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Porvair plc Annual Report & Accounts 2010

Delivering sustainable solutions for long term growth

About Porvair

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 non-ferrous metals are the most important.

At the heart of what we do is the filtration and engineering expertise which allows us to solve customers' 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.

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Key performance highlights in 2010

Financial highlights

Financial results ahead of expectations

- → Revenues up 15% to £63 6 million (2009 £55 2 million)
- → Profit before tax up 82% to £3 1 million (2009 £1 7 million before exceptional items of £0 7 million)
- → Earnings per share increased substantially to 5 2 pence (2009 2 7 pence before exceptional items of 1 1 pence)
- → Net cash generated from operating activities of £6 9 million (2009 £4 5 million)
- → Net debt reduced to £9 7 million (2009 £13 9 million) Net debt to EBITDA ratio was 1 5 times (2009 2 9 times)
- → Final dividend increased to 1 3 pence per share (2009 1 25 pence per share) Total dividend 2 3 pence per share (2009 2 25 pence per share)

Operating highlights

The Microfiltration division had a good year and a strong second half

- → Revenues increased 11% in the year
- → Aviation revenue improved in the second half The outlook is promising supported by a US$40 million 10 year deal signed with Parker Hannifin
- → Revenue in nuclear and energy filtration was up over 70%
- → Revenue from environmental laboratories for clean water analysis had a second good year

The Metals Filtration division has recovered well from a difficult 2009 and has a clear path for further gains in 2011

- → Revenues increased by 24% in the year
- → Three key product groups are now patented
- → Manufacture of un-patented products underway in China

2011 has started well and order books are healthy

Porvair at a glance

Porvair specialises in filtration and related environmental technology We operate two divisions The Microfiltration division comprises the Porvair Filtration Group, Porvair Sciences and Seal Analytical ('Seal') It principally serves aviation, environmental laboratory and energy markets The Metals Filtration division serves global aluminium, NAFTA iron foundry and super alloy markets

Microfiltration Division – UK, US & Germany

The Microfiltration division provides bespoke filtration solutions to a diverse range of customers and markets It has operations in the UK, US and Germany and employs 350 people Its sales are global

Principal markets served
- → Aviation
- → Energy and industrial process
- → Environmental laboratories

Applied technology
- → Metallic and polymeric filtration technologies
- → Instrumentation

Annual sales
£40.4m

Revenue growth
+11%

Metals Filtration Division – US & China

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 140 people Its sales are global

Principal markets served
- → Non-ferrous metals

Applied technology
- → Ceramic filtration technology

Annual sales
US$36.0m

Revenue growth
+24%

Our strategy

The Group manufactures principally in the UK, US, Germany and China Its sales are global

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

- Develop filtration and environmental technology positions in markets where typically
  - specialist design or engineering skills win business,
  - regulation or quality accreditation requirements mandate product use,
  - consumable products, which protect more costly downstream components, are often replaced as part of a maintenance routine,
  - products, once designed into a specification, have very long lifecycles
- Focus on selected markets which have good long term growth aviation, energy and industrial, environmental laboratory supplies and aluminium filtration
- Invest consistently in specified new products In this statement these products are referred to as "new (or next) generation products"
- 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

2010 strategic progress and commercial development

In 2010, 21% 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

Aviation
- Fuel tank inerting filters Parker Hannifin deal US$40 million contract over 10 years
- Specified in V22 Osprey fuel and hydraulic lines

Energy and industrial process
- Gasification and nuclear contracts delivered in 2010 Wabash/Egas™, Mox, Thor Treatment Technologies
- 70% growth in nuclear and energy

Environmental laboratory supplies
- Seal AQ1 launched, AQ2 upgraded
- BioVyon ultra clean and surface modified products launched

Non-ferrous metals
- Selee CSX™ aluminium filter 95% converted
- Selee IC iron foundry filter 20% converted
- Selee SA super alloy filter 100% converted

Chairman and Chief Executive's statement

"The Board sees plenty of opportunity for 2011 and is optimistic about Porvair's development"

Charles Matthews
Chairman

Ben Stocks
Group Chief Executive

Overview

In 2010 Porvair made further progress against its strategic objectives and showed that it is recovering well from the economic upheaval of 2009 Revenues grew 15%, profits before income tax increased 82% and cash generation was strong, contributing to a significant reduction in debt We are pleased with improvements made across the business in the year and see further opportunities in 2011

Revenues in the year to 30 November 2010 were £63 6 million (2009 £55 2 million) Microfiltration revenues grew 11% to £40 4 million (2009 £36 5 million) and Metals Filtration revenues grew 24% to £23 2 million (2009 £18 7 million)

Operating profit increased 51% to £4 2 million (2009 £2 8 million, before exceptional items of £0 7 million) Profit before income tax was £3 1 million (2009 £1 7 million, before exceptional items of £0 7 million) and earnings per share were 5 2 pence (2009 2 7 pence per share, before exceptional items)

Cash generation was strong, net cash generated from operating activities was £6 9 million (2009 £4 5 million) Net debt at 30 November 2010 reduced by over 30% to £9 7 million (2009 £13 9 million)

These results show the benefit of Porvair's strategy, which has remained settled for several years Encouraging progress was made in 2010 Of particular note is

→ New product development Revenue attributable to next generation products made up 21% (2009 13%) of Group revenues The Metals Filtration division now has a patented product in each of its key market segments Seal Analytical introduced its first new product under Porvair's management in 2010 with more to come in 2011 Microfiltration secured a US$40 million multi-year contract for its aviation fuel tank inerting filter

→ Geographic expansion in support of key markets Record revenue (growth of 96%) was recorded at the Microfiltration division's US subsidiary Seal Analytical opened a sales and technical support office in Shanghai and further investment is being made in the Metals Filtration division's plant in Wuhan, China, where revenue more than doubled

Porvair's activities and strategy

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The Group manufactures principally in the UK, US, Germany and China Its sales are global

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

→ Develop filtration and environmental technology positions in markets where typically

- specialist design or engineering skills win business,
- regulation or quality accreditation requirements mandate product use,
- consumable products, which protect more costly downstream components, are often replaced as part of a maintenance routine,
- products, once designed into a specification, have very long lifecycles

→ Focus on selected markets which have good long term growth aviation, energy and industrial, environmental laboratory supplies and aluminium filtration

Delivering solutions – Driving long term growth

High quality filtration is a vital part of the smooth operation of the fuel, lubrication, hydraulic and air management systems in aircraft Filters contribute to the safety, long service life reliability and cost effective operation of many aircraft components

Over 15% of our business is in the design and manufacture of high quality aerospace filtration solutions One particular niche specialism is in filters to protect fuel tank inerting systems for passenger aircraft This is a new and growing line of business underpinned by an agreement signed in 2010 with Parker Hannifin for the supply of these filters expected to generate US$40 million over the next 10 years

We are helping to improve safety through new product development

Chairman and Chief Executive's statement continued

- → Invest consistently in specified new products In this statement these products are referred to as "new (or next) generation products"
- → 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

Operating review

Divisional performance – Microfiltration
Revenue at the Microfiltration division was £40 4 million (2009 £36 5 million), up 11% Operating profits were £5 5 million (2009 £5 3 million, before exceptional items of £0 3 million)

Aviation demand declined in the second half of 2009 and the early part of 2010 but recovered steadily in the second half of 2010, as predicted in the interim report As a consequence margins were compressed early in the year but recovered well in the second half Aviation order books going into 2011 are 18% higher than twelve months ago A significant contract with Parker Hannifin has been signed, against which Porvair has schedules worth US$40 million over the next 10 years The contract is for the supply of fuel tank inerting filters for aircraft safety systems which has been one of Porvair's next generation growth projects for several years End customers include Boeing, Airbus and other commercial manufacturers of aircraft with more than 30 seats Other aviation schedules also moved forward in the year, notably the V22 Osprey, which has developed slowly over the last ten years Porvair is specified in the V22 fuel and hydraulic system

Sales to nuclear and energy markets were again strong, growing over 70% in 2010 Porvair's long track record in both nuclear and gasification applications is an increasingly useful asset to the business Orders were shipped in 2010 for both new installation and replacement filters, notably for the Wabash River IGCC plant, which uses Conoco-Philips' Egas™ technology, with which we already have years of experience Levels of enquiry for 2011 are higher than they have been for some time, and although much work needs to be done to convert these to orders, the outlook is promising

The Microfiltration division's small US subsidiary recovered well in 2010, increasing revenue by 96% to a record level Building this business by extending our UK capabilities into the US market is an important part of our growth plans for the future Investments in plant and equipment have been made in 2010 and sales resources have been increased Necessary ISO 9001 and AS9100 quality certifications have been awarded

Sales to environmental laboratories are largely made through Seal Analytical, which performed well, posting revenue and profits in line with a very strong 2009 Since its acquisition in 2008 we have been concentrating on re-invigorating Seal's installed base and improving its record of new product development, both of which improved significantly in 2010 New products have been launched, and more will follow in 2011 Reconnecting with the installed base allows us to provide consumables and system upgrades to existing users and the number of such customers now active has doubled over the course of the year Seal's main European plant in Germany was moved to upgrade its laboratory and development facilities A sales, procurement and technical support office was opened in Shanghai Plant upgrades were made in the UK to increase the capability and cleanliness of our BioVyon porous plastics and laboratory consumables manufacture

Divisional performance – Metals Filtration
Revenue at the Metals Filtration division was £23 2 million (2009 £18 7 million), a 24% increase Operating profits recovered to £0 5 million (2009 loss of £1 2 million, before exceptional items of £0 4 million) Modest losses were recorded at the new plant in Wuhan, China, however the division as a whole remains very cash generative

Whilst the Board is pleased with progress in this division, it notes that operating margins will not fully recover until revenue in its operating currency returns to levels last seen in 2007 and 2008 Revenue in 2010 remained 20% below 2008 As reported at the

Delivering solutions – Driving long term growth

Two of our most important energy market product groups are filters for facilities that reprocess nuclear waste and filters that separate ash from "syn gas" (synthetic natural gas) in gasification plants

A renewed commitment to deal with the world's historic legacy of nuclear waste is bringing alternative solutions to clean up the waste Porvair specialises in providing this type of bespoke filtration solution In 2010 we delivered filters for a plant that concentrates liquid waste into a manageable form and a plant that converts weapons grade plutonium into fuel for nuclear power stations

In the gasification market, we have over ten years experience of providing the Conoco-Philips E-gas™ technology with dry char removal filters Filter design improvements have increased their life to 16,000 hours and progressively increased the time between in-situ cleaning thereby eliminating plant outages relating to the filtration systems

We are deploying our emissions control solutions to benefit the environment

Chairman and Chief Executive's statement continued

interim stage, the Board has started a programme of remodelling this division around its three patented next generation products Selee CSX™ (aluminium), Selee IC (iron foundry), and Selee SA (super alloys) Plans are well advanced to transfer the production of certain other products to Wuhan, China This will underpin further margin improvements in 2011

The patented products have performed well in 2010 Almost all existing customers have switched to the Selee CSX™ aluminium cast house filter and Porvair has over 50% share of this market We supply over 90% of Alcoa's requirements worldwide and have won competitive accounts steadily throughout 2010, with the cleaner environmental footprint and higher filtration efficiency of the CSX™ product Sales resources were increased in Europe Patents were awarded for the new Selee IC foundry filter early in the year and customer conversions are now at 20% The new filter offers improved performance and uses commonly found raw materials that are less subject to raw material price variation The patented Selee SA super alloy filter has been in full use for two years and is performing well

Dividend and financing

Cash generated from operations was £8 1 million (2009 £6 0 million) Operating cash from trading was helped by a programme to reduce work-in-progress inventory Moreover, capital investment in the year was lower than average After interest and tax, net cash generated from operating activities was £6 9 million (2009 £4 5 million) Net debt at 30 November 2010 was £9 7 million (2009 £13 9 million) Over the last two years net debt has reduced by £7 0 million

The Directors recommend an improved final dividend of 1 3 pence (2009 1 25 pence) making a full year dividend of 2 3 pence (2009 2 25 pence)

Staff

Porvair has shown in 2010 that it has weathered the economic storms of 2009 and emerged as a stronger business This is due to the dedication and expertise of our staff The Directors are pleased to acknowledge this effort and pay tribute to the hard work that has been involved

Current trading and outlook

Porvair made good progress in 2010 and there is opportunity for more in 2011 The Metals Filtration division will benefit from changes afforded by the development of its operation in China and the better margins generated from its patented products The Microfiltration division has a firm aviation order book and a full pipeline of opportunities in nuclear and gasification markets Its US subsidiary is set for further growth with a larger sales team and improved manufacturing capabilities Seal Analytical has more new products to launch in the year ahead, and will benefit further as it reconnects with its installed base of customers

2011 has started well with revenues in December and January ahead of the prior year and the momentum in the second half of 2010 carrying forward into 2011 Order books are healthy Provided the general economic situation remains as it is, the Board sees plenty of opportunity for 2011 and is optimistic about Porvair's development

Charles Matthews, Chairman
Ben Stocks, Group Chief Executive

24 January 2011

Delivering solutions – Driving long term growth

Porvair is steadily expanding its geographic reach, particularly in Asia We have Metals Filtration and Microfiltration operations in China

We provide aluminium cast house, iron foundry and steel foundry solutions from our manufacturing base in Wuhan 2011 will see further significant investment in these facilities

Our Seal water analysis business has a high market share in water analysis equipment in Chinese environmental laboratories In support of our Asian customers in 2010 we opened a procurement, technology and methods development facility in Shanghai China will continue to be an important market for our products

We are extending our global reach to deliver future growth

Finance Director's review

"Cash generated from operations was £8 1 million Reductions in working capital of £1 5 million continued the progress made in 2009 and resulted in operating cash flow exceeding operating profits for the year"

Christopher Tyler
Group Finance Director

Group operating performance

Group revenues were £63 6 million (2009 £55 2 million) and operating profit was £4 2 million (2009 £2 8 million, before exceptional items of £0 7 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 The operating loss associated with the Other Unallocated segment was £1 8 million (2009 £1 3 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 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	2010	2009
Revenue growth	15%	1%
Revenue growth – Metals Filtration (US dollars)	24%	(32)%
Revenue growth – Microfiltration	11%	13%
Revenue from new generation products	21%	13%
Operating margin – Group (before restructuring in 2009)	7%	5%
Operating margin – Metals Filtration (before restructuring in 2009)	2%	(6)%
Operating margin – Microfiltration (before restructuring in 2009)	14%	14%
Profit before tax growth (before restructuring in 2009)	82%	(59)%
Earnings per share growth (before restructuring in 2009)	93%	(61)%
Interest cover (before restructuring in 2009)	4 times	3 times
Net debt to EBITDA ratio	1 5 times	2 9 times
Gearing	24%	38%
ROCE (before restructuring in 2009)	6%	3%

"Revenue from new generation products" has now reached more than 20% of the total revenue for the Group and these products are now central to the business This metric will be redefined in future periods to report only on the latest product developments

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 55 £ (2009 \$1 55 £), so there was very little currency impact on the retranslation of the Metals Filtration operations, compared with 2009 The Group's European operations were translated at €1 16 £ (2009 €1 12 £) holding back the performance of the Microfiltration division by a small amount compared with 2009 The Group sold forward the majority of its UK business's 2010 US dollar revenue at the start of the financial year and achieved rates of \$1 58 £ (2009 \$1 5 £) on that revenue This held back the performance of the Microfiltration division by approximately £0 3 million compared with the rates achieved in 2009

Finance costs

Net interest payable remained consistent at £1 0 million (2009 £1 0 million) Included within interest payable are finance costs in relation to the defined benefit pension scheme, which increased to £0 4 million (2009 £0 3 million) in the year Although the year end net debt position is significantly lower than the previous year, the interest cost is in line with the prior year The higher banking facility margin, renegotiated in June 2009, had a full year's impact in 2010

The Group has a policy of maintaining between 40% and 60% of its borrowings on fixed interest terms It achieves this profile by taking out interest rate swaps to fix the interest rates on certain of its borrowings These provide some protection for the

Delivering solutions – Driving long term growth ➔

Porvair generated 21% of its revenue from its new generation products in 2010 This demonstrates the benefit of consistent investment in product introductions and innovations

In 2010 the patent was approved for our new iron foundry filter and we began converting our customers to the new product, we introduced the AQ1 discrete water analysis instrument and upgraded the AQ2 instrument, we completed the design work and began selling the fuel tank inerting filter for Airbus, and filters for the V22 Osprey

For the future design work is underway on, inter alia, filters for Airbus A350, HEPA grade nuclear filters, new continuous flow water analysis instruments and components, an epigenetic test kit, ultra clean medical grade porous plastics and a range of upgrades to our Selee CSX™ molten aluminium filter and Selee SA super alloy filters

We are developing innovative solutions that help make a difference

Finance Director's review continued

Group in the event of interest rate rises or another spike in LIBOR such as occurred in late 2008 The contracts in place are summarised below

Fixed rate	Principal amount	Principal terms
In place throughout 2010		
2 21%	$5 million	Matured on 12 December 2010
2 43%	$5 million	Matures on 12 December 2011
3 03%	£3 million	Reducing by £1 million on each of 30 November 2010, 2011 and 2012
Taken out in 2010		
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 4 times (2009 3 times before exceptional items)

Tax
The Group tax charge was £1 0 million (2009 £0 6 million on profits before exceptional items) This is an effective rate of 31% (2009 34% before exceptional items), higher than the standard corporate tax rate of 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 7 million (2009 £1 2 million before exceptional items) and a deferred tax charge of £0 3 million (2009 credit of £0 6 million before exceptional items) The Group carries a deferred tax asset in relation to the past losses in its US operations and the deficit on the pension fund 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 2010 was £40 5 million (2009 £36 4 million), an increase of 11% over the prior year Total equity increased by the profit after tax of £2 2 million and by an actuarial gain in the pension scheme of £2 3 million net of tax and smaller movements in relation to exchange retranslation and share based payments Dividends paid of £0 9 million reduced total equity

Cash flow
Cash generated from operations was £8 1 million (2009 £6 0 million) Reductions in working capital of £1 5 million (2009 £1 3 million) continued the progress made in 2009 and resulted in operating cash flow exceeding operating profits for the year Receivables and payables both increased due to revenue growth particularly in a strong final quarter Inventories, however, continue to be held under tight control and were reduced by a further £0 7 million (2009 £1 5 million)

Net interest paid was £0 7 million (2009 £0 9 million), in line with the bank interest charged in the year Tax paid was £0 6 million (2009 £0 6 million), broadly in line with the current tax charge

Capital expenditure was £1 3 million (2009 £1 2 million) The principal investments in 2010 were to upgrade facilities within the Microfiltration division

Borrowings and bank finance
At the year end, the Group had net borrowings of £9 7 million (2009 £13 9 million) comprising gross borrowings of £15 5 million (2009 £17 1 million) and finance lease obligations of £0 1 million (2009 £0 2 million) offset by cash balances of £5 9 million (2009 £3 4 million) Borrowings of £9 6 million (2009 £9 1 million) (US$15 0 million) are held in US dollars and the modest strengthening of the US dollar relative to Sterling was the principal component in the increase in net debt of £0 3 million, relating to exchange movements

Banking facilities were renegotiated on slightly improved terms in the year to extend the facilities out to December 2013 The Group has adequate facilities and operating headroom under these facilities At 30 November 2010 the Group had fully drawn down its borrowing facilities but had an unutilised overdraft facility of £2 5 million (2009 £1 5 million) and cash balances of £5 9 million (2009 £3 4 million)

Since the year end, the Group has 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 1.5 times (2009: 2.9 times). The Group's gearing ratio (net debt as a percentage of total equity) reduced to 24% (2009: 38%).

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

At the year end, the Group had US$15.0 million (2009: US$15.0 million) of US dollar borrowings exposure which hedged underlying US net tangible assets on the balance sheet of US$27.5 million (2009: US$24.0 million).

The Group finances its operations 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 £5.6 million (2009: £8.6 million). The reduction in the deficit arose principally from an actuarial gain in the year of £3.1 million (2009: loss of £4.9 million), comprising a gain in the value of the assets of £0.7 million and a gain arising on changes in financial and demographic assumptions of £2.4 million. £2 million of the gain relates to the adoption of a changed basis for statutory minimum pension increases in line with statutory orders published by the Government.

The life expectancy of members of the scheme at age 65 is assumed to be 19.5 years (2009: 19.7 years) for men and 22.1 years (2009: 22.6 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 contribution towards the running costs of the scheme 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 increasing by 5% per annum from December 2013. The funding shortfall is expected to be eliminated by December 2027. The next full actuarial valuation of the scheme will be based on the pension scheme's position at 31 March 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 markets 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 non-ferrous metals 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 relatively stable 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

Finance Director's review continued

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

The Group operates from a number of production facilities, the largest of which generates 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, 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 borrowings 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 performance of the business against the covenant restrictions on its borrowings

Treasury and exchange rate risks
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
24 January 2011

Board of Directors

Executive Directors

1 Ben Stocks (48), Group Chief Executive
Joined the Group in February 1998 He was previously UK Managing Director of the Speciality Packaging Division of Carnauld Metal Box He holds an MBA from INSEAD

2 Christopher Tyler (48), 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* (66), 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* (57), 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* (59)
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 and Brintons Limited He was previously Chief Executive of McKechnie plc and South Wales Electricity plc

* Denotes independent Non-Executive Director

Board committees, Secretary and advisers

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

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

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

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

Company registration number
1661935

Statutory auditors
PricewaterhouseCoopers LLP
Abacus House
Castle Park
Cambridge CB3 0AN

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

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

Directors' report

The Directors are pleased to present their Annual Report and the audited accounts of the Group for the year ended 30 November 2010

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 £2 2 million (2009 profit of £0 7 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 13 to 15 and in the financial risk management section below

Dividends
An interim dividend of 1 0 penny per share (2009 1 0 penny per share) was paid on 10 September 2010 The Directors recommend the payment of a final dividend of 1 3 pence per share (2009 1 25 pence per share) on 10 June 2011 to shareholders on the register on 6 May 2011, the ex-dividend date is 4 May 2011 This makes a total dividend for the year of 2 3 pence per share (2009 2 25 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, Charles Matthews and Ben Stocks retire by rotation and offer themselves for re-election

The appointment and replacement of Directors is governed by the Articles of Association, the Companies Act 2006, the Combined Code (2008) and related regulation and legislation applying to UK listed companies The Articles of Association 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 28

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 24 to 27 None of the Directors had a material interest in any contract of significance in relation to the Company or its subsidiaries during the year

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

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 7 million (2009 £2 7 million), £2 7 million (2009 £2 5 million) was written off to the income statement and £nil (2009 £0 2 million) was capitalised as an intangible fixed asset The expenditure is of a development nature and is largely undertaken in-house rather than by third parties In accordance with International Accounting Standard (IAS) 38, 'Intangible Assets', development expenditure is largely written off as incurred but where a product has, 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 There were no changes in the Company's issued share capital during the year

Further details of the share capital of the Company are given in note 22 to the financial statements on pages 56 to 58

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

Directors' report continued

of the Articles of Association and prevailing regulation and legislation governing UK listed companies The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on voting rights No person has special rights of control over the Company's share capital

Each year the Board seeks shareholder approval to renew the Board's authority to allot relevant securities

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

Substantial shareholders
As at 24 January 2011, 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	7,520,898	17 88
M&G Group Limited	6,080,987	14 45
Impax Environmental plc	4,444,531	10 56
Aviva Investment Management	4,013,518	9 54
Cavendish Asset Management	1,849,000	4 39
Standard Life	1,793,678	4 26
Gartmore Investment Management	1,420,500	3 38

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 28 to 30, which forms part of this report

Employment policies
The Group's employment policies are described in the Corporate and social responsibility report on pages 22 and 23

Donations
The Group made a number of charitable donations totalling £15,000 (2009 £14,000) during the year Substantially all charitable donations were made to local charities operating in Hendersonville, North Carolina In accordance with Company policy, no political donations were made in the year (2009 £nil)

Annual General Meeting
The Annual General Meeting of the Company is to be held on Tuesday 5 April 2011 The notice for this meeting and proxy forms have been sent to shareholders separately

Resolutions 4 and 5 – Re-election of Charles Matthews and Ben Stocks as Directors
The Articles of Association require certain of the Directors to retire by rotation at each Annual General Meeting At the Meeting, Charles Matthews and Ben Stocks will retire and offer themselves for re-election Resolutions 4 and 5 propose their re-election Brief biographies of the Directors are set out on page 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 £321,667, being an amount equal to one third of the Company's issued share capital as at 24 January 2011 and the amount of all outstanding options As at 24 January 2011, 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 £280,491, being an amount equal to one third of the Company's issued share capital as at 24 January 2011 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 13 April 2010

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 £42,073 (being 5% of the Company's issued ordinary share capital as at 24 January 2011) 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 24 January 2011 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 13 April 2010 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 2,058,810 ordinary shares have been granted and are outstanding as at 24 January 2011 (being the latest practicable date prior to publication of this document) which if issued would represent 4 7% 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 24 January 2011 would represent 5 2% 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 of Association of the Company and the Companies Act 2006 However, pursuant to the EU Shareholders' Rights Directive and in accordance with published guidance from the Department 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 13 April 2010

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 2010 were 43 days (2009 42 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,

Directors' report continued

- 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' 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 investments

The Group seeks to minimise its exposure to the impact of exchange rate movements on its net investments and seeks to maintain borrowings in US dollars equivalent to around 60% of the carrying value of its US dollar net tangible assets in its US operations

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

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

Liquidity risk

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

Price risk

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

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

Interest rate cash flow risk
The Group has both interest bearing assets and interest bearing liabilities Interest bearing assets include only a commercial loan, which earns interest at a fixed rate The Group maintains between 40% and 60% of its borrowings at a fixed interest rate The Directors will revisit the appropriateness of this policy should the Group's operations change in size or nature

Going concern
After having made appropriate enquiries, including a review of the Group's budget for 2011, its medium term plans and taking into account the banking facilities available until December 2013, the Directors of Porvair plc have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing these accounts

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

By order of the Board

C.P Tyler

Christopher Tyler, Company Secretary
24 January 2011

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

The Group involves employees through both formal and informal systems of communication and consultation Managers have a responsibility to communicate effectively and to promote a better understanding by employees of the activities and performance of the Group Employee consultative committees regularly meet to ensure that management 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, 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 During the year the Group has not had any accidents in its operations resulting in lost days from the workplace

Upgrades to Group facilities in the year have included

- a refurbishment of the Group's bioscience production facilities including enhanced dust and airborne containment and capture, improved flooring, better gangways and exit routes, greatly improved lighting and more organised storage with inventory handling equipment, and

- a new laboratory for the Seal German operation specified to the highest safety standards installed as part of the facilities move

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-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 expect all employees, agents, intermediaries and consultants to conduct themselves in accordance with our 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 Combined Code on Corporate Governance published in June 2008 (the "Combined Code") 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 2011

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

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 Combined Code and the Articles of Association at the Annual General Meeting in common with the Executive Directors They do not participate in any share option scheme, bonus or pension arrangements

Annual bonus

Bonus payments to Executive Directors are made at the discretion of the Committee with reference to individual performance, the achievement of Group profit targets and total shareholder returns When triggered, they are cash payments made annually in arrears and are not pensionable Awards are capped at 50% of base salary Bonuses to be paid in 2011 relating to the Group's profit targets in 2010 are shown in the table of Directors' remuneration on page 25

This part of the Report of the Remuneration Committee is audited

Pension entitlements

The Porvair plc Pension and Death Benefit 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 Porvair plc Pension and Death Benefit 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 Porvair plc Pension and Death Benefit Plan Ben Stocks and Christopher Tyler are covered by the Group's permanent health insurance scheme

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

	Accrued pension at 30 November 2010 £ 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 2010 £	Transfer value of accrued pension at 30 November 2009 £	Increase in transfer value in respect of accrued pension over the year net of Director's contributions £
B D W Stocks	21,211	1,649	749	140,934	114,892	18 626

The Company paid £19,178 (2009 £19 476) to a SIPP for Ben Stocks and £25,650 (2009 £26,238) to a SIPP plan for Christopher Tyler in respect of the financial year 2010

Directors' remuneration

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

2010	Basic salary and fees £ 000	Bonus £ 000	Benefits £ 000	Total 2010 £ 000
Executive Directors				
B D W Stocks	251	113	23	387
C P Tyler	175	79	20	274
Non-Executive Directors				
M R B Gatenby	27	–	–	27
C L Matthews	68	–	–	68
A J Walker	27	–	–	27
	548	192	43	783

2009	Basic salary and fees £ 000	Bonus £ 000	Benefits £ 000	Total 2009 £ 000
Executive Directors				
B D W Stocks	251	–	22	273
C P Tyler	175	–	19	194
Non-Executive Directors				
M R B Gatenby	26	–	–	26
C L Matthews	67	–	–	67
A J Walker	26	–	–	26
	545	–	41	586

Benefits include company cars, 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 2009 (number)	Granted/ (lapsed) in the year (number)	At 30 November 2010 (number)	Exercise price	Scheme	Grant date	Date from which exercisable	Expiry date
B D W Stocks	70,000	(70,000)	–	111 00p	1997		28/01/2006	28/01/2010
	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)	–	138 00p	2005		02/02/2010	02/02/2017
	100,000		100,000	114 00p	2005		10/03/2011	10/03/2018
	452,166	(452,166)	–	2 00p	LTSP2008		10/04/2011	10/04/2018
	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	28/01/2010	28/01/2013	28/01/2020
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)	–	138 00p	2005		02/02/2010	02/02/2017
	50,000		50,000	114 00p	2005		10/03/2011	10/03/2018
	315,207	(315,207)	–	2 00p	LTSP2008		10/04/2011	10/04/2018
	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	28/01/2010	28/01/2013	28/01/2020

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

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

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

a) in the financial year ending 30 November 2010 the Group has achieved earnings per share of at least 11 6 pence per share, and

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

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

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 at least 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 at least 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

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

Options were granted in 2007 and 2008 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 2010 was 93 5 pence (2009 45 pence)

The range of market prices during the year was 51 pence to 96 5 pence

The Directors did not exercise any share options in the year ended 30 November 2010

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 three years to 24 January 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

Directors' interests

The beneficial interests at 30 November 2010 and 30 November 2009 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

	2010		2009	
	Ordinary shares (number)	Share options (number)	Ordinary shares (number)	Share options (number)
Executive Directors				
B D W Stocks	**103,185**	**961,750**	100,283	1,283,916
C P Tyler	**39,000**	**621,750**	24,000	786,957
Non-Executive Directors				
M R B Gatenby	**14,000**	**–**	14,000	–
C L Matthews	**10,000**	**–**	10,000	–
A J Walker	**29,274**	**–**	4,236	–

Andrew Walker, Chairman Remuneration Committee
24 January 2011

Corporate governance

Compliance
The following sets out the main principles of good governance in the Combined Code (2008) 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 Combined Code (2008) on Corporate Governance (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 1 6 of the Combined Code, however in accordance with the Articles of Association, one third of the Directors who have served throughout the year retire by rotation each year and, if eligible, may offer themselves for re-election at the Annual General Meeting All newly appointed Directors offer themselves for election at the first Annual General Meeting following their appointment

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

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

The Company maintains Directors' and Officers' liability insurance

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

The Board undertook a rigorous self assessment review during the year to consider its own performance The Senior Non-Executive Director maintains regular contact with the other Independent Non-Executive Directors and the Executive Directors, sufficient to monitor the performance of the Chairman 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 work done by the Group internal auditor in reviewing the operating companies' internal controls and procedures,
- made recommendations to the Board in relation to the appointment of the external auditor and approved the remuneration and terms of engagement of the external auditor,
- monitored the external auditor's independence and objectivity, 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 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's full terms of reference are available on the Group's website, **www porvair com** 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 24 to 27 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 of Association, to retire and seek election by the shareholders at the next AGM

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

Corporate governance continued

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

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

The Board has overall responsibility for ensuring that the Group maintains a system of internal control 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 the Group's internal auditor and the Group Finance Director The Group has a formal whistle blowing procedure which gives employees the opportunity to escalate their concerns, ultimately to the Senior Non-Executive Director

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 2009 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
24 January 2011

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 2010 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 pages 19 and 20, 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 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

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 2010 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, or
- a corporate governance statement has not been prepared by the parent company

Under the Listing Rules we are required to review

- the Directors' statement, set out on page 21 in relation to going concern, and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review

Other matter
We have reported separately on the parent company financial statements of Porvair plc for the year ended 30 November 2010 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
24 January 2011

Consolidated income statement

For the year ended 30 November	Note	2010 Total £ 000	2009 Before Exceptional items £ 000	2009 Exceptional items £ 000	2009 Total £ 000
Revenue	2	63,563	55,225	–	55,225
Cost of sales		(42,955)	(37,783)	–	(37,783)
Gross profit		20,608	17,442	–	17,442
Distribution costs		(780)	(724)	–	(724)
Administrative expenses		(15,665)	(13,953)	(662)	(14,615)
Operating profit/(loss)	2	4,163	2,765	(662)	2,103
Interest payable and similar charges	5	(1,225)	(1,115)	–	(1,115)
Interest receivable	5	191	68	–	68
Profit/(loss) before income tax	3	3,129	1,718	(662)	1,056
Income tax (expense)/credit	6	(961)	(577)	210	(367)
Profit/(loss) for the year attributable to shareholders	23	2,168	1,141	(452)	689
Earnings/(loss) per share (basic)	7	5 2p	2 7p	(1 1)p	1 6p
Earnings/(loss) per share (diluted)	7	5 2p	2 7p	(1 1)p	1 6p

There were no exceptional items recorded in the year ended 30 November 2010

Consolidated statement of comprehensive income

For the year ended 30 November	Note	2010 £ 000	2009 £ 000
Profit for the year		2,168	689
Other comprehensive income			
Exchange differences on translation of foreign subsidiaries	23	379	(872)
Changes in fair value of interest rate swaps held as a cash flow hedge	23	(25)	(245)
Actuarial gains/(losses) in defined benefit pension plans net of tax	23	2,263	(3,528)
Net other comprehensive income/(expense)		2,617	(4,645)
Total comprehensive income/(expense) for the year attributable to shareholders of Porvair plc		4,785	(3,956)

Consolidated balance sheet

Company registered number 1661935

As at 30 November	Note	2010 £ 000	2009 £ 000
Non-current assets			
Property, plant and equipment	9	**8,659**	8,872
Goodwill and other intangible assets	10	**37,916**	37,634
Deferred tax asset	19	**1,652**	2,664
Other receivable	11	**-**	1,431
		48,227	50,601
Current assets			
Inventories	13	**7,727**	8,335
Trade and other receivables	14	**11,330**	8,865
Derivative financial instruments	12	**–**	100
Cash and cash equivalents	15	**5,897**	3,384
		24,954	20,684
Current liabilities			
Trade and other payables	16	**(10,402)**	(7,945)
Current tax liabilities		**(777)**	(735)
Bank overdrafts and loans	17	**(2,344)**	(582)
Finance lease liabilities	18	**(34)**	(142)
Derivative financial instruments	12	**(284)**	(245)
		(13,841)	(9,649)
Net current assets		**11,113**	11,035
Non-current liabilities			
Bank loans	17	**(13,188)**	(16,530)
Finance lease liabilities	18	**(6)**	(40)
Retirement benefit obligations	20	**(5,594)**	(8,606)
Provisions for other liabilities and charges	21	**(71)**	(65)
		(18,859)	(25,241)
Net assets		**40,481**	36,395
Capital and reserves			
Share capital	22	**841**	841
Share premium account	22	**34,024**	34,024
Cumulative translation reserve	23	**802**	423
Retained earnings	23	**4,814**	1,107
Total equity		**40,481**	36,395

The financial statements on pages 32 to 62 were approved by the Board of Directors on 24 January 2011 and were signed on its behalf by

B D W Stocks

C P Tyler C. P. Tyler

Consolidated cash flow statement

For the year ended 30 November	Note	2010 £ 000	2009 £ 000
Cash flows from operating activities			
Cash generated from operations	24	8,142	6,016
Interest received		156	61
Interest paid		(886)	(997)
Tax paid		(556)	(564)
Net cash generated from operating activities		6,856	4,516
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(1,269)	(928)
Purchase of intangible assets	10	(65)	(267)
Net cash used in investing activities		(1,334)	(1,195)
Cash flows from financing activities			
Repayment of borrowings		(1,945)	(1,286)
Dividends paid to shareholders	8	(947)	(947)
Capital element of finance leases		(142)	(151)
Net cash used in financing activities		(3,034)	(2,384)
Net increase in cash and cash equivalents		2,488	937
Effects of exchange rate changes		25	(54)
		2,513	883
Cash and cash equivalents at 1 December		3,384	2,501
Cash and cash equivalents at 30 November	15	5,897	3,384

Reconciliation of net cash flow to movement in net debt

	2010 £ 000	2009 £ 000
Net increase in cash and cash equivalents	2,488	937
Effects of exchange rate changes	(340)	446
Repayment of borrowings	1,945	1,286
Repayment of finance leases	142	151
Net debt at 1 December	(13,910)	(16,730)
Net debt at 30 November	(9,675)	(13,910)

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 2008	841	34,024	1,295	5,024	41,184
Profit for the year	–	–	–	689	689
Other comprehensive income/(expense)					
Exchange differences on translation of foreign subsidiaries	–	–	(872)	–	(872)
Changes in fair value of interest rate swaps held as a cash flow hedge	–	–	–	(245)	(245)
Actuarial (losses) in defined benefit pension plans net of tax	–	–	–	(3,528)	(3,528)
Total comprehensive (expense) for the year	–	–	(872)	(3,084)	(3,956)
Employee share options scheme					
– Value of employee services net of tax	–	–	–	114	114
Dividends approved or paid	–	–	–	(947)	(947)
Balance at 30 November 2009	841	34,024	423	1,107	36,395
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
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

Notes to the consolidated financial statements

1 Summary of significant accounting policies

Porvair 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, 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 64 to 70

The financial statements have been prepared under the historical cost convention as modified by 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

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 cost of capital), 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 at that date

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

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

1 Summary of significant accounting policies continued

Leasing

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

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

Foreign currencies

The consolidated financial statements are presented in Pounds Sterling, which is the Company's functional and 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 Such translation differences are recognised as income or expenditure in the period in which the operation is disposed of

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

Borrowing costs

All borrowing costs are typically recognised in profit or loss in the period in which they are incurred Borrowing costs incurred in arrangement of new facilities are 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

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

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 charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

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

Property, plant and equipment
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 property 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 properties 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,
- 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

1 Summary of significant accounting policies continued

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)

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

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

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

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

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
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

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

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

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

Share based payments
The Group has applied the requirements of IFRS 2, "Share based 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

At each balance sheet date, the entity 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 individually or, if of a similar type, in aggregate, need to be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance

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 2010
IAS 1 (Revised), 'Presentation of financial statements' The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes to equity' to be presented separately from owner changes in equity All 'non-owner changes in equity' are required to be shown in a performance statement

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income)

The Group has elected to present two statements a consolidated income statement and a consolidated statement of comprehensive income The financial statements have been prepared under the revised disclosure requirements Comparative information has been re-presented so that it also conforms with the revised standard

IFRS 8, 'Operating segments' IFRS 8 replaces IAS 14 Segment reporting' It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes See Note 2 for further details

IAS 23 (Revised), 'Borrowing costs' A result of the joint short-term convergence project with the FASB, this new standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset The option of immediately expensing those borrowing costs has been removed

1 Summary of significant accounting policies continued

IFRS 3 (Revised), 'Business combinations' The revision to this standard changes accounting for business combinations While the acquisition method is still applied, there are significant changes to the treatment of contingent payments, transaction costs and the calculation of goodwill This could impact the Group financial statements in future if it makes acquisitions

Amendment to IFRS 7, 'Financial instruments Disclosures' The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities

See Note 25 for further details The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments

Amendment to IFRS 2, 'Share based payment' This clarifies what events constitute vesting conditions and also specifies that all cancellations, whether by the Group or by another party, should receive the same accounting treatment This has not resulted in a material impact on the Group's financial statements

IFRIC 16, 'Hedges of a net investment in a foreign operation' This interpretation clarifies certain areas in respect of net investment hedging This does not have a material impact on the Group or Company's financial statements

Amendment to IAS 39, 'Financial Instruments, Recognition and measurement on eligible hedged items' The Amendment makes two significant changes It prohibits designating inflation as a hedgable component of a fixed rate debt It also prohibits including time value in the one-sided hedged risk when designating options as hedges This does not have a significant impact on the Group's financial statements

The following effective standards, amendments and interpretations are not currently relevant to the Group

- **Amendment to IFRS 1, 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements'**
- **Amendment to IAS 32, 'Financial instruments Presentation', and IAS 1, 'Presentation of financial statements'**
- **IAS 27 (Revised), 'Consolidated and separate financial statements'**
- **Amendment to IFRIC 9 and IAS 39 regarding embedded derivatives**
- **IFRIC 12, 'Service concession arrangements'**
- **IFRIC 17, 'Distributions of non-cash assets to owners'**
- **IFRIC 18, 'Transfer of assets from customers'**

(b) Forthcoming accounting standards

Standards, amendments and interpretations that are not yet effective and have not been early adopted

- **IFRS 9, 'Financial instruments' on classification and measurement**
- **Amendment to IFRIC 14, 'Prepayments of minimum funding requirement'**
- **Amendment to IAS 24, 'Related party disclosures'**
- **Amendment to IAS 32 on classification of rights issues**
- **Amendment to IFRS 1 on first time adoption of IFRS additional exemptions**
- **Amendments to IFRS 2, Share-based payments group cash-settled transactions**
- **Amendments to IFRS 7 on derecognition**
- **Amendment to IAS 12, 'Income taxes' on deferred tax**
- **Amendments to IFRS 1, 'First time adoption' on hyperinflation and fixed dates**
- **IFRS 9, 'Financial instruments', on 'Classification and measurement' of financial liabilities**
- **IFRIC 15, 'Agreements for construction of real estates'**
- **IFRIC 19, 'Extinguishing financial liabilities with equity instruments'**

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

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 2010, the Group is organised on a worldwide basis into two operating segments

(1) Metals Filtration

(2) Microfiltration

Exceptional items in 2009 of £0 7 million related to restructuring and redundancy costs incurred in reorganising the Group's operations £0 4 million was incurred in Metals Filtration and £0 3 million was incurred in 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 2010 are as follows

30 November 2010	Note	Metals Filtration £ 000	Microfiltration £ 000	Other unallocated £ 000	Group £ 000
Revenue		23,177	40,386	–	**63,563**
Operating profit/(loss)		471	5,486	(1,794)	**4,163**
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**

The segment results for the year ended 30 November 2009 are as follows

30 November 2009	Note	Metals Filtration £ 000	Microfiltration £ 000	Other unallocated £ 000	Group £ 000
Revenue		18,696	36,529	–	55,225
Operating (loss)/profit before exceptional items		(1,210)	5,276	(1,301)	2,765
Exceptional items		(366)	(296)	–	(662)
Operating (loss)/profit		(1,576)	4,980	(1,301)	2,103
Finance costs	5	–	–	(1,047)	(1,047)
(Loss)/profit before income tax		(1,576)	4,980	(2,348)	1,056
Income tax expense		–	–	(367)	(367)
(Loss)/profit for the year		(1,576)	4,980	(2,715)	689

2 Segment information continued

Other segment items included in the income statement are as follows

30 November 2010	Note	Metals Filtration £ 000	Microfiltration £ 000	Other unallocated £ 000	Group £ 000
Depreciation and amortisation (tangible and intangible assets)	9 10	986	1,000	20	**2,006**

30 November 2009	Note	Metals Filtration £ 000	Microfiltration £ 000	Other unallocated £ 000	Group £ 000
Depreciation and amortisation (tangible and intangible assets)	9 10	972	1,005	14	1,991

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

30 November 2010	Note	Metals Filtration £ 000	Microfiltration £ 000	Other unallocated £ 000	Group £ 000
Segmental assets		25,873	38,061	3,350	**67,284**
Cash and cash equivalents	15	–	–	5,897	**5,897**
Total assets		25,873	38,061	9,247	**73,181**
Segmental liabilities		(2,767)	(6,805)	(1,962)	**(11,534)**
Retirement obligations	20	–	–	(5,594)	**(5,594)**
Borrowings	17 18	–	(40)	(15,532)	**(15,572)**
Total liabilities		(2,767)	(6,845)	(23,088)	**(32,700)**

The segment assets and liabilities at 30 November 2009 are as follows

30 November 2009	Note	Metals Filtration £ 000	Microfiltration £ 000	Other unallocated £ 000	Group £ 000
Segmental assets		25,153	38,646	2,671	66,470
Long term receivable	11	–	–	1,431	1,431
Cash and cash equivalents	15	–	–	3,384	3,384
Total assets		25,153	38,646	7,486	71,285
Segmental liabilities		(2,194)	(5,101)	(1,695)	(8,990)
Retirement obligations	20	–	–	(8,606)	(8,606)
Borrowings	17 18	–	(182)	(17,112)	(17,294)
Total liabilities		(2,194)	(5,283)	(27,413)	(34,890)

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

Segment liabilities comprise operating liabilities and include items such as taxation

Notes to the consolidated financial statements continued

2 Segment information continued

Geographical analysis

Revenue	2010 By destination £ 000	2010 By origin £ 000	2009 By destination £ 000	2009 By origin £ 000
United Kingdom	13,136	27,645	13,301	26,297
Continental Europe	8,744	6,548	8,047	6,860
United States of America	27,864	28,692	22,188	21,762
Other NAFTA	2,745	–	2,466	–
South America	1,177	–	802	–
Asia	8,519	678	7,026	306
Australasia	614	–	525	–
Africa	764	–	870	–
	63,563	63,563	55,225	55,225

Non-current assets	2010 £ 000	2009 £ 000
United Kingdom	18,902	19,243
Continental Europe	3,393	3,770
Americas	24,065	23,294
Asia	215	199
	46,575	46,506

Capital expenditure (including intangibles)	2010 £ 000	2009 £ 000
United Kingdom	557	381
Continental Europe	300	17
Americas	448	602
Asia	29	195
	1,334	1,195

No single customer represents 10% or more of the Group's revenue in 2010 or 2009

3 Profit before income tax

The following items have been included in arriving at operating profit

	2010 £ 000	2009 £ 000
Staff costs	19,570	18,560
Inventories – Cost of inventories recognised as an expense (included in cost of sales)	25,397	19,472
Net realised foreign exchange losses/(gains)	15	(306)
Depreciation on tangible fixed assets – owned	1,618	1,560
Depreciation on tangible fixed assets – leased	17	28
Amortisation of intangible fixed assets – owned	293	325
Amortisation of intangible fixed assets – leased	78	78
Loss on sale of tangible and intangible fixed assets	111	5
Other operating lease rentals payable		
– Plant and machinery	254	266
– Property	1,326	1,459
Repairs and maintenance on property, plant and equipment	1,045	827
Trade receivables impairment	40	163
Research and development expenditure	2,685	2,514
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	74
Other services pursuant to legislation	17	16
Tax services	91	104
	236	244

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 £12,000 (2009 £13,000)

4 Employee benefit expense

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

	2010 Average	2009 Average
Number		
Metals Filtration	143	145
Microfiltration	354	359
Head office	7	7
	504	511
North American employees included above	147	155

	2010 £ 000	2009 £ 000
Staff costs		
Wages and salaries	16,377	15,328
Social security costs	2,406	2,527
Other pension costs	674	581
Share based payments	113	124
	19,570	18,560

Detailed disclosures of Directors' emoluments and interests in share options are shown in the Report of the Remuneration Committee on pages 24 to 27

The Executive Directors comprise the key management and their remuneration is disclosed in note 27

Notes to the consolidated financial statements continued

5 Finance income and costs

	Note	2010 £ 000	2009 £ 000
Interest payable on bank loans and overdrafts		802	759
Interest payable on finance leases		14	43
Interest payable on loan notes		3	8
Unwinding of discount on provisions	21	6	5
Pension scheme finance expense	20	400	300
Interest receivable – long term receivable		(189)	(44)
Interest receivable – other		(2)	(24)
		1,034	1,047

6 Income tax expense

	Note	2010 £ 000	2009 £ 000
Current tax			
UK Corporation tax		395	398
Adjustment in respect of prior periods		(144)	33
Overseas tax		400	514
Deferred tax			
Origination and reversal of temporary differences – UK	19	(94)	(189)
Origination and reversal of temporary differences – Overseas	19	404	(389)
		961	367

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

	2010 £ 000	2009 £ 000
Profit before tax	3,129	1,056
Tax at the UK Corporation tax rate of 28% (2009 28%)	876	296
Tax adjustments in respect of prior periods	(144)	33
Deferred tax on share based payments within equity	(32)	(35)
Tax effect of expenses not deductible in determining taxable profit	101	26
Effect of change in deferred tax rates	4	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	156	47
Tax charge	961	367

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

	2010 £ 000	2009 £ 000
Deferred tax on share based payments	(135)	10
Deferred tax on actuarial gains/(losses) on the pension fund	837	(1,372)
	702	(1,362)

During the year, as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2011, deferred tax balances have been remeasured Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2011 is measured at 28% and deferred tax relating to temporary differences expected to reverse after 1 April 2011 is measured at the tax rate of 27% as these are the rates that will apply on reversal

7 Earnings per share

	2010			2009		
	Earnings £ 000	Weighted average number of shares	Per share amount (pence)	Earnings £ 000	Weighted average number of shares	Per share amount (pence)
Basic EPS						
Earnings before exceptional items	2,168		5 2	1,141		2 7
Exceptional items	–		–	(452)		(1 1)
Earnings attributable to ordinary shareholders	2,168	42,073,640	5 2	689	42,073,640	1 6
Effect of dilutive securities						
Earnings before exceptional items	2,168		5 2	1,141		2 7
Exceptional items	–		–	(452)		(1 1)
Dilutive impact of share options	–	1,958	–	–	–	–
Diluted EPS	2,168	42,075,598	5 2	689	42,073,640	1 6

8 Dividends per share

	2010		2009	
	Per share (pence)	£ 000	Per share (pence)	£ 000
Final dividend paid	1 25p	526	1 25p	526
Interim dividend paid	1 00p	421	1 00p	421
	2 25p	947	2 25p	947

The Directors recommend a final dividend of 1 3 pence for the financial year ended 30 November 2010 to be paid on 10 June 2011

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 2008	4,166	222	21,698	26,086
Reclassification	–	(456)	456	–
Additions	1	369	558	928
Disposals	–	–	(360)	(360)
Exchange differences	(160)	(9)	(803)	(972)
At 30 November 2009	4,007	126	21,549	25,682
Depreciation				
At 1 December 2008	(926)	–	(15,290)	(16,216)
Charge for year	(212)	–	(1,376)	(1,588)
Disposals	–	–	356	356
Exchange differences	67	–	571	638
At 30 November 2009	(1,071)	–	(15,739)	(16,810)
Net book value at 30 November 2009	2,936	126	5,810	8,872

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 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**

The net book value of plant, machinery and equipment includes £69,000 (2009 £86,000) held under finance leases (note 18)

10 Goodwill and other intangible assets

	Goodwill £ 000	Development expenditure capitalised £ 000	Software capitalised £ 000	Trademarks £ 000	Total £ 000
At 1 December 2008					
Cost	55,171	1,662	957	32	57,822
Accumulated amortisation and impairment	(18,570)	(272)	(373)	(3)	(19,218)
Net book amount	36,601	1,390	584	29	38,604
Year ended 30 November 2009					
Opening net book amount	36,601	1,390	584	29	38,604
Additions	–	229	38	–	267
Disposals	–	–	(1)	–	(1)
Amortisation charges	–	(196)	(200)	(7)	(403)
Exchange differences	(758)	(92)	13	4	(833)
Closing net book amount	35,843	1,331	434	26	37,634
At 30 November 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

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 £371,000 (2009 £403,000) is included in 'Cost of sales' in the income statement

The net book value of software capitalised includes £108,000 (2009 £186,000) held under finance leases (note 18)

Impairment tests for goodwill

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

A segment level summary of the goodwill allocation is presented below

	2010			2009		
	Metals Filtration £ 000	Microfiltration £ 000	Total £ 000	Metals Filtration £ 000	Microfiltration £ 000	Total £ 000
	14,977	**21,403**	**36,380**	14,295	21,548	35,843

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	7%	7%	7%	7%

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 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

If the revised estimated profit before tax at 30 November 2011 was 10% lower than management's estimates and the pre-tax discount rate applied to the cash flows was one percentage point higher than management's estimate, the Group would still not require any impairment against goodwill

11 Other receivable

	2010 £ 000	2009 £ 000
Long term receivable	–	1,431

	2010 £ 000	2009 £ 000
At 1 December	**1,431**	1,261
Reallocated to short term receivables	**(1,431)**	–
Exchange difference	–	141
Fair value restatement	–	29
At 30 November	–	1,431

The earliest contracted settlement date for the receivable was 31 December 2010 and this has now been received in January 2011

Notes to the consolidated financial statements continued

12 Derivative financial instruments

	2010 Assets £000	2010 Liabilities £000	2009 Assets £000	2009 Liabilities £000
Forward foreign exchange contracts – cash flow hedges – current	–	(14)	100	–
Interest rate swap agreements – cash flow hedges – current	–	(270)	–	(245)
	–	(284)	100	(245)

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 As a result, from 1 December 2005, the Group recognises all forward foreign exchange contracts and currency options on the balance sheet at fair value 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 2010 is £2 0 million (2009 £1 5 million) which mature in January 2011 and February 2011 The notional principal amount of the outstanding Euro forward exchange contract at 30 November 2010 is £0 3 million (2009 £0 3 million) which matures in February 2011

The Group has contracted interest rate swap agreements for US$10 million (2009 US$10 million) of its US borrowings During the year, the Group also entered into further interest rate swap agreements which extend the swap agreements at US$7 5 million from December 2011 until December 2013 The Group has also contracted interest rate swap agreements for £2 million (2009 £3 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

13 Inventories

	2010 £000	2009 £000
Raw materials	2,793	2,675
Work in progress	2,399	2,751
Finished goods	2,535	2,909
	7,727	8,335

The cost of inventories recognised as an expense and included in 'Cost of sales' amounted to £25,397,000 (2009 £19,472,000) The Group has recognised a provision of £420,000 (2009 £656,000) for the write-down of its inventories during the year ended 30 November 2010 The Group has utilised provisions of £143,000 (2009 £228,000) during the year ended 30 November 2010

14 Trade and other receivables

	2010 £000	2009 £000
Trade receivables	9,048	8,245
Less provision for impairment	(115)	(235)
Trade receivables – net	8,933	8,010
Other debtors	229	649
Other receivable (note 11)	1,378	–
Prepayments	790	206
	11,330	8,865

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

14 Trade and other receivables continued

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 £8,933,000 (2009 £8,010,000) 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 £1,465,000 (2009 £1,392,000) being past due but not impaired at the year end, of which £1,101,000 (2009 £837,000) are less than 30 days overdue

	2010			2009		
Trade receivables	Not yet due £ 000	Past due not impaired £ 000	Impaired £ 000	Not yet due £ 000	Past due not impaired £ 000	Impaired £ 000
Not yet due	7,361	–	–	6,603	–	–
0-3 months overdue	–	1,465	22	–	1,392	23
3-6 months overdue	–	107	56	–	15	71
>6 months overdue	–	–	37	–	–	141
Total	7,361	1,572	115	6,603	1,407	235

The Group has recognised a provision of £40,000 (2009 £163,000) within administrative expenses for the impairment of its trade receivables during the year ended 30 November 2010 The Group has utilised provisions for impaired receivables of £160,000 (2009 £172,000) during the year ended 30 November 2010

Foreign exchange risk in relation to trade receivables is disclosed in note 25

15 Cash and cash equivalents

	2010 £ 000	2009 £ 000
Cash at bank and in hand	5,897	3,384

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

	2010 £'000	2009 £ 000
Pounds Sterling	1,898	280
US dollar	2,297	2,195
Euro	1,429	831
Other	273	78
	5,897	3,384

16 Trade and other payables

	2010 £ 000	2009 £ 000
Amounts falling due within one year		
Trade payables	5,743	4,846
Taxation and social security	427	633
Accruals and deferred income	4,232	2,466
	10,402	7,945

Group

Notes to the consolidated financial statements continued

17 Borrowings

	2010 £ 000	2009 £ 000
Secured multi-currency revolving credit facility of US$15 million (2009 $Nil) maturing in December 2013 with interest at 2 95% above US dollar LIBOR	9,440	–
Secured multi-currency revolving credit facility of US$25 million maturing in July 2011 with interest at 2 95% above US dollar LIBOR	–	13,588
Secured five year amortising debt facility of £4 75 million (2009 £Nil) expiring in December 2013 with interest at 2 95% above LIBOR	4,655	–
Secured five year amortising debt facility of £1 875 million expiring in July 2013 with interest at 3 25% above LIBOR	–	1,863
Secured Euro revolving credit facility of Euro €1 6 million (2009 €1 6 million) maturing January 2011 with interest at 2 95% (2009 2 95%) above EURIBOR	1,337	1,461
Unsecured loan notes relating to the acquisition of Toolturn Engineering Limited	100	200
	15,532	17,112

Bank and other loans of the Group are repayable as follows	2010 £ 000	2009 £ 000
Within one year	2,344	582
One to two years	907	15,660
Two to five years	12,281	870
	15,532	17,112

The loans are shown net of issue costs of £287,000 (2009 £67,000) which are being amortised over the life of the loan arrangements On 28 June 2010, the Group renegotiated its banking arrangements and covenants resulting in a decrease in margin of 0 3% on the term loan facility and maintaining the previous margins on the revolving credit facilities The term and multi-currency revolving credit facilities have been extended until December 2013

At 30 November 2010, the Group had fully drawn-down borrowing facilities under the existing bank facility (2009 £1,646,000 unutilised facility) and an unutilised £2,500,000 (2009 £1,500,000) overdraft facility

The carrying values of bank borrowings approximate their fair value

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

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

The Group's borrowings are denominated in the following currencies

	2010 £ 000	2009 £ 000
Pounds Sterling	4,755	6,508
US dollar	9,440	9,140
Euro	1,337	1,464
	15,532	17,112

18 Finance lease liabilities

	2010 £ 000	2009 £ 000
Gross lease liabilities		
Within one year	38	156
Later than 1 year and less than 5 years	7	46
	45	202
Future interest	(5)	(20)
Present value of lease liabilities	40	182
Present value of lease liabilities are repayable as follows		
Within one year	34	142
Between 2 and 5 years	6	40
Total	40	182

The leases are secured on the assets to which they relate

19 Deferred tax asset

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

	Note	2010 £ 000	2009 £ 000
At 1 December		2,664	751
Exchange differences		–	(27)
Income statement (charge)/credit	6	(310)	578
Tax (charged)/credited to equity		(702)	1,362
At 30 November		1,652	2,664

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 2008	(1,017)	1,138	19	(415)	–	1,026	751
Credited/(charged) to income statement	82	586	(8)	(121)	35	4	578
(Charged)/credited to equity	–	–	–	–	(10)	1,372	1,362
Exchange differences	43	(99)	–	29	–	–	(27)
At 30 November 2009	(892)	1,625	11	(507)	25	2,402	2,664
(Charged)/credited to income statement	(216)	(195)	(11)	53	32	27	(310)
Credited/(charged) to equity	–	–	–	–	135	(837)	(702)
Exchange differences	(48)	75	–	(27)	–	–	–
At 30 November 2010	(1,156)	1,505	–	(481)	192	1,592	1,652

There were £1,149,000 (2009 £829,000) of unrecognised deferred tax assets at 30 November 2010 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 2010 (2009 £Nil)

Group

Notes to the consolidated financial statements continued

20 Retirement benefit obligations

	2010 £ 000	2009 £ 000
Defined benefit scheme deficit	**5,448**	8,453
Additional pension commitments	**146**	153
	5,594	8,606

The additional pension commitments arise out of contractual commitments to certain employees which have fallen outside the scope of the defined benefit plan deficit These liabilities will crystalise between two and 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 2010 this amounted to £159,000 (2009 £144,000) In 2010 the Group also made payments of £72,000 (2009 £15,000) to designated US 401k schemes on behalf of its employees

In the UK, after the closure of the defined benefit plan to new members, the Group introduced a stakeholder plan to be offered to all new employees Total employer contributions in the UK to defined contribution schemes were £259,000 (2009 £241,000)

b) Defined benefit plan
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

The principal actuarial assumptions adopted in the 2009 valuation were	2009 valuation assumptions %	2006 valuation assumptions %
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 (2009 £200,000), the funding via employer contributions was £505,000 (2009 £487,000)

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 2010

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

	2010	2009	2008
Valuation method	**Projected Unit**	Projected Unit	Projected Unit
Discount rate	**5 4%**	5 5%	6 8%
RPI inflation rate	**3 2%**	3 3%	3 2%
CPI inflation rate	**2 5%**	n/a	n/a
General salary increases	**3 2%**	3 3%	4 2%
Rate of increase of pensions in payment	**2 5%**	3 3%	3 2%
Rate of increase for deferred pensioners	**2 5%**	3 3%	3 2%

20 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 (2009 1 5% per annum for 10 years then 1% per annum thereafter) The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is 19 5 (2009 19 7) for men and 22 1 (2009 22 6) for women

The Group has adopted CPI inflation as the basis for statutory minimum pension increases in line with Plan rules to adopt statutory orders published by the Government This is estimated to have reduced liabilities by £2 million as at 30 November 2010

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

	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	Long term expected rate of return at 30 November 2006	Value at 30 November 2006 £ 000
Equities	8 2%	10,300	8 1%	9,800	8 4%	8,100	8 0%	12,200	7 8%	12,100
Bonds	5 4%	8,000	5 5%	7,500	4 4%	6,360	4 6%	6,800	4 4%	6,600
Other	3 9%	52	4 0%	47	4 4%	–	4 6%	68	4 3%	268
Fair value of plan assets		18,352		17,347		14,460		19,068		18,968
Present value of funded obligations		(23,800)		(25,800)		(18,000)		(20,700)		(23,000)
Deficit in the Plan (excluding deferred tax)		(5,448)		(8,453)		(3,540)		(1,632)		(4,032)

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

	2010 £ 000	2009 £ 000	2008 £ 000
Deficit at 1 December	(8,453)	(3,540)	(1,632)
Contributions paid	505	487	492
Current service cost	(200)	(200)	(300)
Other finance (expense)/income	(400)	(300)	100
Actuarial gains/(losses)	3,100	(4,900)	(2,200)
Deficit at 30 November	(5,448)	(8,453)	(3,540)

The reconciliation of plan assets during the year is as follows

	2010 £ 000	2009 £ 000
Market value at the start of the year	17,347	14,460
Benefit payments	(1,300)	(1,300)
Company contributions	505	487
Member contributions	100	100
Expected return on assets	1,000	900
Actual return on assets in excess of expected return	700	2,700
Plan assets at the end of the year	18,352	17,347

The reconciliation of plan liabilities during the year is as follows

	2010 £ 000	2009 £ 000
Plan liabilities at the start of the year	(25,800)	(18,000)
Current service cost	(200)	(200)
Interest cost	(1,400)	(1,200)
Member contributions	(100)	(100)
Benefits paid	1,300	1,300
Gains/(losses) on change in financial and demographic assumptions	2,400	(7,600)
Plan liabilities at the end of the year	(23,800)	(25,800)

Notes to the consolidated financial statements continued

20 Retirement benefit obligations continued

Income statement	2010 £ 000	2009 £ 000
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	(1,400)	(1,200)
Expected return on assets in the Plan	1,000	900
Net amount (charged) to other finance income and costs	(400)	(300)
Total chargeable to the income statement before deduction of tax	(600)	(500)
Other items		
Analysis of amounts recognised in the consolidated statement of comprehensive income		
Actual return on assets in excess of expected return	700	2,700
Gains/(losses) on change in financial and demographic assumptions	2,400	(7,600)
Total actuarial gain/(loss) recognised in the consolidated statement of comprehensive income	3,100	(4,900)
Cumulative actuarial gain/(loss) recognised in the consolidated statement of comprehensive income	1,000	(2,100)

21 Provisions for other liabilities and charges

	2010 £ 000	2009 £ 000
At 1 December	65	60
Charged to consolidated income statement		
– Unwinding of discount	6	5
At 30 November	71	65

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

Analysis of total provisions	2010 £ 000	2009 £ 000
Non-current	71	65

22 Share capital and premium

	Number of shares	Ordinary shares £ 000	Share premium account £ 000	Total £ 000
At 30 November 2009 and 30 November 2010	42,073,640	841	34,024	34,865

The authorised number of ordinary shares is 75 million shares (2009 75 million shares) with a par value of 2 pence per share (2009 2 pence per share) All issued shares are fully paid

Share options

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

These equity settled, share based payments are measured at fair value at the date of grant The fair value determined at the grant date of the equity settled, share based payments 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

22 Share capital and premium continued

Details of the share options are

Scheme	Year of grant	Exercise period	Subscription price (pence)	2010 Number of shares	2009 Number of shares
1997 (Revenue approved)	2003	2006 – 2013	111 00	–	5,000
1997 (Revenue unapproved)	2003	2006 – 2010	111 00	–	85,000
1997 (Revenue unapproved)	2003	2006 – 2010	160 00	–	10,000
1997 (Revenue unapproved)	2004	2007 – 2011	114 00	**40,000**	50,000
1997 (Revenue unapproved)	2004	2007 – 2011	101 50	**60,000**	60,000
1997 (Revenue unapproved)	2004	2007 – 2011	103 50	**30,000**	30,000
1997 (Revenue unapproved)	2005	2008 – 2012	98 00	**274,000**	274,000
2005 EMI (Revenue approved)	2006	2009 – 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
2005 EMI (Revenue approved)	2007	2010 – 2017	138 00	–	60,000
2005 (Revenue unapproved)	2007	2010 – 2017	138 00	–	150,000
2007 Save As You Earn Scheme	2007	2010 – 2011	108 00	**9,625**	56,875
2005 EMI (Revenue approved)	2008	2011 – 2018	110 00	**15,000**	15,000
2005 (Revenue unapproved)	2008	2011 – 2018	114 00	**150,000**	150,000
2008 Long term incentive scheme	2008	2011 – 2018	2 00	–	767,373
2008 Save as You Earn Scheme	2008	2011 – 2012	80 00	**275,185**	369,420
2005 (Revenue unapproved)	2009	2012 – 2019	69 50	**350,000**	350,000
2005 (Revenue unapproved)	2010	2013 – 2020	57 00	**15,000**	–
2008 Long term incentive scheme	2010	2013 – 2020	2 00	**500,000**	–
At 30 November				**2,058,810**	2,772,668

Movements in share options during the year were

	2010 Weighted average exercise price (pence)	2009 Weighted average exercise price (pence)	2010 Number of shares	2009 Number of shares
At 1 December	**74 86**	78 64	**2,772,668**	2,676,343
Options granted	**3 60**	69 50	**515,000**	350,000
Options expired	**39 77**	126 50	**(1,087,373)**	(85,000)
Options forfeited	**89 55**	97 79	**(141,485)**	(168,675)
At 30 November	**74 57**	74 86	**2,058,810**	2,772,668
Options exercisable at 30 November	**114 89**	115 08	**744,000**	854,000
Options not exercisable at 30 November	**51 29**	56 17	**1,314,810**	1,918,668
Total	**74 57**	74 86	**2,058,810**	2,772,668

Options expired during the year were	Scheme	Subscription price (pence)	2010 Number of shares	2009 Number of shares
	1997	126 50	–	85,000
	1997	111 00	**90,000**	–
	1997	114 00	**10,000**	–
	1997	160 00	**10,000**	–
	2005	138 00	**210,000**	–
	2008 LTIS	2 00	**767,373**	–
At 30 November			1,087,373	85,000

Options forfeited during the year were	2005	151 00	–	20,000
	2005	131 00	–	10,000
	2007 SAYE	108 00	**47,250**	37,625
	2008 SAYE	80 00	**94,235**	101,050
At 30 November			**141,485**	168,675

Notes to the consolidated financial statements continued

22 Share capital and premium continued

Share based payment

30 November 2010

Grant date / Scheme	28/1/03 Porvair 1997 share option	25/6/03 Porvair 1997 share option	29/6/04 Porvair 1997 share option	16/9/04 Porvair 1997 share option	25/11/04 Porvair 1997 share option	25/1/05 Porvair 1997 share option	27/1/06 Porvair 2005 share option	07/3/06 Porvair 2005 share option	28/2/07 Porvair 2005 EMI share option
Share price at grant date	111 00p	160 00p	114 00p	101 00p	103 50p	98 00p	131 00p	151 00p	138 00p
Exercise price	111 00p	160 00p	114 00p	101 00p	103 50p	98 00p	131 00p	151 00p	138 00p
Shares under option	116,000	90,000	65,000	60,000	30 000	274,000	330,000	40,000	310,000
Vesting period (years)	3	3	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	30%	30%	30%	30%	30%	30%
Expected life (years)	3	3	3	3	3	3	3	3	3
Risk free rate	4 00%	3 75%	4 50%	4 75%	4 75%	4 75%	4 50%	4 50%	5 25%
Dividend yield	3 06%	2 13%	1 75%	1 97%	1 93%	2 09%	1 60%	1 39%	1 56%
Fair value per option (£)	0 21907	0 33726	0 25840	0 22892	0 23421	0 21883	0 30066	0 35263	0 33045

Grant date / Scheme	17/8/07 Share save 2007	1/2/08 Porvair 2005 share option	10/3/08 Porvair 2005 share option	10/4/08 Porvair LTIS	1/10/08 Share save 2008	30/1/09 Porvair 2005 share option	28/1/10 Porvair 2005 share option	28/1/10 Porvair LTIS
Share price at grant date	135 00p	110 00p	114 00p	108 50p	99 50p	69 50p	57 00p	57 00p
Exercise price	108 00p	110 00p	114 00p	2 00p	80 00p	69 50p	57 00p	2 00p
Shares under option	415,975	15,000	150,000	767,373	470,470	350,000	15,000	500,000
Vesting period (years)	3	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	30%	50%	50%	30%	30%
Expected life (years)	3	3	3	3	3	3	3	3
Risk free rate	5 75%	5 25%	5 25%	5 25%	5 00%	0 50%	0 50%	0 50%
Dividend yield	1 59%	2 00%	2 00%	1 94%	2 10%	1 80%	3 95%	3 95%
Fair value per option (£)	0 46118	0 25092	0 26332	2 71828	0 41019	0 21209	0 08395	0 48660

Share based payments	2010 £ 000	2009 £ 000
Charge for the year	113	124

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

23 Other reserves

	2010 Cumulative translation reserve £ 000	2010 Retained earnings £ 000	2009 Cumulative translation reserve £ 000	2009 Retained earnings £ 000
At 1 December	423	1,107	1,295	5,024
Profit for the year attributable to shareholders	–	2,168	–	689
Direct to equity				
Dividends paid	–	(947)	–	(947)
Actuarial gains/(losses)	–	3,100	–	(4,900)
Tax on actuarial gains/(losses)	–	(837)	–	1,372
Share based payments	–	113	–	124
Tax on share based payments	–	135	–	(10)
Interest rate swap cash flow hedge	–	(25)	–	(245)
Exchange differences	379	–	(872)	–
At 30 November	802	4,814	423	1,107

24 Cash generated from operations

	2010 £ 000	2009 £ 000
Operating profit	4,163	2,103
Adjustments for		
– Non-cash pension charge	200	500
– Share based payments	113	124
– Depreciation and amortisation	2,006	1,991
– Loss on disposal of property, plant and equipment	111	5
Operating cash flows before movement in working capital	6,593	4,723
Changes in working capital (excluding the effects of exchange differences on consolidation)		
– Decrease in inventories	662	1,522
– (Increase)/decrease in trade and other receivables	(980)	1,982
– Increase/(decrease) in payables	1,867	(2,211)
Decrease in working capital	1,549	1,293
Cash generated from operations	8,142	6,016

25 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 13 to 15 of the Finance Director's review and pages 20 and 21 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

	2010 $ 000	2009 $ 000
Outstanding forward contracts	3,100	2,500

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

	2010 $ 000	2009 $ 000
Trade receivables denominated in US dollars	7,128	5,610
Other receivables denominated in US dollars	3,531	3,858
Cash balances denominated in US dollars	3,577	3,603
Trade payables denominated in US dollars	(2,910)	(2,849)
Other creditors denominated in US dollars	(2,552)	(1,837)
	8,774	8,385

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

	2010 £ 000	2009 £ 000
US dollar strengthens	625	567
US dollar weakens	(513)	(464)

Notes to the consolidated financial statements continued

25 Financial risk management continued

(ii) Euro

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

The Group has an other receivable denominated in Euros which is offset by foreign denominated borrowings

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

The Group has the following outstanding Euro forward contracts

	2010 € 000	2009 € 000
Outstanding forward contracts	**375**	350

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

	2010 € 000	2009 € 000
Trade receivables denominated in Euros	**1,811**	2,041
Other receivables denominated in Euros	**2,950**	2,571
Cash balances denominated in Euros	**1,710**	908
Trade payables denominated in Euros	**(1,985)**	(1,409)
Other creditors denominated in Euros	**(1,096)**	(754)
	3,390	3,357

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

	2010 £ 000	2009 £ 000
Euro strengthens	**315**	342
Euro weakens	**(258)**	(280)

Cash flow interest rate risk

The Group's interest rate risk arises from long-term borrowings Borrowings in the years ended 30 November 2010 and 2009 carry interest at variable rates and are denominated in US dollars, Euros and Sterling The Group has entered into interest rate swap agreements on 67% (2009 67%) of the US denominated borrowings to reduce the impact of future changes in US interest rates The Group has entered into an interest rate swap agreement on 42% (2009 46%) 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 £97,000 (2009 £69,000) lower/higher respectively

The Group possesses 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 (2009 £13,000) The Group does not believe there is significant cash flow risk associated with these leases as the Group has cash reserves However, should the Group be unable to meet the finance lease obligations, then the lenders have recourse against the assets in order to reclaim the debt due

Credit risk

Credit risk is disclosed in note 14

Liquidity risk

Banking facilities were renegotiated in June 2010 Further details including a maturity profile are disclosed in note 17 The amortising debt commits the Group to quarterly repayments of principal of £250,000 (2009 £125,000) Interest is payable based on the length of the revolving facilities, typically between one and three 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

25 Financial risk management continued

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

30 November 2010	Less than 1 year £ 000	Between 1 and 2 years £ 000	Between 2 and 5 years £ 000	Over 5 years £ 000
Borrowings (excluding finance lease liabilities)	3,064	1,547	12,880	–
Finance lease liabilities	38	7	–	–
Derivatives	134	136	–	–
Trade and other payables	10,402	–	–	–
	13,638	**1,690**	**12,880**	**–**

30 November 2009	Less than 1 year £ 000	Between 1 and 2 years £ 000	Between 2 and 5 years £ 000	Over 5 years £ 000
Borrowings (excluding finance lease liabilities)	1,175	16,204	906	–
Finance lease liabilities	156	46	–	–
Derivatives	198	47	–	–
Trade and other payables	7,945	–	–	–
	9,474	16,297	906	–

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

- Quoted prices (unadjusted) 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)

30 November 2010	Level 1 £ 000	Level 2 £ 000	Level 3 £ 000	Total £ 000
Financial liabilities at fair value through profit or loss				
– Trading derivatives	–	(14)	–	(14)
– Derivatives used for hedging	–	(270)	–	(270)
	–	**(284)**	–	**(284)**

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

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 2010 was 24% (2009 38%) which is in line with Management's expectations

Notes to the consolidated financial statements continued

26 Commitments

Capital and other financial commitments

Contracts placed for future capital expenditure not provided in the financial statements at 30 November 2010 were £518,000 (2009 £160,000)

Operating lease commitments – minimum lease payments

	2010 Land and buildings £ 000	2010 Other £ 000	2009 Land and buildings £ 000	2009 Other £ 000
Future aggregate minimum lease payments				
Within one year	967	101	1,252	145
Later than one year and less than five years	4,496	330	2,988	221
After five years	1,828	–	2,397	–
	7,291	431	6,637	366

27 Key management compensation

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

	2010 £ 000	2009 £ 000
Salaries and other short term employee benefits	661	467
Other long term benefits	45	46
Share based payments	71	56
	777	569

28 Principal subsidiaries

The principal operating companies at 30 November 2010 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 (formally Omnifilter 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%

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 2010 which comprise the parent company balance sheet, 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 pages 19 and 20, 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 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

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 2010,
- 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 2010

C Maw

Christopher Maw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
24 January 2011

Parent company balance sheet (under UK GAAP)

Company registered number 1661935

As at 30 November	Note	2010 £ 000	2009 £ 000
Fixed assets			
Tangible assets	4	54	51
Investments	5	64,384	63,149
		64,438	63,200
Current assets			
Debtors amounts falling due after more than one year	6	119	32
Debtors amounts falling due within one year	6	115	104
		234	136
Creditors amounts falling due within one year	7	(11,671)	(6,745)
Net current liabilities		(11,437)	(6,609)
Total assets less current liabilities		53,001	56,591
Creditors amounts falling due after more than one year	7	(13,334)	(16,583)
Net assets		39,667	40,008
Capital and reserves			
Called up share capital	10	841	841
Share premium account	11	34,024	34,024
Exchange reserves	11	(1,132)	(1,341)
Profit and loss account	11	5,934	6,484
Total shareholders' funds		39,667	40,008

The financial statements on pages 64 to 70 were approved by the Board of Directors on 24 January 2011 and were signed on its behalf by

B D W Stocks

C P Tyler C.P Tyler

Company profit for the financial year

As permitted by Section 408 of the Companies Act 2006, no profit and loss account is presented for the holding company

The profit after tax attributable to the Company which has been dealt with in the accounts is £284,000 (2009 £572,000)

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

Parent company – reconciliation of movements in shareholders' funds

For the year ended 30 November	Note	2010 £ 000	2009 £ 000
Profit for the financial year		**284**	572
Dividends		**(947)**	(947)
		(663)	(375)
Exchange differences	11	**209**	(263)
Share based payments	11	**113**	124
Net decrease in shareholders' funds		**(341)**	(514)
Opening shareholders' funds		**40,008**	40,522
Closing shareholders' funds		**39,667**	40,008

Notes to the financial statements

1 Summary of significant accounting policies

These financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 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

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 at the balance sheet date

Pensions

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

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

Share based payments

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

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

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

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

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

1 Summary of significant accounting policies continued

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, under Financial Reporting Standard No 8 (FRS 8), from disclosing related party transactions with entities that are part of the Porvair plc group

2 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging	2010 £ 000	2009 £ 000
Staff costs		
Wages and salaries	987	741
Social security costs	82	82
Other pension costs	65	66
Share based payments	77	65
	1,211	954
Average number of employees - administrative	7	7

Services provided by the Company's auditors and network firms

During the year the Company obtained the following services from the Company's auditors at costs as detailed below

Fees payable to Company auditors for audit of parent company	13	13
Tax services	17	29
	30	42

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 £12,000 (2009 £13,000)

3 Directors' emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the Report of the Remuneration Committee on pages 24 to 27

Directors' share based payments are shown in note 27 of the Group's financial statements

4 Tangible fixed assets

	Plant machinery and equipment £ 000
Cost	
At 1 December 2009	156
Additions	23
Disposals	(8)
At 30 November 2010	**171**
Depreciation	
At 1 December 2009	(105)
Charge for year	(20)
Disposals	8
At 30 November 2010	(117)
Net book value	
At 30 November 2010	54
At 30 November 2009	51

There were no capital commitments, authorised and contracted for, in the Company at 30 November 2010 (2009 £Nil)

Notes to the financial statements continued

5 Fixed asset investments

	2010			2009		
	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	47,941	31,282	79,223	46,415	33,209	79,624
Additions in the year	–	–	–	1,755	–	1,755
Advances/(repayments)	–	625	625	(288)	(1,160)	(1,448)
Capital contributions arising from FRS 20 share based payments charge	36	–	36	59	–	59
Exchange differences	–	574	574	–	(767)	(767)
At 30 November	47,977	32,481	80,458	47,941	31,282	79,223
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	45,379	19,005	64,384	45,343	17,806	63,149
At 1 December	45,343	17,806	63,149	43,817	19,733	63,550

The additions in 2009 relate to an increase in the Porvair Corporation investment as consideration for the transfer of Seal Analytical Inc to Porvair Corporation of £1,600,000 and a £155,000 investment in Porvair Selee Advanced Materials (Wuhan) Co Limited based in China

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

Details of the subsidiary undertakings are given in Note 28 of the Group financial statements

6 Debtors

	Note	2010 £ 000	2009 £ 000
Amounts falling due within one year			
Corporation tax recoverable		88	85
Prepayments		27	19
		115	104
Amounts falling due after more than one year			
Deferred taxation	9	119	32
		119	32

7 Creditors

	Note	2010 £ 000	2009 £ 000
Amounts falling due within one year			
Bank overdraft and other loans	8	10,787	6,046
Trade creditors		56	146
Taxation and social security		39	55
Accruals and deferred income		789	498
		11,671	6 745
Amounts falling due after more than one year			
Bank loans	8	13,188	16,430
Retirement obligations		146	153
		13,334	16,583

8 Bank and other loans

	2010 £ 000	2009 £ 000
Secured multi-currency revolving credit facility of US$15 million (2009 US$Nil) maturing in December 2013 with interest at 2 95% above US dollar LIBOR	9,440	-
Secured multi-currency revolving credit facility of US$25 million maturing in July 2011 with interest at 2 95% above US dollar LIBOR	–	13,588
Secured five year amortising debt facility of £4 75 million (2009 £Nil) expiring in December 2013 with interest at 2 95% above LIBOR	4,655	-
Secured five year amortising debt facility of £1 875 million expiring in July 2013 with interest at 3 25% above LIBOR	–	1,863
Secured Euro revolving credit facility of Euro €1 6 million (2009 €1 6 million) maturing January 2011 with interest at 2 95% (2009 2 95%) above EURIBOR	1,337	1,461
Bank overdraft offset against cash balances in other Group companies under a Group banking offset arrangement	8,543	5,564
	23,975	22,476

	2010 £ 000	2009 £ 000
Bank and other loans of the Company are repayable as follows		
Within one year	10,787	6,046
One to two years	907	15,560
Two to five years	12,281	870
	23,975	22,476

The loans are shown net of issue costs of £287,000 (2009 £67,000) which are being amortised over the life of the loan arrangements On 28 June 2010, the Group renegotiated its banking arrangements and covenants resulting in a decrease in margin of 0 3% on the term loan facility and maintaining the previous margins on the revolving credit facilities The term and multi-currency revolving credit facilities have been extended until December 2013

At 30 November 2010 the Group had fully drawn-down borrowing facilities under the existing bank facility (2009 £1,646,000 unutilised facility) and an unutilised £2,500,000 (2009 £1,500,000) overdraft facility

The carrying values of bank borrowings approximate their fair value

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

Notes to the financial statements continued

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/(liabilities)	2010 £ 000	2009 £ 000
Accelerated capital allowances	6	(65)
Short term timing differences	113	97
	119	32

There were no unrecognised deferred tax amounts at 30 November 2010 (2009 £Nil)

During the year, as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2011, deferred tax balances have been remeasured Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2011 is measured at 28% and deferred tax relating to temporary differences expected to reverse after 1 April 2011 is measured at the tax rate of 27% 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)

10 Called up share capital

	2010 £ 000	2009 £ 000
Authorised		
75,000,000 ordinary shares of 2 pence each (2009 75,000,000)	1,500	1,500
Allotted, called up and fully paid		
42,073,640 ordinary shares of 2 pence each (2009 42 073,640)	841	841

Details of share options are disclosed in Note 22 of the Group financial statements

11 Reserves

	Share premium account £ 000	Exchange reserve £ 000	Profit and loss account £ 000
At 1 December 2009	34,024	(1,341)	6,484
Deficit for the year	–	–	(663)
Exchange differences	–	209	–
Share based payments	–	–	113
At 30 November 2010	34,024	(1,132)	5,934

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

12 Financial commitments

At 30 November 2010, the Company had annual commitments under non-cancellable operating leases expiring as follows

	2010		2009	
	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	205	6
	48	2	205	6

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 2011

30 November 2010
Financial year end 2010

25 January 2011
Full year 2010 results

5 April 2011
AGM/Interim Management Statement

4 May 2011
Ex-dividend date

6 May 2011
Record date for dividend

31 May 2011
Half year 2011 period end

10 June 2011
Payment date for dividend

28 June 2011
Half year 2011 results announcement

3 August 2011
Ex-dividend date

5 August 2011
Record date for dividend

9 September 2011
Payment date for dividend

20 September 2011
Interim Management Statement

30 November 2011
Financial year end 2011

31 January 2012
Full year 2011 results

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