

5 Finance income and costs

	Note	2011 £'000	2010 £'000
Interest payable on bank loans and overdrafts		593	802
Interest payable on finance leases		4	14
Interest payable on loan notes		—	3
Unwinding of discount on provisions	20	9	6
Pension scheme finance expense	19	200	400
Interest receivable – long term receivable		(9)	(189)
Interest receivable – other		(3)	(2)
		794	1,034

6 Income tax expense

	Note	2011 £'000	2010 £'000
Current tax			
UK Corporation tax		358	395
Adjustment in respect of prior periods		(110)	(144)
Overseas tax		529	400
Deferred tax			
Origination and reversal of temporary differences – UK	18	(104)	(94)
Origination and reversal of temporary differences – Overseas	18	741	404
		1,414	961

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

	2011 £'000	2010 £'000
Profit before tax	4,513	3,129
Tax at the UK Corporation tax rate of 26.67% (2010: 28%)	1,204	876
Tax adjustments in respect of prior periods	(110)	(144)
Deferred tax on share based payments within income statement	(75)	(32)
Tax effect of expenses not deductible in determining taxable profit	61	101
Effect of change in deferred tax rates	—	4
Effect of different tax rates of subsidiaries operating in other jurisdictions	334	156
Tax charge	1,414	961

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

	2011 £'000	2010 £'000
Deferred tax on share based payments (direct to equity)	(155)	(135)
Deferred tax on actuarial (losses)/gains on the pension fund (direct to comprehensive income)	(224)	837
	(379)	702

The standard rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011. Accordingly, the Group's profits for this accounting period are taxed at an effective rate of 26.67% and will be taxed at 26% in the future.

During the year, as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2012, deferred tax balances have been remeasured. Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2012 is measured at 26% and deferred tax relating to temporary differences expected to reverse after 1 April 2012 is measured at the tax rate of 25% as these are the rates that will apply on reversal.

7 Earnings per share

	Earnings £'000	2011 Weighted average number of shares	Per share amount (pence)	Earnings £'000	2010 Weighted average number of shares	Per share amount (pence)
Basic EPS						
Earnings attributable to ordinary shareholders	3,099	42,380,215	7.3	2,168	42,073,640	5.2
Effect of dilutive securities						
Earnings attributable to ordinary shareholders	3,099	–	7.3	2,168	–	5.2
Dilutive impact of share options	–	156,228	–	–	1,958	–
Diluted EPS	3,099	42,536,443	7.3	2,168	42,075,598	5.2

8 Dividends per share

	Per share (pence)	2011 £'000	Per share (pence)	2010 £'000
Final dividend paid	1.30p	552	1.25p	526
Interim dividend paid	1.00p	424	1.00p	421
	2.30p	976	2.25p	947

The Directors recommend a final dividend of 1.4 pence for the financial year ended 30 November 2011 to be paid on 8 June 2012

9 Property, plant and equipment

	Land and buildings £'000	Assets in course of construction £'000	Plant machinery and equipment £'000	Total £'000
Cost				
At 1 December 2009	4,007	126	21,549	25,682
Reclassification	(62)	(384)	446	–
Additions	117	551	601	1,269
Disposals	(14)	–	(715)	(729)
Exchange differences	124	7	620	751
At 30 November 2010	4,172	300	22,501	26,973
Depreciation				
At 1 December 2009	(1,071)	–	(15,739)	(16,810)
Charge for year	(217)	–	(1,418)	(1,635)
Disposals	14	–	616	630
Exchange differences	(51)	–	(448)	(499)
At 30 November 2010	(1,325)	–	(16,989)	(18,314)
Net book value at 30 November 2010	2,847	300	5,512	8,659

Notes to the consolidated financial statements continued

9 Property, plant and equipment continued

	Land and buildings £'000	Assets in course of construction £'000	Plant, machinery and equipment £'000	Total £'000
Cost				
At 1 December 2010	4,172	300	22,501	26,973
Reclassification	11	(398)	387	–
Additions	–	465	905	1,370
Disposals	(2)	–	(310)	(312)
Exchange differences	(22)	1	(95)	(116)
At 30 November 2011	4,159	368	23,388	27,915
Depreciation				
At 1 December 2010	(1,325)	–	(16,989)	(18,314)
Charge for year	(326)	–	(1,318)	(1,644)
Impairment charge	(121)	–	–	(121)
Disposals	2	–	290	292
Exchange differences	9	–	76	85
At 30 November 2011	(1,761)	–	(17,941)	(19,702)
Net book value at 30 November 2011	2,398	368	5,447	8,213

The net book value of plant, machinery and equipment includes £56,000 (2010 £69,000) held under finance leases (note 17)

The impairment charge relates to a property held in the Microfiltration division

10 Goodwill and other intangible assets

	Goodwill £'000	Development expenditure capitalised £'000	Software capitalised £'000	Trademarks £'000	Total £'000
At 1 December 2009					
Cost	54,464	1,820	1,006	36	57,326
Accumulated amortisation and impairment	(18,621)	(489)	(572)	(10)	(19,692)
Net book amount	35,843	1,331	434	26	37,634
Year ended 30 November 2010					
Opening net book amount	35,843	1,331	434	26	37,634
Additions	–	24	41	–	65
Disposals	–	(12)	–	–	(12)
Amortisation charges	–	(167)	(197)	(7)	(371)
Exchange differences	537	72	(8)	(1)	600
Closing net book amount	36,380	1,248	270	18	37,916
At 30 November 2010					
Cost	54,922	1,880	975	35	57,812
Accumulated amortisation and impairment	(18,542)	(632)	(705)	(17)	(19,896)
Net book amount	36,380	1,248	270	18	37,916
Year ended 30 November 2011					
Opening net book amount	36,380	1,248	270	18	37,916
Additions	–	–	38	–	38
Impairment charge	–	(492)	–	–	(492)
Amortisation charges	–	(126)	(159)	(7)	(292)
Exchange differences	(85)	(17)	2	–	(100)
Closing net book amount	36,295	613	151	11	37,070
At 30 November 2011					
Cost	54,832	1,863	1,016	35	57,746
Accumulated amortisation and impairment	(18,537)	(1,250)	(865)	(24)	(20,676)
Net book amount	36,295	613	151	11	37,070

10 Goodwill and other intangible assets continued

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

Amortisation of £292,000 (2010 £371,000) is included in 'cost of sales' in the income statement

The impairment charge relates to the reduction in the carrying value of a development project in the Metals Filtration division

The net book value of software capitalised totals £nil (2010 £108,000) held under finance leases (note 17)

Impairment tests for goodwill

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

A segment level summary of the goodwill allocation is presented below

2011			2010		
Metals Filtration £'000	Microfiltration £'000	Total £'000	Metals Filtration £'000	Microfiltration £'000	Total £'000
14,845	21,450	36,295	14,977	21,403	36,380

The recoverable amount of the goodwill is based on value-in-use calculations. The calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Pre-tax cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below

Key assumptions used for value-in-use calculations

	Metals Filtration		Microfiltration	
	US	US	UK	Germany
Budgeted gross margin	33%	33%	33%	33%
Weighted average growth rate used to extrapolate cash flows beyond the budget period	3%	3%	3%	3%
Weighted average cost of capital	8%	8%	8%	8%

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 development in its markets. 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.

Based on the results of the current period impairment review, no impairment charges have been recognised by the Group in the year ended 30 November 2011. Having assessed the anticipated future cash flows, the Directors do not currently foresee any changes in assumptions that would lead to such an impairment charge in the year ended 30 November 2011.

11 Derivative financial instruments

	2011		2010	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward foreign exchange contracts – cash flow hedges – current	13	–	–	(14)
Interest rate swap agreements – cash flow hedges – current	–	(180)	–	(270)
	13	(180)	–	(284)

Under IFRS the fair value of all forward foreign exchange contracts and currency options are recognised on the balance sheet with the corresponding entry included within administrative expenses. The Group recognises all forward foreign exchange contracts and currency options on the balance sheet at fair value using external market data.

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

The notional principal amount of the outstanding US dollar forward foreign exchange contracts at 30 November 2011 is £1.0 million (2010 £2.0 million) which mature in December 2011, January 2012 and February 2012. The notional principal amount of the outstanding Euro forward exchange contract at 30 November 2011 is £0.3 million (2010 £0.3 million) which matures in February 2012.

The Group has contracted interest rate swap agreements for \$10 million (2010 \$10 million) of its US\$ borrowings, which reduces to \$7.5 million from December 2011 until December 2013. The Group also has contracted interest rate swap agreements for £1 million (2010 £2 million) of its UK borrowings reducing annually by £1 million. The Group has accounted for these swap agreements using hedge accounting with gains or losses being credited/charged directly to equity.

Notes to the consolidated financial statements continued

12 Inventories

	2011 £'000	2010 £'000
Raw materials	2,746	2,793
Work in progress	3,290	2,399
Finished goods	3,020	2,535
	9,056	7,727

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £24,634,000 (2010 £24,006,000). The Group has recognised a provision of £656,000 (2010 £420,000) for the write-down of its inventories during the year ended 30 November 2011. The Group has utilised provisions of £142,000 (2010 £143,000) during the year ended 30 November 2011.

13 Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	10,768	9,048
Less provision for impairment	(173)	(115)
Trade receivables – net	10,595	8,933
Other debtors	108	229
Other receivable	–	1,378
Prepayments	901	790
	11,604	11,330

There is no difference between the fair value of trade receivables, other debtors and the other receivable 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 £10,595,000 (2010 £8,933,000). 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 £1,891,000 (2010 £1,465,000) being past due but not impaired at the year end, of which £1,190,000 (2010 £1,101,000) are less than 30 days overdue.

	2011			2010		
	Not yet due £'000	Past due not impaired £'000	Impaired £'000	Not yet due £'000	Past due not impaired £'000	Impaired £'000
Trade receivables						
Not yet due	8,502	–	–	7,361	–	–
0-3 months overdue	–	1,891	93	–	1,465	22
3-6 months overdue	–	168	38	–	107	56
>6 months overdue	–	34	42	–	–	37
	8,502	2,093	173	7,361	1,572	115

The Group has recognised a provision of £110,000 (2010 £40,000) within administrative expenses for the impairment of its trade receivables during the year ended 30 November 2011. The Group has utilised provisions for impaired receivables of £52,000 (2010 £160,000) during the year ended 30 November 2011.

Foreign exchange risk in relation to trade receivables is disclosed in note 24.

14 Cash and cash equivalents

	2011 £'000	2010 £'000	Group
Cash at bank and in hand	5,111	5,897	

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

	2011 £'000	2010 £'000
Pounds Sterling	1,928	1,898
US dollar	1,882	2,297
Euro	1,108	1,429
Other	193	273
	5,111	5,897

15 Trade and other payables

	2011 £'000	2010 £'000
Amounts falling due within one year		
Trade payables	5,691	5,743
Taxation and social security	735	427
Accruals and deferred income	5,929	4,232
	12,355	10,402

16 Borrowings

	2011 £'000	2010 £'000
Secured multi-currency revolving credit facility of US\$15 million (2010 US\$15 million) maturing in December 2013 with interest at 2.7% (2010 2.95%) above US dollar LIBOR	6,492	9,440
Secured five year amortising debt facility of £3.75 million (2010 £4.75 million) expiring in December 2013 with interest at 2.7% (2010 2.95%) above LIBOR	3,704	4,655
Secured Euro revolving credit facility of €1.6 million which matured in January 2011 with interest at 2.95% above EURIBOR	–	1,337
Unsecured loan notes relating to the acquisition of Toolturn Engineering Limited	–	100
	10,196	15,532

Bank and other loans of the Group are repayable as follows

	2011 £'000	2010 £'000
Within one year	865	2,344
One to two years	1,000	907
Two to five years	8,331	12,281
	10,196	15,532

The loans are shown net of issue costs of £135,000 (2010 £287,000) which are being amortised over the life of the loan arrangements. The term and multi-currency revolving credit facilities expire in December 2013.

At 30 November 2011, the Group had £3.0 million unused facility (2010 fully drawn down facility) and an unutilised £2.5 million (2010 £2.5 million) overdraft facility.

The carrying values of bank borrowings approximate their fair value.

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

The unsecured loan notes were payable in equal instalments over 3 years to March 2011. Interest was payable at National Westminster Bank plc base rate.

Notes to the consolidated financial statements continued

16 Borrowings continued

The Group's borrowings are denominated in the following currencies

	2011 £'000	2010 £'000
Pounds Sterling	3,704	4,755
US dollar	6,492	9,440
Euro	–	1,337
	10,196	15,532

17 Finance lease liabilities

	2011 £'000	2010 £'000
Gross lease liabilities		
Within one year	7	38
Later than 1 year and less than 5 years	–	7
	7	45
Future interest	(1)	(5)
Present value of lease liabilities	6	40
Present value of lease liabilities are repayable as follows		
Within one year	6	34
Between 2 and 5 years	–	6
Total	6	40

The leases are secured on the assets to which they relate

18 Deferred tax asset

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

	Note	2011 £'000	2010 £'000
At 1 December		1,652	2,664
Exchange differences		6	–
Income statement (charge)	6	(637)	(310)
Tax credited/(charged) to comprehensive income		224	(837)
Tax credited to equity		155	135
At 30 November		1,400	1,652

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	Development costs capitalised £'000	Share based payments £'000	Retirement obligations £'000	Total £'000
At 1 December 2009	(892)	1,625	11	(507)	25	2,402	2,664
(Charged)/credited to income statement	(216)	(195)	(11)	53	32	27	(310)
Credited to equity	–	–	–	–	135	–	135
(Charged) to comprehensive income	–	–	–	–	–	(837)	(837)
Exchange differences	(48)	75	–	(27)	–	–	–
At 30 November 2010	(1,156)	1,505	–	(481)	192	1,592	1,652
Credited/(charged) to income statement	155	(854)	–	48	75	(61)	(637)
Credited to equity	–	–	–	–	155	–	155
Credited to comprehensive income	–	–	–	–	–	224	224
Exchange differences	8	–	–	(2)	–	–	6
At 30 November 2011	(993)	651	–	(435)	422	1,755	1,400

There were £876,000 (2010 £1,149,000) of unrecognised deferred tax assets at 30 November 2011 relating to unutilised tax losses, primarily in the US. The tax assets 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 2011 (2010 £nil).

19 Retirement benefit obligations

	2011 £'000	2010 £'000
Defined benefit scheme deficit	7,020	5,448
Additional pension commitments	151	146
	7,171	5,594

Group

The additional pension commitments arise out of contractual commitments to certain employees outside the scope of the defined benefit plan deficit. These liabilities will crystallise between two and twelve 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 2011 this amounted to £177,000 (2010: £159,000). In 2011 the Group also made payments of £159,000 (2010: £72,000) to designated US 401k schemes on behalf of its employees.

In the UK, after the closure of the defined benefit plan to new members, the Group introduced a stakeholder plan to be offered to all new employees. Total employer contributions in the UK paid to defined contribution schemes were £246,000 (2010: £259,000).

b) Defined benefit scheme

The Group operates a defined benefit pension scheme, The Porvair plc Pension & Death Benefit Plan ("the Plan"), covering a number of employees in the UK. The pension scheme is financed through a separate trust fund administered by Trustees with an independent Chairman. The Plan was closed to new entrants in October 2001.

Formal valuations of the Plan by a professionally qualified actuary are carried out at least every three years, using the projected unit method. Under this method the current service cost will increase in relation to the salaries of the members in future years as those members approach retirement. The latest full actuarial valuation was at 1 April 2009.

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

The actuarial value of the assets on the funding basis was sufficient to cover 57% of the benefits that had accrued to members, after allowing for expected increases in pensionable remuneration, and the current funding deficiency amounted to £10.4 million. The Group and the Trustees have agreed to alter the employer's contributions from 8% of salary to 8.2% of salary plus a £175,000 contribution towards the running costs of the scheme, increasing by 3.25% per annum. The Group has also committed to make additional annual contributions of £300,000 per annum increasing by 5% per annum from December 2010, with an increase to £450,000 per annum increasing by 5% per annum from December 2013 to cover the past service deficit. The funding shortfall is expected to be eliminated by December 2027. The next full actuarial valuation of the scheme will be based on the pension scheme's position at 31 March 2012.

The UK pension charge for the year was £200,000 (2010: £200,000), the funding via employer contributions was £628,000 (2010: £505,000).

The valuation of the deficit in the balance sheet is based on the most recent actuarial valuation of the Plan as updated to take account of the market value of the assets and the present value of the liabilities of the Plan at 30 November 2011.

Balance sheet

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

	2011	2010	2009
Valuation method	Projected Unit	Projected Unit	Projected Unit
Discount rate	4.8%	5.4%	5.5%
RPI inflation rate	3.0%	3.2%	3.3%
CPI inflation rate	2.0%	2.5%	n/a
General salary increases	3.0%	3.2%	3.3%
Rate of increase of pensions in payment	2.0%	2.5%	3.3%
Rate of increase for deferred pensioners	2.0%	2.5%	3.3%

Notes to the consolidated financial statements continued

19 Retirement benefit obligations continued

Pre and post retirement mortality

The SAPS base mortality tables have been used, with a 110% multiplier allowing for future improvements of 1.0% per annum (2010: 1.0% per annum). The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is 19.6 (2010: 19.5) for men and 22.2 (2010: 22.1) for women.

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

	Long term expected rate of return at 30 November 2011	Value at 30 November 2011 £'000	Long term expected rate of return at 30 November 2010	Value at 30 November 2010 £'000	Long term expected rate of return at 30 November 2009	Value at 30 November 2009 £'000	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
Equities	7.1%	10,100	8.2%	10,300	8.1%	9,800	8.4%	8,100	8.0%	12,200
Bonds	4.8%	8,300	5.4%	8,000	5.5%	7,500	4.4%	6,360	4.6%	6,800
Other	3.8%	180	3.9%	52	4.0%	47	4.4%	–	4.6%	68
Fair value of plan assets		18,580		18,352		17,347		14,460		19,068
Present value of funded obligations		(25,600)		(23,800)		(25,800)		(18,000)		(20,700)
Deficit in the Plan (excluding deferred tax)		(7,020)		(5,448)		(8,453)		(3,540)		(1,632)

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

	2011 £'000	2010 £'000	2009 £'000
Deficit at 1 December	(5,448)	(8,453)	(3,540)
Contributions paid	628	505	487
Current service cost	(200)	(200)	(200)
Other finance (expense)	(200)	(400)	(300)
Actuarial (losses)/gains	(1,800)	3,100	(4,900)
Deficit at 30 November	(7,020)	(5,448)	(8,453)

The reconciliation of plan assets during the year is as follows

	2011 £'000	2010 £'000
Market value at the start of the year	18,352	17,347
Benefit payments	(1,100)	(1,300)
Company contributions	628	505
Member contributions	100	100
Expected return on assets	1,100	1,000
Actual return on assets (less than)/in excess of expected return	(500)	700
Plan assets at the end of the year	18,580	18,352

The reconciliation of plan liabilities during the year is as follows

	2011 £'000	2010 £'000
Plan liabilities at the start of the year	(23,800)	(25,800)
Current service cost	(200)	(200)
Interest cost	(1,300)	(1,400)
Member contributions	(100)	(100)
Benefits paid	1,100	1,300
(Losses)/gains on change in financial and demographic assumptions	(1,300)	2,400
Plan liabilities at the end of the year	(25,600)	(23,800)

19 Retirement benefit obligations continued

	2011 £'000	2010 £'000
Income statement		
Analysis of amounts chargeable to operating profit		
Current service cost	(200)	(200)
Amount chargeable to operating profit	(200)	(200)
Analysis of amounts (charged)/credited to other finance income and costs		
Interest on Plan liabilities	(1,300)	(1,400)
Expected return on assets in the Plan	1,100	1,000
Net amount (charged) to other finance income and costs	(200)	(400)
Total chargeable to the income statement before deduction of tax	(400)	(600)
Other items		
Analysis of amounts recognised in the consolidated statement of comprehensive income		
Actual (loss)/return on assets in excess of expected return	(500)	700
(Losses)/gains on change in financial and demographic assumptions	(1,300)	2,400
Total actuarial (loss)/gain recognised in the consolidated statement of comprehensive income	(1,800)	3,100
Cumulative actuarial (loss)/gain recognised in the consolidated statement of comprehensive income	(800)	1,000

20 Provisions for other liabilities and charges

	2011 £'000	2010 £'000
At 1 December	71	65
Charged to consolidated income statement		
– Additional provisions	27	–
– Unwinding of discount	9	6
At 30 November	107	71

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

	2011 £'000	2010 £'000
Analysis of total provisions		
Non-current	107	71

21 Share capital and share premium account

	Number of shares	Ordinary shares £'000	Share premium account £'000	Total £'000
At 30 November 2009 and 1 December 2010	42,073,640	841	34,024	34,865
Issue of shares on exercise of share options	487,232	10	447	457
At 30 November 2011	42,560,872	851	34,471	35,322

In February 2011, 352,000 ordinary shares of 2 pence each were issued on the exercise of employee share options for cash consideration of £349,000. In October and November 2011, 135,232 ordinary shares were issued on completion of the 2008 Save As You Earn scheme for cash consideration of £108,000.

Share options

Share options are granted to Directors and to selected employees. Details of share options awarded, including exercise price and performance conditions, are disclosed in the Report of the Remuneration Committee on pages 22 to 25.

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.

Notes to the consolidated financial statements continued

21 Share capital and share premium account continued

Details of the share options are

Scheme	Year of grant	Exercise period	Subscription price (pence)	2011 Number of shares	2010 Number of shares
1997 (Revenue unapproved)	2004	2007–2011	114 00	–	40,000
1997 (Revenue unapproved)	2004	2007–2011	101 50	–	60,000
1997 (Revenue unapproved)	2004	2007–2011	103 50	–	30,000
1997 (Revenue unapproved)	2005	2008–2012	98 00	12,000	274,000
2005 EMI (Revenue approved)	2006	2009–2016	151 00	20,000	20,000
2005 EMI (Revenue approved)	2006	2009–2016	131 00	172,660	172,660
2005 (Revenue unapproved)	2006	2009–2016	131 00	147,340	147,340
2007 Save As You Earn Scheme	2007	2010–2011	108 00	–	9,625
2005 EMI (Revenue approved)	2008	2011–2018	110 00	–	15,000
2005 (Revenue unapproved)	2008	2011–2018	114 00	–	150,000
2008 Save as You Earn Scheme	2008	2011–2012	80 00	139,120	275,185
2005 (Revenue unapproved)	2009	2012–2019	69 50	350,000	350,000
2005 (Revenue unapproved)	2010	2013–2020	57 00	15,000	15,000
2010 Long term incentive scheme	2010	2013–2020	2 00	500,000	500,000
2011 Long term incentive scheme	2011	2014–2021	2 00	465,000	–
2011 3yr Save As You Earn Scheme	2011	2014–2015	93 00	279,833	–
2011 5yr Save As You Earn Scheme	2011	2016–2017	93 00	192,060	–
At 30 November				2,293,013	2,058,810

Movements in share options during the year were

	2011 Weighted average exercise price (pence)	2010 Weighted average exercise price (pence)	2011 Number of shares	2010 Number of shares
At 1 December	74.57	74 86	2,058,810	2,772,668
Options granted	47.83	3 60	936,893	515,000
Options expired	113.71	39 77	(205,000)	(1,087,373)
Options forfeited	105.77	89 55	(10,458)	(141,485)
Options exercised	93.77	–	(487,232)	–
At 30 November	55.93	74 57	2,293,013	2,058,810
Options exercisable at 30 November	116.56	114 89	404,640	744,000
Options not exercisable at 30 November	23.41	51 29	1,888,373	1,314,810
Total	55.93	74 57	2,293,013	2,058,810

Scheme	Subscription price (pence)	2011 Number of shares	2010 Number of shares
Options expired during the year were			
1997	111 00	–	90,000
1997	114 00	40,000	10,000
1997	160 00	–	10,000
2005	138 00	–	210,000
2005	110 00	15,000	–
2005	114 00	150,000	–
2008 LTIS	2 00	–	767,373
At 30 November		205,000	1,087,373
Options forfeited during the year were			
2007 SAYE	108 00	9,625	47,250
2008 SAYE	80 00	833	94,235
At 30 November		10,458	141,485

21 Share capital and share premium account continued

Options exercised during the year were

Scheme	Subscription price (pence)	2011 Number of shares	2010 Number of shares
1997	101 50	60,000	—
1997	103 50	30,000	—
1997	98 00	262,000	—
2008 SAYE	80 00	135,232	—
		487,232	—

At 30 November

Share based payment

30 November 2011

Grant date	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	27/1/06 Porvair 2005 share option	07/3/06 Porvair 2005 share option	17/8/07 Share save 2007	01/2/08 Porvair 2005 share option	10/3/08 Porvair 2005 share option
Scheme									
Share price at grant date	114 00p	101 00p	103 50p	98 00p	131 00p	151 00p	135 00p	110 00p	114 00p
Exercise price	114 00p	101 00p	103 50p	98 00p	131 00p	151 00p	108 00p	110 00p	114 00p
Shares under option	65,000	60,000	30,000	274,000	330,000	40,000	415,975	15,000	150,000
Vesting period (years)	3	3	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	30%	30%	30%	30%	30%	30%
Expected life (years)	3	3	3	3	3	3	3	3	3
Risk free rate	4 50%	4 75%	4 75%	4 75%	4 50%	4 50%	5 75%	5 25%	5 25%
Dividend yield	1 75%	1 97%	1 93%	2 09%	1 60%	1 39%	1 59%	2 00%	2 00%
Fair value per option (£)	0 25840	0 22892	0 23421	0 21883	0 30066	0 35263	0 46118	0 25092	0 26332

Grant date	01/10/08 Share save 2008	30/1/09 Porvair 2005 share option	28/1/10 Porvair 2005 share option	28/1/10 Porvair LTIS	27/1/11 Porvair LTIS	01/10/11 Share save 2011 3 year	01/10/11 Share save 2011 5 year
Scheme							
Share price at grant date	99 50p	69 50p	57 00p	57 00p	123 50p	116 25p	116 25p
Exercise price	80 00p	69 50p	57 00p	2 00p	2 00p	93 00p	93 00p
Shares under option	470,470	350,000	15,000	500,000	465,000	279,833	192,060
Vesting period (years)	3	3	3	3	3	3	3
Expected volatility	50%	50%	30%	30%	30%	30%	30%
Expected life (years)	3	3	3	3	3	3	3
Risk free rate	5 00%	0 50%	0 50%	0 50%	0 50%	0 50%	0 50%
Dividend yield	2 10%	1 80%	3 95%	3 95%	1 86%	2 47%	2 47%
Fair value per option (£)	0 41019	0 21209	0 08395	0 48660	1 14827	0 29606	0 31849

Share based payments

Charge for the year

2011 £'000	2010 £'000
280	113

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

22 Other reserves

	2011		2010	
	Cumulative translation reserve £'000	Retained earnings £'000	Cumulative translation reserve £'000	Retained earnings £'000
At 1 December	802	4,814	423	1,107
Profit for the year attributable to shareholders	-	3,099	-	2,168
Dividends paid	-	(976)	-	(947)
Actuarial (losses)/gains	-	(1,800)	-	3,100
Tax on actuarial (losses)/gains	-	224	-	(837)
Share based payments	-	280	-	113
Tax on share based payments	-	155	-	135
Interest rate swap cash flow hedge	-	90	-	(25)
Exchange differences	81	-	379	-
At 30 November	883	5,886	802	4,814

23 Cash generated from operations

	2011 £'000	2010 £'000
Operating profit	5,307	4,163
Adjustments for		
- Non cash pension charge	200	200
- Share based payments	280	113
- Depreciation, amortisation and impairment	2,549	2,006
- (Profit)/loss on disposal of property, plant and equipment	(34)	111
Operating cash flows before movement in working capital	8,302	6,593
Changes in working capital (excluding the effects of exchange differences on consolidation)		
- (Increase)/decrease in inventories	(1,300)	662
- (Increase) in trade and other receivables	(331)	(980)
- Increase in payables	1,466	1,867
(Increase)/decrease in working capital	(165)	1,549
Cash generated from operations	8,137	8,142

24 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate cash flow risk), credit risk and liquidity risk. The Group's overall risk management programme is disclosed on pages 14 to 15 of the Finance Director's review and 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 US operations is managed through borrowings denominated in US dollars.

The UK operations generate significant US dollar revenues and forward contracts are used to reduce the impact of movements in the US dollar exchange rate.

The Group has the following outstanding US dollar forward contracts:

	2011 \$'000	2010 \$'000
Outstanding forward contracts	1,500	3,100

24 Financial risk management continued

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

	2011 \$'000	2010 \$'000
Trade receivables denominated in US dollars	8,965	7,128
Other receivables denominated in US dollars	5,087	3,531
Cash balances denominated in US dollars	2,960	3,577
Trade payables denominated in US dollars	(3,978)	(2,910)
Other payables denominated in US dollars	(2,014)	(2,552)
	11,020	8,774

Group

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

	2011 £'000	2010 £'000
US dollar strengthens	779	625
US dollar weakens	(636)	(513)

(ii) Euro

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

The 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

	2011 €'000	2010 €'000
Outstanding forward contracts	375	375

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

	2011 €'000	2010 €'000
Trade receivables denominated in Euros	1,882	1,811
Other receivables denominated in Euros	828	2,950
Cash balances denominated in Euros	1,295	1,710
Trade payables denominated in Euros	(1,055)	(1,985)
Other payables denominated in Euros	(469)	(1,096)
	2,481	3,390

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

	2011 £'000	2010 £'000
Euro strengthens	236	315
Euro weakens	(194)	(258)

Cash flow interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings in the years ended 30 November 2011 and 2010 carry interest at variable rates and are denominated in US dollars, Euros and Sterling. The Group has entered into interest rate swap agreements on 97% (2010: 67%) of the US denominated borrowings to reduce the impact of future changes in US interest rates. On 12 December 2011, an interest rate swap agreement expired reducing the fixed proportion of US denominated borrowings to 72%. The Group has entered into an interest rate swap agreement on 27% (2010: 42%) of the Sterling denominated borrowings to reduce the impact of future changes in UK interest rates.

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

If interest rates had been 0.5% higher/lower on borrowings throughout the year with all other variables held constant, the post tax profit for the year would have been £36,000 (2010: £97,000) lower/higher respectively.

Notes to the consolidated financial statements continued

24 Financial risk management continued

The Group has finance leases which are secured on the assets to which the lease relates. The leases commit the Group to make monthly payments of £2,000 (2010 £2,000). 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 13.

Liquidity risk

Banking facilities, including a maturity profile, are disclosed in note 16. The amortising debt commits the Group to quarterly repayments of principal of £250,000 (2010 £250,000). Interest is payable based on the length of the revolving facilities, typically between 1 and 3 months and on a quarterly basis for the term loan. The Group is required to meet banking covenants on a quarterly basis. Whilst the Group has sufficient cash reserves and expects future trading to enable it to meet its cash flow obligations, should trading performance prevent it from doing so then the lender has recourse over the Group's assets.

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

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
30 November 2011				
Borrowings (excluding finance lease liabilities)	1,399	1,361	8,360	—
Finance lease liabilities	7	—	—	—
Derivatives (excluding foreign exchange)	108	72	—	—
Trade and other payables	11,620	—	—	—
	13,134	1,433	8,360	—
30 November 2010				
Borrowings (excluding finance lease liabilities)	3,064	1,547	12,880	—
Finance lease liabilities	38	7	—	—
Derivatives (excluding foreign exchange)	134	136	—	—
Trade and other payables	9,975	—	—	—
	13,211	1,690	12,880	—

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

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
30 November 2011				
Financial assets at fair value through profit or loss				
– Trading derivatives	—	13	—	13
Derivatives used for hedging	—	(180)	—	(180)
	—	(167)	—	(167)
30 November 2010				
Financial liabilities at fair value through profit or loss				
– Trading derivatives	—	(14)	—	(14)
Derivatives used for hedging	—	(270)	—	(270)
	—	(284)	—	(284)

24 Financial risk management continued

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Capital risk management

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated balance sheet less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet. The gearing ratio at 30 November 2011 was 12% (2010: 24%) which is in line with the Group's repayments of its borrowings.

The Group's borrowings are subject to certain covenant restrictions imposed by the bank. These covenants have been fully complied with during the year ended 30 November 2011.

25 Contingent liabilities

On 21 November 2011, the Group entered into an advanced payment bond totalling US\$2,263,000 relating to monies received on a contract in advance (included in deferred income). The bond requires this amount to be repaid in the event delivery is not made within certain parameters. The advanced payment bond is released 30 days after despatch and in any event no later than August 2015. Also on this date, the Group entered into a performance bond totalling US\$981,000. The bond is released after a warranty period and in any event no later than August 2016.

26 Commitments

Capital and other financial commitments

Contracts placed for future capital expenditure not provided in the financial statements at 30 November 2011 were £150,000 (2010: £518,000).

Operating lease commitments – minimum lease payments

	2011		2010	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Future aggregate minimum lease payments.				
No later than one year	351	122	967	101
Later than one year and no later than five years	1,558	306	4,496	330
Later than five years	6,139	–	1,828	–
	8,048	428	7,291	431

27 Post balance sheet event – Acquisition of Block Digestion business

On 5 December 2011 the Group, through its subsidiary Seal Analytical Limited, purchased the Block Digestion product range from Aim Lab Automation Technologies Pty Limited based in Australia. The total consideration was £458,000 with further consideration payable 3 months after the acquisition date equal to the fair value of the remaining inventory.

	£'000
Purchase consideration	
Cash paid	458
Total purchase consideration	458
Fair value of net assets acquired (see below)	(52)
Goodwill	406

Acquisition-related costs of £49,000 will be charged to administrative expenses in the consolidated income statement in the year ending 30 November 2012.

The Goodwill is attributable to the acquired customer base and non-contractual relationships, the synergies and potential for development expected to arise after the Group's acquisition.

The purchase will be accounted for as an acquisition.

Notes to the consolidated financial statements continued

27 Post balance sheet event – Acquisition of Block Digestion business continued

	Fair value £'000	Acquiree's carrying amount £'000
Software	19	–
Process technology and know-how	33	–
Net assets acquired	52	–

28 Key management compensation

The Board of Directors, including the Non-Executive Directors, are classified as key management. Their remuneration is shown in the Report of the Remuneration Committee. This is a change from prior years when only Executive Directors were considered key management. As a result, the comparatives have been amended accordingly for consistency of disclosure.

	2011 £'000	2010 £'000
Salaries and other short term employee benefits	899	803
Other long term benefits	45	43
Share based payments	239	71
	1,183	917

29 Principal subsidiaries

The principal operating companies at 30 November 2011 are as follows -

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

The 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 2011 which comprise the parent company balance sheet (under UK GAAP), the Company loss for the financial year, the parent company reconciliation of movements in shareholders' funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 30 November 2011,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the group financial statements of Porvair plc for the year ended 30 November 2011



Christopher Maw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
30 January 2012

Parent company balance sheet (under UK GAAP)

Company registered number 1661935

As at 30 November

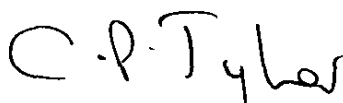
	Note	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	4	34	54
Investments	5	61,694	64,384
		61,728	64,438
Current assets			
Debtors amounts falling due after more than one year	6	173	119
Debtors amounts falling due within one year	6	196	115
		369	234
Creditors amounts falling due within one year	7	(13,494)	(11,671)
Net current liabilities		(13,125)	(11,437)
Total assets less current liabilities		48,603	53,001
Creditors amounts falling due after more than one year	7	(9,482)	(13,334)
Net assets		39,121	39,667
Capital and reserves			
Called up share capital	10	851	841
Share premium account	11	34,471	34,024
Exchange reserves	11	(808)	(1,132)
Profit and loss account	11	4,607	5,934
Total shareholders' funds		39,121	39,667

The financial statements on pages 60 to 66 were approved by the Board of Directors on 30 January 2012 and were signed on its behalf by

B D W Stocks



C P Tyler



Company loss for the financial year

As permitted by Section 408 of the Companies Act 2006, no profit and loss account is presented for the holding company. The (loss) after tax attributable to the Company is £631,000 (2010: profit of £284,000).

Company

Parent company – reconciliation of movements in shareholders' funds

For the year ended 30 November	Note	2011 £'000	2010 £'000
(Loss)/profit for the financial year		(631)	284
Dividends		(976)	(947)
		(1,607)	(663)
Exchange differences	11	324	209
Net proceeds from issue of ordinary share capital		457	–
Share based payments	11	280	113
Net decrease in shareholders' funds		(546)	(341)
Opening shareholders' funds		39,667	40,008
Closing shareholders' funds		39,121	39,667

Notes to the financial statements

1 Summary of significant accounting policies

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

Tangible fixed assets

Tangible fixed assets are capitalised at cost and are depreciated by equal annual amounts over their estimated useful lives. Annual depreciation rates are 10% to 33.33% for plant, machinery and equipment. Assets in the course of construction are capitalised at cost including professional fees and, for qualifying assets, borrowing costs. Depreciation for these assets commences when the assets are ready for their intended use.

Fixed asset investments

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

Impairment of assets

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

Patents and trademarks

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

Foreign exchange

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

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

Deferred taxation

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

Pensions

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

The Company participates in the Group's 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.

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

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

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

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

Operating leases

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

Borrowing costs

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

Related party transactions

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

2 (Loss)/profit on ordinary activities before taxation**(Loss)/profit on ordinary activities before taxation is stated after charging:**

	2011 £'000	2010 £'000
Staff costs		
Wages and salaries	1,063	987
Social security costs	110	82
Other pension costs	69	65
Share based payments	258	77
	1,500	1,211
Average monthly number of employees – administrative	7	7

Directors' share based payments are shown in note 28 of the Group's financial statements

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 financial statements	13	13
Tax services	34	17
	47	30

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 were £13,000 (2010 £12,000)

3 Directors' emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the Report of the Remuneration Committee on pages 22 to 25

4 Tangible fixed assets

	Plant machinery and equipment £'000
Cost	
At 1 December 2010 and 30 November 2011	171
Depreciation	
At 1 December 2010	(117)
Charge for year	(20)
At 30 November 2011	(137)
Net book value	
At 30 November 2011	34
At 30 November 2010	54

There were no capital commitments, authorised and contracted for, in the Company at 30 November 2011 (2010 £Nil)

Notes to the financial statements continued

5 Fixed asset investments

	2011			2010		
	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	47,977	32,481	80,458	47,941	31,282	79,223
Additions in the year	105	–	105	–	–	–
(Repayments)/advances	–	(2,731)	(2,731)	–	625	625
Capital contributions arising from FRS 20 share based payments charge	22	–	22	36	–	36
Exchange differences	–	(86)	(86)	–	574	574
At 30 November	48,104	29,664	77,768	47,977	32,481	80,458
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	45,506	16,188	61,694	45,379	19,005	64,384
At 1 December	45,379	19,005	64,384	45,343	17,806	63,149

The addition in the year relates to an investment in Seal Analytical Shanghai Company Limited of £105,000

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

Details of the subsidiary undertakings are given in note 29 of the Group financial statements

6 Debtors

	Note	2011 £'000	2010 £'000
Amounts falling due within one year			
Corporation tax recoverable		174	88
Prepayments		22	27
		196	115
Amounts falling due after more than one year:			
Deferred taxation	9	173	119
		173	119

7 Creditors

	Note	2011 £'000	2010 £'000
Amounts falling due within one year			
Bank overdraft and other loans	8	12,551	10,787
Trade creditors		55	56
Taxation and social security		62	39
Accruals and deferred income		826	789
		13,494	11,671
Amounts falling due after more than one year:			
Bank loans	8	9,331	13,188
Retirement obligations		151	146
		9,482	13,334

8 Bank overdraft and other loans

	2011 £'000	2010 £'000	Company
Secured multi-currency revolving credit facility of US\$15 million (2010 US\$15 million) maturing in December 2013 with interest at 2.70% (2010 2.95%) above US dollar LIBOR	6,492	9,440	
Secured five year amortising debt facility of £3.75 million (2010 £4.75 million) expiring in December 2013 with interest at 2.7% (2010 2.95%) above LIBOR	3,704	4,655	
Secured Euro revolving credit facility of €1.6 million which matured in January 2011 with interest at 2.95% above EURIBOR	–	1,337	
Bank overdraft offset against cash balances in other Group companies under a Group banking offset arrangement	11,686	8,543	
	21,882	23,975	

	2011 £'000	2010 £'000
Bank and other loans of the Company are repayable as follows:		
Within one year	12,551	10,787
One to two years	1,000	907
Two to five years	8,331	12,281
	21,882	23,975

The loans are shown net of issue costs of £135,000 (2010 £287,000) which are being amortised over the life of the loan arrangements. The term and multi-currency revolving credit facilities expire in December 2013.

At 30 November 2011, the Company had £3.0 million unused facility (2010 fully drawn down facility) and an unutilised £2.5 million (2010 £2.5 million) overdraft facility.

The carrying values of bank borrowings approximate their fair value.

The multi-currency facility 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 recognised as follows:

Assets	2011 £'000	2010 £'000
Accelerated capital allowances	1	6
Short term timing differences	172	113
	173	119

There were no unrecognised deferred tax amounts at 30 November 2011 (2010 £Nil).

During the year, as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2012, deferred tax balances have been remeasured. Deferred tax relating to timing differences which are expected to reverse prior to 1 April 2012 is measured at 26% and deferred tax relating to timing differences expected to reverse after 1 April 2012 is measured at the tax rate of 25% as these are the rates that will apply on reversal.

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

Notes to the financial statements continued

10 Called up share capital

	2011 £'000	2010 £'000
Allotted, called up and fully paid:		
42,560,872 ordinary shares of 2 pence each (2010 42,073,640)	851	841

Details of shares issued and share options are disclosed in note 21 of the Group financial statements

11 Reserves

	Share premium account £'000	Exchange reserves £'000	Profit and loss account £'000
At 1 December 2010	34,024	(1,132)	5,934
Premium on shares issued	447	-	-
Deficit for the year	-	-	(1,607)
Exchange differences	-	324	-
Share based payments	-	-	280
At 30 November 2011	34,471	(808)	4,607

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

12 Financial commitments

At 30 November 2011, the Company had annual commitments under non-cancellable operating leases expiring as follows

	2011		2010	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Commitments under non-cancellable operating leases expiring:				
Later than one year and less than five years	48	2	48	2

Shareholder information

Registrar services

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

Capita can be contacted at

Capita Registrars

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

www.capitaregistrars.com

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

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

Share dealing service

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

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

www.capitadeal.com – online dealing

0870 458 4577 – telephone dealing

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

Financial calendar 2012

30 November 2011

Financial year end 2011

31 January 2012

Full year 2011 results

11 April 2012

AGM/Interim Management Statement

02 May 2012

Ex-dividend date

04 May 2012

Record date for dividend

31 May 2012

Half year 2012 period end

08 June 2012

Payment date for dividend

28 June 2012

Half year 2012 results announcement

01 August 2012

Ex-dividend date

03 August 2012

Record date for dividend

07 September 2012

Payment date for dividend

20 September 2012

Interim Management Statement

30 November 2012

Financial year end 2012

29 January 2013

Full year 2012 results

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