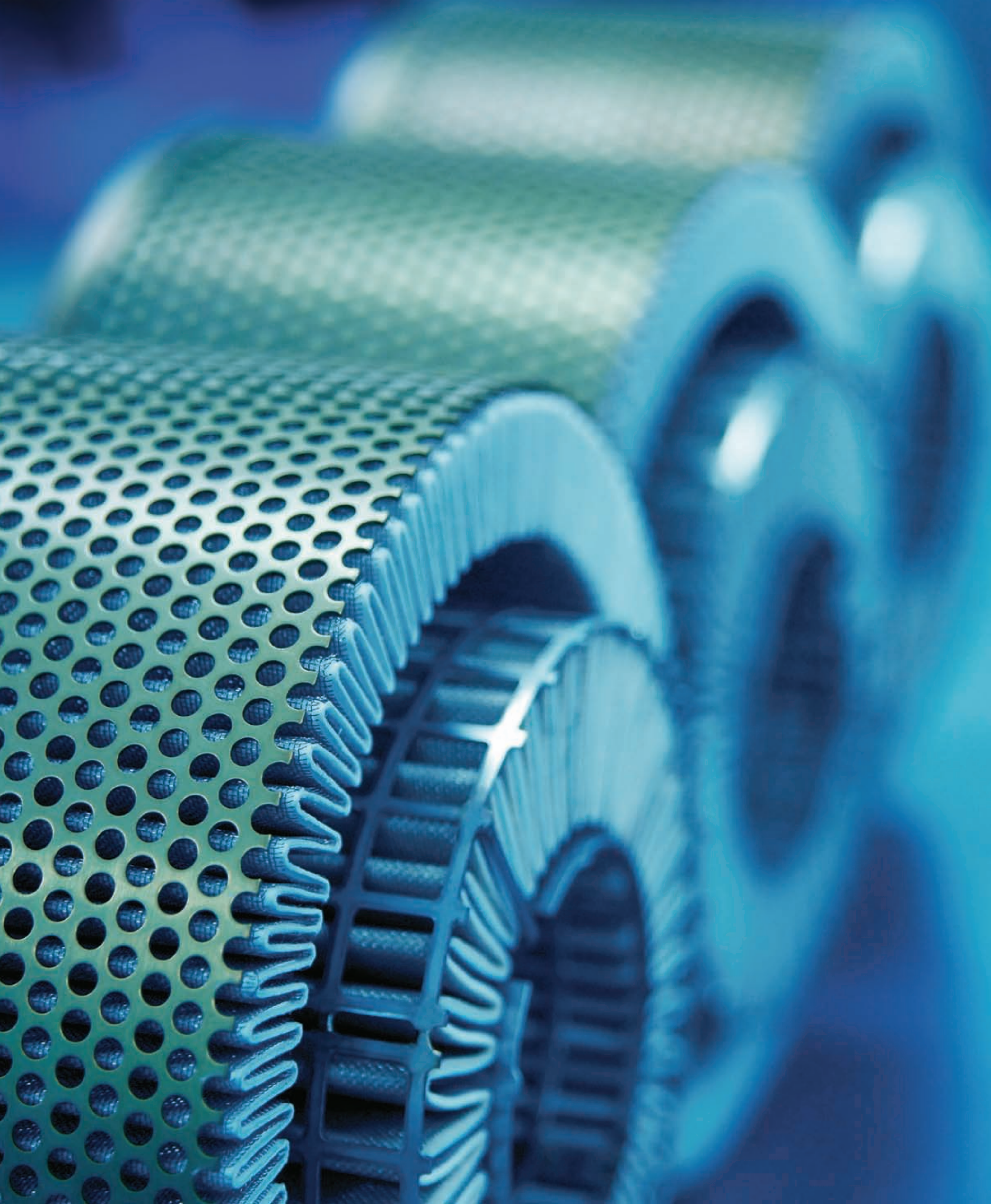
Porvair plc Annual Report & Accounts 2012

porvair

Consistent strategy • Strong performance • Sustainable growth



About Porvair

Porvair is a specialist filtration and environmental technology group employing about 600 people, with operations in the UK, US, Germany and China.

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

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

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Porvair online:
To find out more about Porvair: www.porvair.com

Key performance highlights in 2012

Financial highlights

Strong financial performance ahead of expectations:

- Revenues grew by 12% to a record for the Group of £76.5 million (2011: £68.1 million).
- Profit before tax increased by 40% to £6.3 million (2011: £4.5 million).
- Basic earnings per share rose 38% to 10.1 pence (2011: 7.3 pence).
- Net debt reduced by 24% to £3.9 million (2011: £5.1 million, 2010: £9.7 million).
- £3.5 million was invested in three small acquisitions. All now fully integrated and running well.
- Final dividend of 1.6 pence (2011: 1.4 pence) recommended.

Operating highlights

Metals Filtration division:

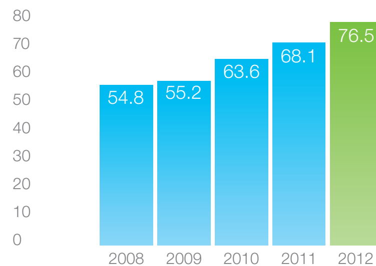
- Revenue increased 8% to £28.0 million (2011: £25.9 million) to produce record sales and operating profits for this division.
- Excellent cash generated from operations of £4.8 million (2011: £1.7 million).

Microfiltration division:

- Revenue increased 15% to £48.5 million (2011: £42.2 million) to produce record sales and operating profits for this division.
- Seal Analytical revenues up 13%.
- Healthy order position.

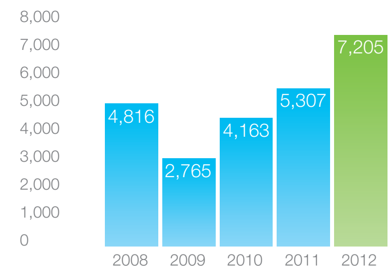
Turnover (£m)

£76.5m
+12%



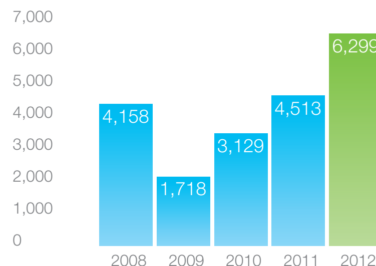
Operating profit (£'000)

£7.2m
+36%



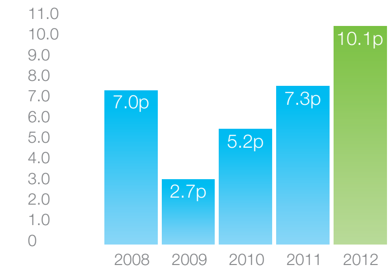
Profit before tax (£'000)

£6.3m
+40%



Basic earnings per share (pence)

10.1p
+38%



*All amounts shown before exceptional items

Porvair at a glance

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

Business divisions

Microfiltration

The Microfiltration division provides bespoke filtration solutions to a diverse range of customers and markets. It has operations in the UK, US and Germany and employs 420 people. Its sales are global.

Chief Executive's report pages: 08 to10

Metals Filtration

The Metals Filtration division serves the market for the filtration and handling of molten metal. It has operations in the US and China and employs 180 people. Its sales are global.

Chief Executive's report page: 08

Main operating companies

Microfiltration:
- Porvair Filtration Group
- Seal Analytical
- Porvair Sciences

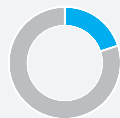
Metals Filtration:
- Selee Corporation
- Selee China

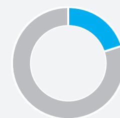
Principal markets served

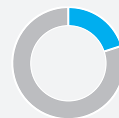
- Aviation
- Energy and industrial process
- Environmental laboratory supplies
- Molten metals

Approximate share of Group sales

Aviation	Energy and industrial process	Environmental laboratory supplies	Molten metals
20%	20%	20%	40%







Applied technology

Microfiltration:
- Metallic and polymeric filtration technologies
- Instrumentation

Metals Filtration:
- Ceramic filtration technology
- Refractories

Annual sales and revenue growth by division

Microfiltration: **£48.5m** Annual sales | **+15%** Revenue growth

Metals Filtration: **£28.0m** Annual sales | **+8%** Revenue growth

Our global operations support our key markets

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

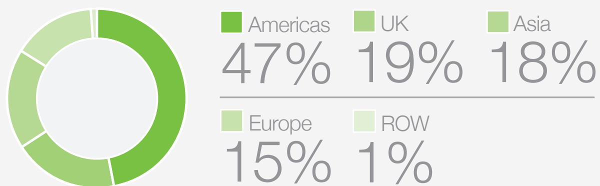
Our global presence

Microfiltration principal plants

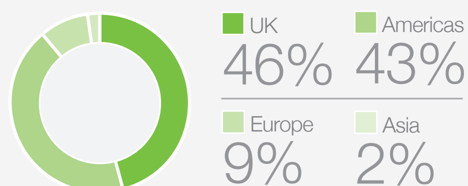
Mequon, WI
Ashland, VA
Hendersonville, NC
Metals Filtration principal plant
UK
Germany
Europe
Russia
Middle East
Wuhan, China
Shanghai, China

Microfiltration
Metals Filtration

Revenue by destination (%)



Revenue by origin (%)



Our strategy

Porvair has a clear and consistent strategy for delivering profitable growth and creating sustainable value.

Our strategy

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 long lifecycles.

Our key objectives are to:

Focus on regulated markets with long term growth prospects

Focus on selected markets which have good long term growth prospects and are fundamentally cash generative: aviation, energy and industrial, environmental laboratory supplies and aluminium filtration.

Concerted new product development

Invest consistently in new product development.

Geographic expansion to support key markets

Expand geographically, where appropriate, in our chosen markets.

Cash generation to invest in organic growth, acquisitions and dividends

Use surplus cash to acquire complementary businesses that meet Group financial and commercial criteria.

Generate sufficient cash to sustain a progressive dividend policy and maintain an appropriately funded balance sheet.

Progress towards strategic objectives:

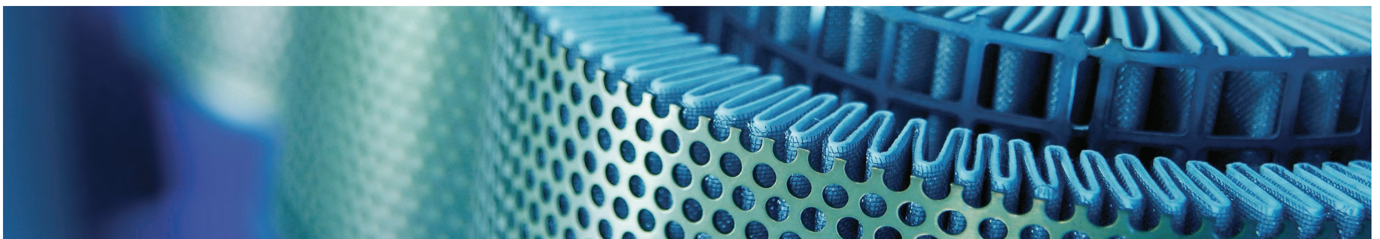
In 2012, Porvair made good progress against its strategic objectives:

Microfiltration

- 20% growth in aviation driven by long term supply contracts for both new build and after-market.
- First shipments of the POSCO contract. Further shipments are expected in 2013.
- An £11.3 million contract with the UK government for nuclear remediation signed in January 2013.
- Strong underlying growth in the division's US operation.
- 13% growth at Seal Analytical, helped by two small acquisitions, both now fully integrated.

Metals Filtration

- Delivery of further revenue and margin growth, as the benefits of new product development and production streamlining show through.
- Trials of the next generation of filter products, which were successful, with initial trial orders received.
- Expansion of capabilities in the plant in China.
- A small technology acquisition (Pell) was fully integrated.



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.

Microfiltration

Key market	Growth drivers	Progress in 2012 and opportunities ahead
Aviation: Porvair's aviation filters are specified on almost all commercial airframes.	• Aircraft build rates • Maintenance schedules • New programmes • Inerting retrofit	• Revenue from the programme of fuel tank inerting continues to grow. • Airbus A380 and Boeing 787 coolant filters revenue is just starting. • Filters on the Airbus A350 will begin to contribute when aircraft production begins. • Filters on the Airbus NEO range yet to start.
Energy and industrial process: Filter systems and spares principally for the gasification and nuclear remediation markets.	• Gasification build rates • Maintenance schedules • Nuclear clean up • Energy efficiency and security	• US$10+ million POSCO contract will continue to contribute over the next three years. • Financial impact of £11.3 million nuclear remediation contract will be spread over the next three years. • There is a promising pipeline of other opportunities.
Environmental laboratory supplies: Systems and consumables principally for the laboratory analysis of water.	• Regulated water testing • Higher environmental standards • Developing markets • Bioscience growth	• New ranges of analyser are being introduced – Quaatro 39 in 2012. • The design rights for a range of discrete analysers have been acquired. • The acquisitions broaden the customer base and product range and provide cross selling opportunities. • There are promising bioscience filtration developments.

Metals Filtration

Key market	Growth drivers	Progress in 2012 and opportunities ahead
Molten metals: Ceramic filters for the filtration of Aluminium, gray and ductile iron and other exotic alloys.	• Aluminium consumption • US auto and light truck production • Increased use of high grade and exotic alloys	• The IP protected products are steadily winning market share. • Filtration of higher specification metals is increasing in importance. • Initial orders have been received for a new generation of products. • Further investment planned in China to serve niche markets in Asia.

See Chief Executive's report: pages 07 to 10

Chairman's statement

"There is plenty of opportunity across Porvair for market share gains and the Board's outlook is positive."

Charles Matthews
Chairman

Summary

- Strong financial results
- Progressive dividend
- New Board appointment

Profit before tax

+40%

Profit before tax up 40% to £6.3 million.

Earnings per share

10.1p

Earnings per share up 38% to 10.1 pence per share.

Progressive dividend

2.6p

Dividend increased by 8% to 2.6 pence per share.

Dear Shareholder

I am pleased to report that Porvair continues to make progress against its financial and strategic objectives.

Results

Revenues in the year to 30 November 2012 were £76.5 million (2011: £68.1 million) and profit before tax rose by 40% to £6.3 million (2011: £4.5 million). These are record results for the Group. Basic earnings per share were 10.1 pence (2011: 7.3 pence), an increase of 38%.

Cash generated from operations was £9.2 million (2011: £8.1 million). After interest and tax, net cash generated from operating activities was £7.4 million (2011: £6.4 million). At 30 November 2012 net debt was £3.9 million (2011: £5.1 million) after spending £3.3 million in cash on acquisitions during the year.

Dividends

The Directors recommend an improved final dividend of 1.6 pence per share (2011: 1.4 pence), making the full year dividend 2.6 pence per share (2011: 2.4 pence).

Board composition

Paul Dean joined the Board in August 2012 as an Independent Non-Executive Director. He brings extensive commercial and financial experience in markets closely related to those served by Porvair and has quickly settled in to his new role. He will become Chairman of the Audit Committee from April 2013. He will replace Michael Gatenby, who will retire from the Board at the 2013 AGM in April. Michael has been a Director for ten years, and has made a substantial contribution to the Group's evolution over that time. We thank him and wish him well. Andrew Walker will succeed Michael as Senior Independent Non-Executive Director.

Governance

The Board sets high standards for its Corporate Governance of the Group and has in place monitoring systems to ensure that those standards are upheld throughout the Group.

The Board has complied with all aspects of the UK Corporate Governance code throughout the year ended 30 November 2012 with the exception that the Non-Executive Directors are not appointed for a fixed term. However from this year, in accordance with best practice, each Director will be subject to re-election at the Annual General Meeting.

As a result of the larger contracts that the Group has won recently, the Board has placed a greater focus in the year on the management of risks associated with these large overseas projects.

Staff

Much has changed at Porvair over the last five years. Sales revenues have increased by almost 70%, whilst staff numbers have increased by a fifth over the same period. At the start of 2013 the Group is on a sound financial footing and there are plenty of opportunities for growth. This is all due to our excellent staff who can see the benefits of their work in the 2012 results. The Board is most grateful for their hard work and application.

Current trading and outlook

Porvair's strategic direction and operating objectives remain consistent and are producing good results. We focus on niche markets which have structural growth drivers. 2013 has started well and order books are healthy. The Board remains cautious about the general economic outlook, but the fundamentals of the markets in which the Group operates look satisfactory. After a record year we expect revenue to grow at a more moderate rate in 2013. There is plenty of opportunity across Porvair for market share gains and the Board's outlook is positive.

Charles Matthews
Chairman

25 January 2013

See our Governance report: pages 32 to 34

Chief Executive's report

"Porvair's strategic direction and operating objectives have remained consistent for several years. In the five years since 2007, revenue has grown by 68% (11% CAGR)."

Ben Stocks
Group Chief Executive

Summary performance

- Consistent strategic direction
- Strong financial performance:
  – revenue up 12%
  – profit before tax up 40%
- 30% return on operating capital

Overview

Financial highlights 2012

	2012 £m	2011 £m	Growth %
Revenue	76.5	68.1	12%
Profit before tax	6.3	4.5	40%
Cash generated from operations	9.2	8.1	13%
Net debt	(3.9)	(5.1)	24%

Porvair continued to make progress towards its financial and strategic objectives in 2012, thereby enhancing its prospects for 2013. Revenues grew to £76.5 million and profit before tax increased to £6.3 million. These are record results for the Group. Cash generated from operations increased to £9.2 million and net debt reduced to £3.9 million after spending £3.3 million on acquisitions. The Metals Filtration division increased revenues by 8% to £28.0 million (2011: £25.9 million). The Microfiltration division increased revenues by 15% to £48.5 million (2011: £42.2 million).

Porvair's strategic direction and operating objectives have remained consistent for several years. In the five years since 2007, revenue has grown by 68% (11% CAGR); over £35 million has been generated in cash from operations; and in 2012 the Group's after tax operating profit return on operating capital was 30%.

Progress made against the Group's strategic objectives in 2012 include:

Metals Filtration:
- Delivery of further revenue and margin growth, as the benefits of new product development and production streamlining show through.
- Trials of the next generation of filter products, which were successful, with initial trial orders received.
- Expansion of capabilities in the plant in China.
- A small technology acquisition (Pell) was fully integrated.

Microfiltration:
- 20% growth in aviation driven by long term supply contracts for both new build and after-market.
- First shipments of the POSCO contract. Further shipments are expected in 2013.
- An £11.3 million contract with the UK government for nuclear remediation signed in January 2013.
- Strong underlying growth in the division's US operation.
- 13% growth at Seal Analytical, helped by two small acquisitions, both now fully integrated.

Porvair's activities and strategy

Porvair specialises in filtration and related environmental technology. The Group has two divisions. The Microfiltration division principally serves aviation, environmental laboratory and energy markets. The Metals Filtration division serves global aluminium, NAFTA iron foundry and super-alloy markets. These are niche markets which have clear structural drivers of growth. Over 80% of sales are from consumable products for which replacement sales recur at regular intervals.

The Group manufactures in the UK, US, Germany and China.

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 long lifecycles.

Focus on selected markets which have good long term growth prospects and are fundamentally cash generative: aviation, energy & industrial, environmental laboratory supplies and aluminium filtration.

Invest consistently in new product development.

Expand geographically, where appropriate, in our chosen markets.

Use surplus cash to acquire complementary businesses that meet Group financial and commercial criteria.

Generate sufficient cash to sustain a progressive dividend policy and maintain an appropriately funded balance sheet.

Chief Executive's report continued

Metals Filtration Divisional Highlights 2012

- Record results
- £4.8 million operating cash generated
- Steady market share gains from patented products
- Pell acquisition – promising know-how
- Further new products being refined and tested
- Continuous improvement in plant efficiencies

Annual sales

£28.0m

Metals Filtration annual sales grew to £28.0 million.

Revenue growth

+8%

Metals Filtration revenue up 8%.

Operating review

Divisional performance – Metals Filtration

Financial highlights 2012

	2012 £m	2011 £m	Growth %
Revenue	28.0	25.9	8%
Operating profit	2.4	1.5	63%

Revenues increased by 8% and operating profits grew 63%. Cash generated from operations was £4.8 million (2011: £1.7 million). These are record results for Metals Filtration.

The division's improved performance is driven by both margin and market share growth, chiefly from three patented products introduced in recent years: Selee CSX™ for aluminium filtration; Selee SA™ for NiCo alloy filtration; and Selee IC™ for the filtration of gray and ductile iron. All three are fully accepted by our customer base to whom they offer either a better environmental solution, or better filtration efficiency, or both. These are steadily being introduced to new customers and are winning market share as a result. These new products contribute better margins to the business and enable manufacturing to be streamlined in the USA. They also enable the division to work on input costs and operating efficiencies, where steady incremental improvements have been made since 2010. The division ran at high levels of production efficiency and customer service during 2012.

After a highly cash generative year, with operating profit conversion to cash of 200%, we expect to make several investments in the division in 2013. As noted at the half year, we have started a new cycle of investment in facilities, plant and people in China, part of a settled strategy for the division that will pursue opportunities in certain niche markets in Asia. We will also be investing in the next generation of new products to be made in the USA.

Pell Industries was acquired during the year. This was a small acquisition that has been fully integrated with no additional overhead. The Pell process is novel and results in products with longer lifecycles than competitive materials. We have started to incorporate this know-how into our wider product range and are seeing sales opportunities as a result.

The division had a strong first half of 2012 with robust demand from most end markets, notably aluminium production, super-alloys for turbine blades and a strong US car and light truck market. Sales rates settled marginally lower in the third quarter and have been steady at these levels since. The Board expects demand to remain at these lower levels throughout 2013, with the impact mitigated by business development opportunities. These are in two areas: margin improvement through work on the introduction of innovative raw materials that offer product improvements and range extensions; and market share gains from an entirely new design of filter for which initial trial orders have been received. We will continue to refine and test these development opportunities throughout 2013.

Divisional performance – Microfiltration

Financial highlights 2012

	2012 £m	2011 £m	Growth %
Revenue	48.5	42.2	15%
Operating profit	6.7	5.6	19%

Revenue from Microfiltration grew by 15% and operating profits grew by 19%. These are record results for the Microfiltration division.

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

PFG had another good year. Revenue growth was 17%. Stripping out the first shipment of the POSCO contract, underlying revenue growth was 5%.

The POSCO contract, announced at the end of 2011, is a US$10 million+ contract to design and build a char filtration system for a coal to substitute natural gas installation being built by POSCO at Gwangyang, South Korea. The design and build phase has gone according to plan and first deliveries were made in November 2012. Further deliveries will be made during 2013. The financial impact of the contract will be spread over several years.

Driving market growth: Aviation

+20%

Aerospace revenue grew by 20%. Long term supply contracts for inerting filters and coolant systems are driving growth.

Value creation in action:

The Group is a leading specialist in the design and manufacture of filtration components and assemblies for the aviation industry. Its components are specified on most of the world's passenger airlines in fuel systems, hydraulic systems and coolant systems.

Chief Executive's report continued

Microfiltration Divisional Highlights 2012

- Record results
- PFG up 17% (underlying growth 5%)
- Seal Analytical up 13% (acquisitions fully integrated)
- Aviation up 20% with broad spread of filtration applications
- POSCO first shipments
- £11.3 million UK Government nuclear remediation contract
- PFG inc: strong underlying growth

Annual sales

£48.5m

Microfiltration annual sales grew to £48.5 million.

Revenue growth

+15%

Microfiltration revenue up 15%.

Demand from elsewhere in the energy sector has been robust in 2012 and the pipeline of projects is encouraging. Early in 2013 an £11.3 million contract was signed with the UK government for the supply of nuclear remediation filtration equipment. The financial impact of this work will be spread over three years from 2013.

Aerospace revenues grew 20% in the year. Porvair's aviation filters are specified on almost all commercial airframes. Around one third of our sales are to the commercial wide-bodied sector (Boeing and Airbus), with the remainder split between commercial narrow body, regional, business and rotary airframes and engines. Our filters are used roughly equally for new build and after-market purposes. Long term supply contracts for inerting and coolant filters, both previously announced, continue to drive growth. Porvair was specified onto the Airbus NEO programme in 2012 and expects to see sales growth from the Airbus A350 later in 2013.

Sales of bioscience filters also grew steadily. A series of improvements have been made in the Group's bioscience filtration capabilities in recent years, and these are showing positive results. A patent has now been awarded for the Chromatrap™ range, which remains modest in scale but continues its promising commercial development.

Underlying revenues at PFG Inc, based in the USA, grew strongly. This operation is steadily increasing its engineering and manufacturing capabilities and the results are evident. We see further opportunities in the US in 2013.

Growth in energy, aviation, bioscience and the US was partially offset by loss of revenue from the closure of a small UK plant in 2011, and in flat or declining sales into certain EU and general industrial end markets.

Revenues at Seal grew 13%, helped by two acquisitions. As reported at the interim stage, weakness in several western European markets was offset by an improvement in US demand. The Board's view is that water quality testing is a well defined niche market that will grow as water quality standards improve across the world. Seal is a market leading supplier of equipment and consumables for the detection of inorganic contamination in water.

The two acquisitions in the year have improved Seal's consumables and service capabilities. A line of block digesters and related consumables are now being manufactured in Seal's US operation, having been moved from Australia following the acquisition of the Block Digester business from AIM Lab Automation Technologies Pty Limited. Sales in the year were well ahead of expectation. The business of Pulse Instrumentation ("Pulse") was acquired and relocated from Canada to Seal's US operation. Pulse supplies a broad range of consumables for environmental laboratories and brings with it some interesting production know-how and access to a wider installed base.

Following previous product launches in 2010 and 2011, Seal introduced a third new platform in 2012, the Quaatro 39. To follow this, in December 2012, Seal acquired the design and manufacturing rights to a range of discrete water analysers which, combined with Seal's existing know-how, will greatly improve the speed and scope of product development in the discrete analyser segment. This is also being transferred to Seal's US base, as part of our strategy to broaden Seal's capabilities in the water analysis market.

Earnings per share, financing and dividends

Basic earnings per share were 10.1 pence (2011: 7.3 pence), an increase of 38%.

Cash generated from operations was £9.2 million (2011: £8.1 million). After interest and tax, net cash generated from operating activities was £7.4 million (2011: £6.4 million). At 30 November 2012 net debt was £3.9 million (2011: £5.1 million) after spending £3.3 million in cash on acquisitions during the year.

The Directors recommend an improved final dividend of 1.6 pence per share (2011: 1.4 pence), making the full year dividend 2.6 pence per share (2011: 2.4 pence).

Ben Stocks
Group Chief Executive

25 January 2013

Driving market growth: Energy and industrial process

US$10+m

The first shipments were made under the US$10+ million contract to supply a gasification filtration system being built by POSCO in South Korea.

Value creation in action:

The Group provides filtration solutions for energy and industrial process applications. Its filters are to be found in many of the harshest and most critical industrial environments. Applications are as diverse as the clean-up of streams of high temperature gas to the containment of waste nuclear material.

Finance Director's review

"The Board considers that the Group has performed ahead of the expectations set at the start of the financial year."

Chris Tyler
Group Finance Director

Summary performance

- Operating profit margin improved to 9.4%
- Net debt reduced by 24% to £3.9 million
- Working capital tightly controlled
- £3.5 million invested in three acquisitions

Financial highlights 2012

	2012 £m	2011 £m	Growth %
Revenue	76.5	68.1	12%
Operating profit	7.2	5.3	36%
Profit before tax	6.3	4.5	40%

Group operating performance

The operating profit margin improved to 9.4% (2011: 7.8%). This improvement arises from the benefit of higher revenue driving operational gearing and improved product margins, particularly in the Metals Filtration Division. The operating performance and key performance indicators of the Microfiltration and Metals Filtration divisions are described in detail in the Chief Executive's report and below. The operating loss associated with the Other Unallocated segment was £1.9 million (2011: £1.8 million), which mainly comprises Group corporate costs. These include new business development costs, some research and development costs and general financial costs.

The operating profit includes amortisation charges on intangible assets arising on acquisition of £0.1 million (2011: £nil), acquisition expenses written off of £0.1 million (2011: £nil) and share based payment charges of £0.4 million (2011: £0.3 million).

Key performance indicators

The Group considers its key performance indicators to be: revenue growth and operating margins of its principal operations; 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:

KPIs	2012	2011
Revenue growth	12%	7%
Revenue growth at constant currency	12%	9%
Revenue growth – Metals Filtration (US$)	8%	15%
Revenue growth – Microfiltration	15%	4%
Operating margin – Group	9%	8%
Operating margin – Metals Filtration	9%	6%
Operating margin – Microfiltration	14%	13%
Profit before tax growth	40%	44%
Earnings per share growth	38%	40%
Interest cover	8 times	7 times
Net debt to EBITDA ratio	0.4 times	0.6 times
Gearing	9%	12%
Post tax return on capital employed	10%	7%
Post tax return on operating capital employed	30%	21%

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

Impact of exchange rate movements on performance

The international nature of the Group's business means that relative movements in exchange rates can have a significant impact on the reported performance. The average rate used for translating the results of US operations into Sterling was US$1.58:£ (2011: US$1.60:£) and the Group's Euro denominated operations were translated at €1.22:£ (2011: €1.15:£). The slightly stronger dollar offset the weaker Euro such that currency differences on translation had only a marginal impact compared with the prior year. The Group sold forward the majority of its UK business' 2012 US dollar revenue during the financial year and achieved rates between US$1.51:£ and US$1.60:£ benefiting the reported performance by £0.2 million compared with 2011.

Finance costs

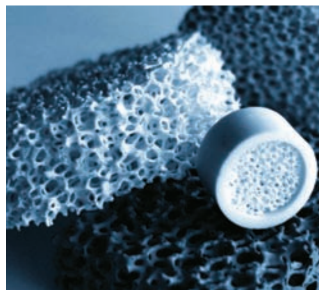
Net interest payable increased to £0.9 million (2011: £0.8 million). Included within interest payable are finance costs in relation to the defined benefit pension scheme, which increased to £0.4 million (2011: £0.2 million) in the year. The increase arises from a lower expected return on the plan assets in the year. Other net interest payable reduced as a result of lower borrowings throughout the year. The Group has a policy of maintaining between 40% and 60% of its borrowings on fixed interest terms. It achieves this by taking out interest rate swaps to fix the interest rates on certain of its borrowings. These provide some protection for the Group in the event of interest rate rises. The Group had approximately 40% of its gross borrowings held at a fixed rate at 30 November 2012. The contracts in place during the year are summarised below:

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

Driving market growth: Molten metals

50%

The Selee CSX™ Aluminium cast house filter has a c.50% global market share. The filter offers a better environmental solution and better filtration efficiency than the competitive products. It is winning market share as a result.



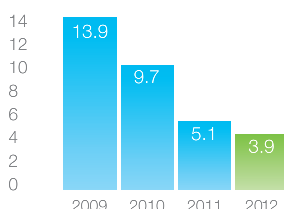
The Group's Metals Filtration division specialises in the design and manufacture of filters for the molten metal industry. The Group provides patent protected filters for the aluminium cast house industry; the filtration of gray and ductile iron, mainly for the US auto and light truck market; and the filtration of super-alloys used in the manufacture of turbine blades.

Finance Director's review continued

Net debt (£'m)

£3.9m

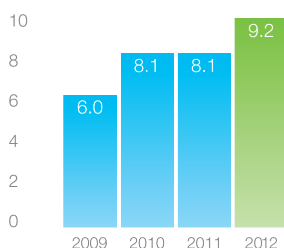
Net debt reduced by 24% to £3.9 million



Cash generation (£'m)

£9.2m

Cash generated from operations



Interest cover was 8 times (2011: 7 times), excluding the impact of the pension finance charge the interest cover is 14 times (2011: 9 times).

Tax

The Group tax charge was £2.0 million (2011: £1.4 million). This is an effective rate of 32% (2011: 31%), higher than the UK standard corporate tax rate of 24.7% (2011: 26.7%), mainly as a result of higher tax rates on profits made in Germany and the US. The tax charge comprises current tax of £1.8 million (2011: £0.8 million) and a deferred tax charge of £0.2 million (2011: £0.6 million). The Group has eliminated its carried forward tax losses on trade arising in the Metals Filtration division in the US in the year and has consequently released the deferred tax asset it was carrying in relation to those losses. The deferred tax asset relates to the deficit on the pension fund and share-based payments totaling £3.1 million (2011: £2.2 million) offset by a net £1.1 million (2011: £0.8 million) deferred tax liability in relation to accelerated capital allowances and other timing differences.

Total equity

Total equity at 30 November 2012 was £45.2 million (2011: £42.1 million), an increase of 7% over the prior year. Increases in total equity arose from profit after tax of £4.9 million (2011: £3.5 million), after adding back the charge for employee share option schemes; and £0.1 million (2011: £0.6 million) in relation to share issues on option exercises and hedge accounting instruments. Dividends paid of £1.0 million (2011: £1.0 million); an actuarial loss of £0.6 million net of tax (2011: £1.6 million) and exchange differences of £0.3 million (2011: gain of £0.1 million) reduced total equity.

Cash flow

The table below summarises the key movements in the cash flow for the year:

	2012 £m	2011 £m
Operating cash flow before working capital	9.5	8.3
Working capital movement	(0.3)	(0.2)
Cash generated from operations	9.2	8.1
Interest	(0.5)	(0.5)
Tax	(1.2)	(1.2)
Capital expenditure	(2.0)	(1.3)
	5.5	5.1
Acquisitions	(3.3)	–
Dividends	(1.0)	(1.0)
Other movements	–	0.5
Net debt at 1 December	(5.1)	(9.7)
Net debt at 30 November	(3.9)	(5.1)

Net working capital was tightly controlled and only increased by £0.3 million, although revenue rose by 12% in the year. Inventories increased by £1.1 million mainly as a result of the requirement to carry inventory in relation to an increasing aerospace order book. The increase in trade receivables and payables are largely accounted for by the outstanding balances in relation to the POSCO contract, all of which are in accordance with the terms of the contract.

Net interest paid represents the bank interest charged in the year and fell in line with the lower bank borrowing in the year compared with 2011.

Tax payments in the US have increased, following the utilisation of past tax losses in Metals Filtration. However, this was offset by lower tax payments in relation to Seal Germany compared with an unusually high payment in 2011.

Capital expenditure was £2.0 million (2011: £1.3 million). The principal investments in 2012 were for plant to increase capacity, improvements to the working environment in some of the plants and technical analysis equipment acquired to improve the quality of products and technical feedback to customers.

Driving market growth: Environmental laboratory supplies

£3.2m

Two acquisitions were made in the year in Environmental laboratory supplies for a total of £3.2 million. These two acquisitions broaden the range of products and consumables and provide access to a wider installed base.

Value creation in action:

The Group designs and manufactures a range of equipment and consumables for use in laboratories. Its Seal Analytical business is a global leader in the manufacture of laboratory based equipment for testing for inorganic contaminents in water. The Group also produces a broad range of laboratory microplates for storage and experimentation in the pharmaceutical and biotechnology markets.

Finance Director's review continued

Acquisitions
The Group acquired three businesses in the year for a total outlay of £3.5 million, £3.3 million of which has been paid in cash and £0.2 million of which is deferred. The block digester business of Aim Lab Automation was acquired for £0.5 million; the powdered metal handling business of Pell Industries was acquired for £0.3 million and the trade and assets of Pulse Instrumentation were acquired for £2.7 million.

The acquisitions contributed £0.4 million to net profit in the year after charging amortisation on acquired intangibles of £0.1 million. Expenses in relation to the acquisitions totaling £0.1 million were written off.

Borrowings and bank finance
At the year end, the Group had net borrowings of £3.9 million (2011: £5.1 million) comprising gross borrowings of £11.1 million (2011: £10.2 million) offset by cash balances of £7.2 million (2011: £5.1 million). Borrowings of £6.4 million (US$10.25 million) (2011: £6.6 million (US$10.4 million)) are held in US dollars.

The Group signed new borrowing facilities on 25 January 2013 comprising a five year US$20 million revolving credit facility, a £2.5 million term loan and a £2.5 million overdraft facility. The new facilities provide adequate operating headroom out to January 2017. At 30 November 2012, the Group had £1.0 million of unused facilities (2011: £3.0 million of unused facilities), an unutilised overdraft facility of £2.5 million (2011: £2.5 million) and cash balances of £7.2 million (2011: £5.1 million). £1.4 million (2011: nil) of the cash balances are held as restricted cash in relation to the POSCO contract. It is expected that the restriction on this cash will be released in February 2013.

The Group's net debt to EBITDA ratio improved to 0.4 times (2011: 0.6 times) reflecting the improved profitability of the Group and a lowering of the net debt. The Group's gearing ratio (net debt as a percentage of total equity) reduced to 9% (2011: 12%).

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

At the year end, the Group had US$10.25 million (2011: US$10.4 million) of US dollar borrowings exposure which partially hedged underlying US net assets on the balance sheet of US$35.8 million (2011: US$33.1 million).

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

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

The Group recorded a retirement benefit obligation of £8.5 million (2011: £7.2 million). The increase in the deficit arose principally from an actuarial loss in the year of £1.2 million (2011: £1.8 million). The impact of a reduction in the discount rate from 4.8% to 4.2% was the principal reason that the losses of £2.6 million arose on the change in financial and demographic assumptions. This was partially offset by a return on the scheme's assets in excess of the expected return of £1.4 million as a result of the good performance of the underlying investments. The other assumptions adopted were in line with the previous year.

The scheme had 54 (2011: 57) active members, 295 (2011: 301) deferred members and 265 (2011: 259) pensioners at 30 November 2012. The life expectancy of members of the scheme at age 65 is assumed to be 19.7 years (2011: 19.6 years) for men and 22.3 years (2011: 22.2 years) for women.

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

Chris Tyler
Group Finance Director

25 January 2013

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.

Risk	Mitigation
Existing market risk The Group serves the needs of a range of specialist filtration markets, such that it is not dependent upon any one market. However, its activities are spread across four key markets as follows: • aviation filtration, where quality and accreditation of products are critical; • energy and industrial process filtration, where projects tend to be large and demand would be affected by a sustained economic downturn; • environmental laboratory supplies, where revenue can be affected by access to capital in customers' markets (municipal/utilities and industrial labs); and • aluminium filtration, which tends to be a cyclical market. The above 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.	No single market represents more than 25% of revenue. Many of the Group's products are consumable and are essential to the safe operation of their respective systems and processes, so whilst volumes are impacted by changes in economic circumstances, significant fluctuations for other reasons are rare. The Aerospace market has traditionally provided very steady business as the product cycles are very long and the Group offers a broad range of products split evenly between after-market and new build. The Group has a good pipeline of new long term supply contracts coming on stream and there is unlikely to be such a rapid decline in the aerospace market that the Group could not manage the consequences over time. The energy and industrial process products serve a range of customers who use filters as an integral part of processes in their plants. Sales are both for new build and after market spares. Environmental laboratory supplies are chiefly sold to laboratories engaged in meeting the regulatory requirements for clean water. It is expected that the regulated nature of this market will mitigate cyclical changes. This market is expected to grow as water regulations tighten throughout the world and demand for clean water in the developing world increases. The Group is steadily increasing its consumable revenue into this market and reducing its reliance on original equipment sales. The Group's revenue is affected by the levels of aluminium production. However, the Group now has a stronger market position having successfully converted its customers to a new improved filter formulation. The production of aluminium is gradually moving to larger smelters in regions of low cost energy. The Group is developing its sales presence accordingly.

Risk	Mitigation
New products and markets risk The Group invests significant amounts into the development of new products often driven either by environmental imperatives or legislation. In the early stage of development there is a risk that these products will either not be adopted as part of the potential solutions, or that the legislation or regulation will not develop in the way that the Group anticipates.	The Group's new product development is focused on solving specific challenges identified by the Group's customers. This focus on specific developments improves the adoption rate of the Group's designs. The Group has brought a number of these products to market recently and is now much less exposed to the risks associated with new products. 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.

Risk	Mitigation
Contracts risk The Group has a number of contracts for the installation of filtration systems which are large by the normal standards of the Group and significant delays or engineering challenges with these contracts could impact the Group's expected performance.	These contracts have direct senior management involvement on a day to day basis. The Group makes every effort to ensure that its commitments are met on time and in full. However, the Group is generally supplying a sub-system into a larger process and there may be delays or engineering challenges that are outside the Group's control.

Principal risks and uncertainties continued

Risk	Mitigation
Raw materials, resources and facilities risk The Group uses raw materials in its production processes. Prices for these raw materials can be volatile and are affected by the cyclical movement in commodity prices such as oil, alumina, gas and steel. The Group's ability to pass on these price fluctuations to its customers is to some extent dependent on the contracts it has entered into and the prevailing market conditions. 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 a number of production facilities, the largest facility generating approximately one third of the Group's revenue. A disaster, such as a fire or flood, at any of the Group's facilities could have a material impact on the Group's performance.	Where practical the Group seeks to fix its raw materials prices in long term contracts with suppliers and in certain cases uses forward contracts to manage its exposure to fluctuating prices. 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.

Risk	Mitigation
Competitive risk Porvair operates in competitive global markets. The Group's achievement of its objectives is reliant on its ability to respond to many competitive factors including, but not limited to, pricing, technological innovations, product quality, customer service, manufacturing capabilities and the employment of qualified personnel. If the Group does not continue to compete in its markets effectively by developing innovative solutions for its customers and delivering high quality customer service, it could lose its customers and its results could be adversely affected.	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. Through the development of a strategy that focuses on micro niches within the Group's chosen markets, the Group seeks to identify specific opportunities where it has a commercial, reputational or technological advantage that enables it to compete successfully.

Risk	Mitigation
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 win new mandates for filtration solutions with designs that provide technical or cost advantages over its competitors.	The design and testing cycle of many of the Group's products takes several years before a product is accepted by the customer. Once the product is accepted, and production commences, products often have a very long lifecycle. The Group therefore has good visibility of its pipeline of opportunities for revenue growth. However, the ultimate commercial success of a project can often only be judged when the development cycle is close to completion.

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

Risk	Mitigation
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 liabilities through limitations of liability in its contracts and carries insurance cover in the event that claims are made.

Risk	Mitigation
Financial risk management The Group's operations expose it to a variety of financial risks that include the effects of: • price risk; • foreign exchange risk; • credit risk; • liquidity risk; and • interest rate cash flow risk.	The Group has in place financial risk management procedures that seek to limit the adverse effects on the financial performance of financial risks. The principal procedures are described below: **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. **Foreign exchange risk** The Group seeks to manage its exposure to the impact of exchange rate movements on its net investments by maintaining some borrowings in US dollars. Previously it sought to maintain borrowings in US dollars equivalent to around 60% of the carrying value of its US dollar net tangible assets in its US operations. However, as the Group's overall borrowings have reduced, so the US dollar borrowings have reduced, to around 30% of its US dollar net assets. The UK operations of the business generate significant revenues in US dollars and the Group seeks to minimise the impact of movements in the US dollar exchange rate on the value of these US dollar flows by using financial instruments to fix the future value of the US dollars. The Group does not apply hedge accounting to these transactions. **Credit risk** The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. Debtor finance is very rarely used and is reviewed on a case by case basis by the Board of Directors. The Group monitors the level of deposits held with overseas banks and financial institutions and repatriates cash as part of its treasury management. **Liquidity risk** The Group actively maintains a mixture of long term and short term debt finance that is designed to ensure the Group has sufficient available funds for operations and planned expansions. **Interest rate cash flow risk** The Group has only interest bearing liabilities. The Group seeks to maintain between 40% and 60% of its borrowings at a fixed interest rate, typically through fixed rate swap agreements. The Directors will revisit the appropriateness of this policy should the Group's operations change in size or nature. The Group applies hedge accounting to these instruments. The Group had approximately 40% of its gross borrowings held at fixed rates at 30 November 2012.

Board of Directors

Charles Matthews
Non-Executive Chairman

Experience and external appointments:
Appointed to the Board in January 2005 and became Chairman on 12 April 2006. He is also Chairman of Norican Group ApS and Beck & Pollitzer Ltd. Charles 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.

Committee membership:
Chairman of the Nomination Committee, member of the Audit and Remuneration Committees.

Ben Stocks
Group Chief Executive

Experience and external appointments:
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.

Committee membership:
None

Chris Tyler
Group Finance Director

Experience and external appointments:
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.

Committee membership:
Group Company Secretary and Pension Scheme Trustee.

Michael Gatenby
Senior Non-Executive Director

Experience and external appointments:
Appointed to the Board in June 2002. He is Chairman of Alliance Pharma PLC. He is a chartered accountant.

Committee membership:
Chairman of the Audit Committee, member of the Remuneration and Nomination Committees.

Andrew Walker
Non-Executive Director

Experience and external appointments:
Appointed to the Board in January 2005. He is a Non-Executive Director of API Group plc, Plastics Capital plc and May Gurney Integrated Services plc. He is Chairman of Metalrax plc. He was previously Chief Executive of McKechnie plc and South Wales Electricity plc.

Committee membership:
Chairman of the Remuneration Committee, member of the Audit and Nomination Committees.

Paul Dean
Non-Executive Director

Experience and external appointments:
Appointed to the Board in August 2012. He has been Finance Director of Ultra Electronics PLC since January 2009 having previously been Finance Director of Foseco from 2001 until its acquisition by Cookson plc in April 2008. He was a key part of the team that led the 2001 management buy-out from Burmah Castrol of five specialty chemicals businesses to form Foseco (Jersey) which was floated as Foseco plc in May 2005. From 1989 to 2001, he held a number of senior finance roles in Burmah Castrol plc. He is a chartered management accountant.

Committee membership:
Member of the Audit, Remuneration and Nomination Committees.

Directors' report

The Directors are pleased to present their Annual Report and the audited accounts of the Group for the year ended 30 November 2012.

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 £4.3 million (2011: £3.1 million).

Business review

The business is reviewed in the Chairman's statement on page 6, the Chief Executive's report on pages 7 to 10 and the Finance Director's review on pages 12 to 16. The Group's strategy, objectives and likely future developments of the business are discussed in detail in the Chief Executive's report. The key performance indicators are defined in the Finance Director's review and discussed throughout the Chief Executive's report and Finance Director's review. The risks and uncertainties facing the business are described on pages 17 to 19.

Acquisitions

On 5 December 2011 a Group subsidiary, Seal Analytical Limited, purchased the Block Digestion product range ("Block Digesters") from Aim Lab Automation Technologies Pty Limited based in Australia. The total consideration paid was £485,000.

On 10 February 2012 a Group subsidiary, Selee Corporation, purchased the trade and assets of Pell Industries, a manufacturer of powdered metal handling products. Total consideration is a maximum of US$500,000 (£316,000) with a US$300,000 (£191,000) initial payment and a maximum further consideration of US$200,000 (£125,000) contingent upon achievement of agreed average monthly revenues from acquisition until the latter part of 2013. The contingent consideration may be paid in cash or shares at the Group's option. The Group expects the contingent consideration to be paid in full in cash.

On 17 April 2012 a Group subsidiary, Seal Analytical Inc., purchased the trade and assets of Pulse Instrumentation (1992) Limited, a laboratory consumables business based in Canada. Total consideration is a maximum of Can$4,289,000 (£2,716,000). Can$3,789,000 (£2,400,000) was paid as an initial payment and a further Can$400,000 (£253,000) was paid on 15 November 2012. A final payment of Can$100,000 (£63,000) was due and paid in January 2013.

Further details of the acquisitions are given in note 25 on pages 63 to 65.

Dividends

An interim dividend of 1.0 penny per share (2011: 1.0 penny per share) was paid on 7 September 2012. The Directors recommend the payment of a final dividend of 1.6 pence per share (2011: 1.4 pence per share) on 7 June 2013 to shareholders on the register on 3 May 2013; the ex-dividend date is 1 May 2013. This makes a total dividend for the year of 2.6 pence per share (2011: 2.4 pence per share).

Directors and their interests

The names and biographical details of the Directors are set out on page 20. Michael Gatenby, Charles Matthews, Ben Stocks, Chris Tyler and Andrew Walker all served throughout the year. Paul Dean was appointed to the Board on 2 August 2012. Michael Gatenby will retire from the Board at the Annual General Meeting on 16 April 2013.

The articles of association of the Company ("the Articles") require Paul Dean to seek election at the first Annual General Meeting following his appointment and Andrew Walker to retire by rotation and offer himself for re-election. Notwithstanding the above, and in accordance with best practice, it is the Board's intention that all Directors should offer themselves for re-election each year.

The appointment and replacement of Directors is governed by the Articles, the Companies Act 2006, the UK Corporate Governance Code and related regulation and legislation applying to UK listed companies. The Articles require there to be a minimum of three Directors (and permit a maximum of 15) and provide that the business of the Company shall be managed by the Board of Directors which may exercise all powers of the Company. The Board of Directors may make such arrangements as they see fit to delegate those powers except that the Board retains specific authority over the matters reserved for the Board, which are summarised in the Board of Directors section in the Corporate Governance report on page 32.

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 27 to 31. None of the Directors had a material interest in any contract of significance in relation to the Company or its subsidiaries during the year.

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

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

Research and development

The Group continues to undertake a research and development programme with the objective of identifying and developing new materials and products which have the potential to transform the growth of the Group. The cost to the Group in the year under review was £3.1 million (2011: £2.6 million), which was written off to the income statement and no development expenditure was capitalised in the year or the preceding year. The expenditure is of a development nature and is largely undertaken in-house rather than by third parties. In accordance with International Accounting Standard (IAS) 38, 'Intangible Assets', development expenditure is largely written off as incurred but where

Directors' report continued

a product has, amongst other conditions, been shown to be technically feasible and the Group can demonstrate, through customer acceptance or otherwise, that there is a market for the product, subsequent development expenditure is capitalised and written off over the expected life of the product.

Share capital

The Company has one class of ordinary share capital which carries no right to fixed income. All of the Company's shares in issue are fully paid and each share carries the right to vote at general meetings of the Company. During the year, the Company issued 51,700 shares to satisfy the exercise of share options.

Further details of the share capital of the Company are given in note 22 to the financial statements on pages 60 to 62.

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

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

Contracts

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

Substantial shareholders

As at 25 January 2013, the Company has been notified of the following substantial shareholdings comprising 3% or more of the issued share capital of the Company.

	Ordinary shares (number)	Percentage (%)
GGG Spa	7,329,427	17.2
M&G Group Limited	6,080,987	14.3
Morley Investment Management	3,929,155	9.2
Impax Environmental plc	2,918,151	6.8
Cavendish Asset Management	1,630,443	3.8
Old Mutual Fund Managers	1,614,309	3.8
Barclayshare Nominees	1,441,891	3.4
T. D. Waterhouse Securities	1,404,067	3.3

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 32 to 34, which forms part of this report.

Employment policies

The Group's employment policies are described in the Corporate and social responsibility report on pages 25 and 26.

Donations

The Group made a number of charitable donations totaling £22,000 (2011: £15,000) during the year. Substantially all charitable donations were made to local charities operating in Hendersonville, North Carolina. In accordance with Group policy, no political donations were made in the year (2011: £nil).

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 2012 were 45 days (2011: 35 days).

Financial risk management

The Group's operations expose it to a variety of financial risks that include the effects of price risk, foreign exchange risk, credit risk, liquidity risk and interest rate cash flow risk. The Group has in place risk management procedures that seek to limit the adverse effects on the financial performance of the Group of these financial risks.

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

Further details on the specific risks related to financial management and their mitigation are given on page 19.

Post balance sheet events

On 11 January 2013, the Group announced that it had signed an £11.3 million contract with the UK Government for the design and manufacture of a nuclear remediation filtration system. The financial impact of the contract will be spread over three years commencing in 2013. Certain aspects of the project require further engineering and the precise timing of deliveries is yet to be determined.

On 25 January 2013, the Group entered into new five year banking facilities sufficient for its foreseeable needs comprising a US$20 million revolving credit facility, a £2.5 million amortising term loan and a £2.5 million multi-currency overdraft facility.

Going concern

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

Annual General Meeting

The Annual General Meeting of the Company is to be held on Tuesday 16 April 2013. The notice for this meeting and proxy forms have been sent to shareholders separately.

Resolutions 4 to 8

Michael Gatenby will stand down from the Board at the Annual General Meeting on Tuesday 16 April 2013. Paul Dean, who has been appointed to the Board since the last Annual General Meeting of the Company, offers himself for election and in accordance with best practice all other Directors offer themselves for re-election. Brief biographies of the Directors are set out on page 20 of the Annual Report.

Resolutions 10 and 11 – Directors' authority to allot shares (ordinary resolution) and disapply pre-emption rights (special resolution)

Resolution 10 authorises the Directors to allot shares under section 551 of the Companies Act 2006. Paragraph 10.1 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 £284,083, being an amount equal to one third of the Company's issued share capital as at 25 January 2013. As at 25 January 2013, the Company did not hold any treasury shares. Paragraph 10.2 gives the Directors authority to issue an additional aggregate nominal amount of up to £284,083, being an amount equal to one third of the Company's issued share capital as at 25 January 2013. 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 authorities granted under Resolution 10 shall expire at the next Annual General Meeting of the Company. Resolution 10 replaces a similar resolution passed at the Annual General Meeting of the Company held on 11 April 2012.

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 12, 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 11 asks shareholders to grant the Directors authority to allot equity securities or sell treasury shares for cash up to an aggregate nominal value of £42,612 (being 5% of the Company's issued ordinary share capital as at 25 January 2013), 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 12 – Purchases of own shares by the Company (special resolution)

Resolution 12 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 25 January 2013. 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 11 April 2012. 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.

To understand the impact of dilution, options to subscribe for up to 2,444,418 ordinary shares have been granted and are outstanding as at 25 January 2013 (being the latest practicable date prior to publication of this document) which if issued would represent 5.4% 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 12 the options outstanding as at 25 January 2013 would represent 6.4% of the ordinary share capital (excluding shares held in treasury) in issue following such exercise.

Resolution 13 – Calling of general meetings (special resolution)

Resolution 13 to be proposed at the Annual General Meeting seeks authority from shareholders to hold general meetings (other than Annual General Meetings) on 14 days' clear notice. This is permissible under the Articles and the Companies Act 2006. However, pursuant to the EU Shareholders' Rights Directive, the Company must offer the facility, accessible to all shareholders, to vote by electronic means and must obtain specific shareholder approval on an annual basis to retain this ability. 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. The shorter notice period would not be used as a matter of course, but only where it is merited by the business of the meeting and is thought to be to the advantage of the shareholders as a whole. Accordingly, the Directors believe that it is important for the Company to retain this flexibility. Resolution 13 renews a similar resolution passed at the Annual General Meeting of the Company held on 11 April 2012.

Directors' report continued

Statement of Directors' responsibilities

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

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

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

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

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

Each of the Directors, whose names and functions are listed on page 20 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Chairman's statement, the Chief Executive's report, the Finance Director's review, the Principal risks and uncertainties 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.

Independent auditors

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

By order of the Board

Chris Tyler
Company Secretary

25 January 2013

Corporate and social responsibility report

Policy

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

Employment policies

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

The Group involves employees through both formal and informal systems of communication and consultation. Managers have a responsibility to communicate effectively and to promote a better understanding by employees of the activities and performance of the Group. Employee consultative committees regularly meet to ensure that management obtains representative views of employees concerning any decisions that affect them. Information relating to trading, company strategy and any other matters of significance are communicated to all employees through local briefings.

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

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

Health and safety

The Group recognises its clear responsibilities for the health and safety of its employees and to the communities in which the Group operates. Health and safety responsibility is delegated to senior managers within each business. These officers perform regular reviews and inspect the conditions in which the Group's employees work. Discretionary health and safety benefits for employees include the availability of gyms and onsite nursing and counseling staff at certain operations. The Group's regular reporting procedures include a review of accidents in the workplace.

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.

Health and safety achievements in the year have included:

- A comprehensive review of the health and safety standards within the Porvair Filtration Group including an update to the health and safety policy and associated training. Particular improvements have been made to the Company's procedures in relation to control of substances hazardous to health, fire safety risk assessments and safety improvements and additional safety measures on certain machinery.
- The award of a Gold Safety Award from the North Carolina Commissioner of Labor for maintaining a very low accident rate in comparison with other similar businesses.
- Improved lighting and reduced noise levels in the Group's principal Metals Filtration plant.

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.

This year the Group has introduced a modification to the gasket on its aluminium cast house filters which significantly reduces the amount of smoke and vapours that emit from the filters as it is heated up to operating temperature.

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 has procedures in place for their control, and its Metals Filtration division manages the emissions from its kiln firing operations.

Corporate and social responsibility report continued

Relationships with customers

The Group's products are bespoke for specific customers and generally have a very long product lifecycle. This naturally requires the Group to build close relationships with its customers. Over 80% of the Group's annual revenue comes from repeat business from existing customers.

Most new product introductions are developed with existing customers and when new customers are gained it is often after a long development period over which a close relationship has developed and a long term relationship is expected.

Particularly in aerospace and energy, the Group builds relationships with the immediate customer for the product and also with the ultimate end user or manufacturer, who is often the party that certifies the product. For example the airframe manufacturer will be an important stakeholder but the customer will usually be a sub assembly manufacturer.

Relationships with suppliers

The Group has an extensive network of suppliers and sub contractors, many of whom are critical to the manufacture of specific parts. The Group has a stable supplier base. It seeks to increase its supplier base by extending the number of suppliers only where there are perceived to be risks of under capacity or resilience in its existing supply chain. Suppliers are generally only removed from the approved list for persistent quality or delivery failures.

Wherever possible, the Group seeks local suppliers to fulfil its requirements. The Group carefully selects its suppliers. As part of building a long term relationship with its critical suppliers, the Group works closely with them to ensure that the quality and delivery standards required by the Group are achieved.

Anti-bribery and corruption policy

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

Porvair and the local community

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

Report of the Remuneration Committee

This part of the Report of the Remuneration Committee is unaudited

This report complies with the UK Corporate Governance Code published in June 2010 (the "UK Corporate Governance 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 2013.

The Committee

The members of the Remuneration Committee are drawn solely from the Independent Non-Executive Directors. The Committee is required to comprise at least two members. During the year, the Committee comprised Michael Gatenby, Charles Matthews and Andrew Walker (Chairman). Paul Dean joined the committee from 2 August 2012. A quorum is two members of the Committee.

The Committee is responsible for determining:

- the framework for the remuneration of the Chief Executive and other Executive Directors;
- the total individual remuneration package of each executive director including, where appropriate, bonuses, incentive payments and share options;
- the targets for the performance-related pay schemes operated by the Group;
- the policy for, and scope of, pension arrangements for each Executive Director; and
- that contractual terms on termination, and any payments made, are fair to the individual and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

The Committee uses external published benchmark data as part of its assessment of the pay and benefits awarded to the Executive Directors.

The Committee also has an advisory role in relation to major changes in employee benefit structures throughout the Company and the Group.

Remuneration policy

In formulating its policy for rewarding the Executive Directors the Committee has given full consideration to the requirements of Section D of the UK Corporate Governance Code.

The Committee aims to provide remuneration packages that:

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

The Executive Directors' remuneration packages consist of: a base salary; a discretionary annual cash bonus earned for the achievement of financial and non-financial objectives; the grant of share options and long term incentives with three year financial performance targets; and the provision of other benefits including pension arrangements, life insurance, permanent health and medical insurance and a company car or allowance.

Service contracts

The Executive Directors have rolling contracts with the Company which can be terminated on giving twelve months' notice. This is considered to be an appropriate balance between flexibility and commitment on both parties.

The Non-Executive Directors receive letters of appointment with six month notice terms and are subject to annual re-election, in common with the Executive Directors, in accordance with the best practice set out in the UK Corporate Governance Code published in September 2012. They receive a fixed annual fee, which reflects their time commitment to the business and they do not participate in any share option scheme, bonus or pension arrangements.

Report of the Remuneration Committee continued

This part of the Report of the Remuneration Committee is audited

Directors' remuneration

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

2012	Basic salary and fees £'000	Bonus £'000	Benefits £'000	Total 2012 £'000
Executive Directors				
B D W Stocks	269	189	27	**485**
C P Tyler	188	131	23	**342**
Non-Executive Directors				
P Dean (appointed 2 August 2012)	10	–	–	**10**
M R B Gatenby	30	–	–	**30**
C L Matthews	72	–	–	**72**
A J Walker	30	–	–	**30**
	599	320	50	**969**

2011	Basic salary and fees £'000	Bonus £'000	Benefits £'000	Total 2011 £'000
Executive Directors				
B D W Stocks	260	136	24	420
C P Tyler	181	95	21	297
Non-Executive Directors				
M R B Gatenby	28	–	–	28
C L Matthews	71	–	–	71
A J Walker	28	–	–	28
	568	231	45	844

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

Annual bonus

Bonus payments to Executive Directors are made at the discretion of the Committee with reference to the achievement of Group financial performance targets and achievement of personal and strategic objectives. In 2012, awards were capped at 75% of base salary with up to 60% paid on achievement of financial performance targets and 15% paid based on achievement of strategic and personal objectives. Bonuses up to 50% of salary are paid in cash. As part of a programme to encourage the Executive Directors to maintain a larger holding of shares in the Company, the net amount of a bonus award in excess of 50% of salary is paid in shares in the Company. Bonuses to be paid in 2013 relating to the Group's performance targets in 2012 are shown in the table of Directors' remuneration above. Bonuses are not pensionable but may be paid directly into the Executive Directors' pension schemes if requested.

In respect of 2012, the business exceeded the financial performance targets required for a maximum payout of the annual bonus but not all of the strategic and personal objectives were met in full. Accordingly, a bonus of 70% of salary has been awarded to the Executive Directors.

Pension entitlements

The Porvair plc Pension and Death Benefit Plan ("the Plan") is a contributory defined benefit scheme, which is now closed to new employees. Pension benefits from the Plan were subject to the HMRC earnings cap and the Group has continued to maintain an earnings cap since the HMRC limits were removed in April 2006. Pension benefits up to the capped limit were provided in the period for Ben Stocks by the Plan. Ben Stocks is entitled to the same pension benefits from the Plan as all other members. Only basic salary is pensionable.

Ben Stocks also receives a 15% contribution to a Self Invested Pension Plan ("SIPP") on the difference between his full salary and the capped limit covered by the Plan. Pension benefits are provided for Chris 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 Chris Tyler by the Plan. Ben Stocks and Chris Tyler are covered by the Group's permanent health insurance scheme.

The accumulated total accrued pension figures shown in the table below represent the annual amount of accrued pension payable from the Plan on retirement at normal retirement age, based on Ben Stocks' service to, and pensionable earnings at, the relevant year end. The increase in transfer value of the pension is calculated on the basis of actuarial advice and is net of Directors' contributions in the year. Ben Stocks was aged 50 on 30 November 2012.

	Accrued pension at 30 November 2012 £ 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 increase in accrued benefits, less director's contributions at 30 November 2012 £	Transfer value of accrued pension at 30 November 2012 £	Transfer value of accrued pension at 30 November 2011 £	Increase in transfer value in respect of accrued pension over the year net of Director's contributions £
B D W Stocks	26,853	3,183	2,568	7,938	170,786	148,900	14,002

The Company paid £20,648 (2011: £19,898) to a SIPP for Ben Stocks and £33,952 (2011: £27,853) to a SIPP for Chris Tyler in respect of the financial year 2012.

Share options and long term incentive plan shares

Awards of share options and long term incentive plan shares are at the discretion of the Committee.

The Company operates two discretionary share option plans:

- market priced options under The Porvair 2005 Unapproved Share Options Scheme (the '2005 scheme').
- nominal priced options under The Porvair Long Term Share Plan 2008 (the '2008 scheme').

Both schemes provide options with a ten year life and are subject to vesting conditions after three years based on performance conditions set by the Committee.

The Company also periodically offers invitations to all UK full time employees to join Save As You Earn ('SAYE') schemes. Currently there is a three year and a five year scheme running following an invitation in October 2011.

Options granted between 2005 and 2008 under the 2005 scheme only vest 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 2006, up to £100,000 per employee, under the 2005 scheme were awarded under the HMRC's Employee Management Incentive ('EMI') rules. No options were granted under this scheme in 2011 or 2012.

In January 2011 the Committee, having consulted with a number of shareholders, decided to vary the performance conditions on the 69.5 pence options issued on 30 January 2009 under the 2005 scheme. Under the revised performance conditions these options would vest in full if the Group's earnings per share was above 7.0 pence for the financial year ended 30 November 2011. Earnings per share must be at least 6.5 pence before any options vest. A sliding scale operates between earnings per share of 6.5 pence and 7.0 pence. None of the options vest at earnings per share of 6.5 pence and 50% of the options vest at earnings per share of 7.0 pence. If the vesting conditions are not met the share options lapse. The Committee believes that varying the performance conditions provided a better incentive for management than the previously set conditions. These options vested in full in January 2012.

Options granted in 2010 under the 2008 scheme can only be exercised in full if the Committee is satisfied that in the financial year ended 30 November 2012, the Group has achieved earnings per share of at least 11.0 pence per share. 30% of the award will vest if the Group has achieved earnings per share of 7.4 pence per share in the year ended 30 November 2012. 50% of the award will vest if the Group has achieved earnings per share of 8.0 pence per share in the year ended 30 November 2012. A sliding scale operates if the earnings are between 8.0 pence and 11.0 pence. 92% of these options will vest as a result of the performance in the year ended 30 November 2012, the remaining options have lapsed.

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

Report of the Remuneration Committee continued

Options granted in 2012 under the 2008 scheme can only be exercised in full if the Committee is satisfied that in the financial year ending 30 November 2014, the Group has achieved earnings per share of at least 14.0 pence per share. 30% of the award will vest if the Group has achieved earnings per share of 9.0 pence per share in the year ending 30 November 2014. 50% of the award will vest if the Group has achieved earnings per share of 11.0 pence per share in the year ending 30 November 2014. A sliding scale operates if the earnings are between 9.0 pence and 11.0 pence and between 11.0 pence and 14.0 pence.

The Committee intends to grant options in 2013, after publication of these results, under the 2008 scheme, which can only be exercised in full if the Committee is satisfied that in the financial year ending 30 November 2015, the Group has achieved earnings per share of at least 15.5 pence per share. 30% of the award will vest if the Group has achieved earnings per share of 11.0 pence per share in the year ending 30 November 2015. 50% of the award will vest if the Group has achieved earnings per share of 12.5 pence per share in the year ending 30 November 2015. A sliding scale operates if the earnings are between 11.0 pence and 12.5 pence and between 12.5 pence and 15.5 pence.

The maximum number of shares that may be issued under the Company's option schemes may not exceed 10% of the Company's issued share capital in any 10 year period. The maximum number of shares that may be issued under the 2005 scheme may not exceed 5% of the Company's issued share capital in any 10 year period.

The Committee retains the discretion to vary the performance conditions on any future awards under the 2005 scheme and the 2008 scheme. The options granted under the SAYE scheme in 2011 were issued at a 20% discount to the market price at the date of grant. These options have no performance conditions.

The market price of the Company's ordinary shares at 30 November 2012 was 152 pence (2011: 101.5 pence).

The range of market prices during the year was 87 pence to 152 pence.

Directors' holdings in share options

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 2011 (number)	Granted/ (exercised/lapsed) in the year (number)	At 30 November 2012 (number)	Exercise price	Scheme	Grant date	Date from which exercisable	Expiry date
B D W Stocks	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
	200,000	–	200,000	69.50p	2005		30/01/2012	30/01/2019
	300,000	(23,100)*	276,900	2.00p	2008		28/01/2013	28/01/2020
	250,000	–	250,000	2.00p	2008		27/01/2014	27/01/2021
	9,704	–	9,704	93.00p	SAYE		01/10/2014	01/04/2015
	–	260,000	260,000	2.00p	2008	02/02/2012	02/02/2015	02/02/2022
	959,704	236,900	1,196,604					
C P Tyler	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
	100,000	–	100,000	69.50p	2005		30/01/2012	30/01/2019
	200,000	(15,400)*	184,600	2.00p	2008		28/01/2013	28/01/2020
	175,000	–	175,000	2.00p	2008		27/01/2014	27/01/2021
	16,586	–	16,586	93.00p	SAYE		01/10/2016	01/04/2017
	–	181,000	181,000	2.00p	2008	02/02/2012	02/02/2015	02/02/2022
	591,586	165,600	757,186					

*indicates lapsed

Following publication of these results Ben Stocks will be granted 181,600 2 pence options and Chris Tyler will be granted 126,600 2 pence options under the 2008 scheme.

The Directors did not exercise any share options in 2012. The table below shows the options exercised by the Directors in 2011:

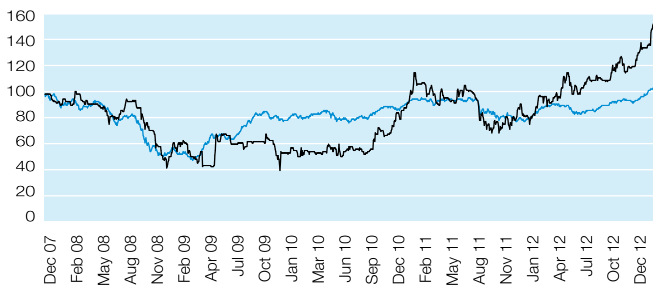
	Scheme	Year of grant	Exercise period	Exercise date	Number	Exercise price	Share price on date of exercise	Gain £
B D W Stocks	1997	2005	2008-2012	2 Feb 2011	150,000	98p	123p	37,500
	SAYE	2008	2011-2012	3 Oct 2011	11,750	80p	86p	705
C P Tyler	1997	2004	2007-2011	2 Feb 2011	60,000	101.5p	123p	12,900
	1997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

This part of the Report of the Remuneration Committee is unaudited

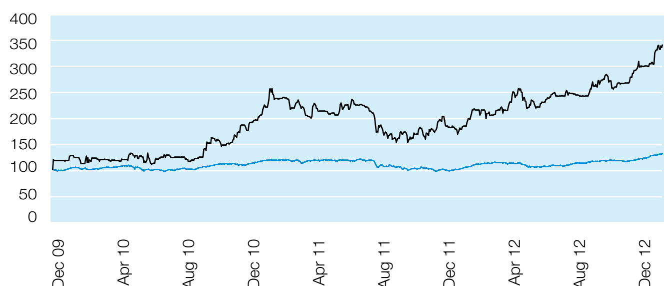
Total shareholder return

The following graphs chart total shareholder return against the FTSE SmallCap Index for the last five years and the last three years to 25 January 2013, with both rebased to 100 at the start of each period. Given the nature of the Group, the FTSE SmallCap Index is the logical comparator index.

5 year total shareholder return



3 year total shareholder return



— Porvair plc — FTSE SmallCap Index

Directors' interests

The beneficial interests at 30 November 2012 and 30 November 2011 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.

	2012		2011	
	Ordinary shares (number)	**Share options (number)**	Ordinary shares (number)	Share options (number)
Executive Directors				
B D W Stocks	**130,199**	**1,196,604**	131,553	959,704
C P Tyler	**65,250**	**757,186**	65,250	591,586
Non-Executive Directors				
M R B Gatenby	**14,000**	**–**	14,000	–
P Dean	**–**	**–**	N/A	N/A
C L Matthews	**30,000**	**–**	20,000	–
A J Walker	**29,454**	**–**	29,369	–

Andrew Walker Chairman Remuneration Committee
25 January 2013

Corporate governance

Compliance

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

Role of the Board

The Group is directed and controlled by the Board. It provides strategic leadership and support with the aim of developing the business profitably, whilst at the same time assessing and managing the associated risks. The Board ensures that the financial management, controls and resources are in place to enable the business to meet its objectives. The Directors take collective responsibility for the Group's performance.

The Board has a 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.

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 except for Andrew Walker, who missed one Board meeting.

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

Board of Directors

The Board consists of six Directors; two Executive Directors and four Non-Executive Directors. The Board is chaired by Charles Matthews. Ben Stocks is the Group Chief Executive and Chris Tyler is the Group Finance Director. Michael Gatenby, Paul Dean, Charles Matthews and Andrew Walker are Independent Non-Executive Directors. Michael Gatenby is the Senior Independent Non-Executive Director. On Michael Gatenby's retirement at the conclusion of the Annual General Meeting to be held in April 2013, Andrew Walker will be 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 Directors' appointment and removal is a matter for the Board as a whole. The Senior Independent Non-Executive Director is available for consultation with shareholders through the Company Secretary, by written submission. The Executive Directors and the Chairman have met with the Company's major shareholders and other potential investors on a regular basis and have reported to the Board on those meetings.

The Non-Executive Directors' terms of appointment do not specify a specific period for their appointment and therefore the terms are not in compliance with provision B.2.3 of the UK Corporate Governance Code. However, in accordance with best practice all of the Directors offer themselves for re-election at each Annual General Meeting. All newly appointed Directors offer themselves for election at the first Annual General Meeting following their appointment.

The Chairman considers that, following the application of the Board's formal performance evaluation programme, each Director's performance continues to be effective and each Director has demonstrated commitment to his role. Paul Dean was appointed on 2 August 2012 and will stand for election at the Annual General Meeting to be held in April 2013. The Board considers that his extensive commercial and financial experience within businesses in closely related sectors to the Group's will be of considerable benefit to the Board and the future of the Group.

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.

Board Committees

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, who will be replaced by Paul Dean following the Annual General Meeting to be held in April 2013. The Committee includes Charles Matthews, the Chairman of the Company.

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

The Board considers that all members of the Audit Committee have recent and relevant financial experience to enable it to discharge its function. The Committee has a formal agenda, timetable and terms of reference. During the course of the period under review it has:

- reviewed the financial statements of the Company and any formal announcements relating to the Company's financial performance prior to announcement;
- monitored the Company's internal financial controls and the Company's internal control and risk management systems and ensured that these are properly reviewed by the Group's management;
- reviewed the scope of the internal audit work done in reviewing the operating companies' internal controls and procedures;
- made recommendations to the Board in relation to the appointment of the external auditor and approved the remuneration and terms of engagement of the external auditor;
- monitored the external auditor's independence and objectivity; and
- reviewed arrangements by which staff of the Company may raise concerns about possible improprieties in matters of financial reporting or other matters.

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

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

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

The Audit Committee met three times during the year. There was full attendance by the members with the exception of Andrew Walker, who missed one meeting.

Remuneration Committee

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

The Report of the Remuneration Committee on pages 27 to 31 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's Nomination Committee provides a transparent process and procedure for the appointment of new Directors to the Board. The Nomination Committee comprises all of the Non-Executive Directors and is chaired by the Chairman of the Company. The Nomination Committee's responsibilities include:

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

The Company recognises the importance of diversity on the Board and throughout the executive functions within the business.

During the year the Company appointed a new Independent Non-Executive Director, Paul Dean. The Company compiled a long list of potential candidates from the knowledge of its Directors and by consulting with its advisers. Consequently, it did not require the services of a recruitment consultant. A short list of interviewees was selected from the list. Interviews were conducted, in the first instance, by the Chairman and Group Chief Executive and second interviews were conducted by the Group Finance Director and other Non-Executive Directors. The final selection was made by the Board as a whole.

The Nomination Committee met once during the year as part of a full Board meeting to discuss the nominations for the new Non-Executive Director. The Group's leadership and succession planning was considered in a meeting of the full Board.

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

Corporate governance continued

Takeover Directive

Disclosures relating to the Takeover Directive are included in the Directors' Report (under "Share capital") on page 22.

Internal control

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

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

Control environment – each operating business has its own management group which meets regularly to monitor operational matters. Each operating business is responsible for establishing its own systems of internal controls and for ensuring compliance with those controls. 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 senior finance executive in each operation has a dual responsibility to report within his operation to the Managing Director and to the Group Finance Director. 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 reviews a group register of risks and mitigation on a regular basis as part of its normal Board reporting. The Board also commissions independent reviews of the key risks facing the Group as appropriate.

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. The Board receives copies of the monthly management accounts for each month and the performance of the Group is reviewed in detail at each Board meeting.

Monitoring system – the Board has established a framework of controls encompassing procedures applicable to all businesses that are subject to executive review. The Group operates a self-assessment process so that the operating businesses can quantify the extent of their compliance with control objectives. This process is monitored by an internal audit cycle conducted by peer review by the Group's financial controllers directed by the Group Finance Director. The Board considers that the peer review process provides an appropriate level of review. The Group has a formal whistle blowing procedure which gives employees the opportunity to escalate their concerns, ultimately to the Senior Independent 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 each Director every month.

The Audit Committee and the Board have reviewed the effectiveness of the Group's internal controls for the period 1 December 2011 up to the date of approval of the Annual Report and Accounts and have addressed issues as they have been identified.

Chris Tyler Company Secretary
25 January 2013

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 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated cash flow statement, the Reconciliation of net cash flow to movement in net debt, the Consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 24, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 30 November 2012 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 22, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Porvair plc for the year ended 30 November 2012 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
25 January 2013

Consolidated income statement

For the year ended 30 November	Note	2012 £'000	2011 £'000
Revenue	2	**76,455**	68,090
Cost of sales		**(51,231)**	(45,385)
Gross profit		**25,224**	22,705
Distribution costs		**(990)**	(851)
Administrative expenses		**(17,029)**	(16,547)
Operating profit	2	**7,205**	5,307
Interest payable and similar charges	5	**(906)**	(806)
Interest receivable	5	**–**	12
Profit before income tax	2,3	**6,299**	4,513
Income tax expense	6	**(2,017)**	(1,414)
Profit for the year attributable to shareholders	23	**4,282**	3,099
Earnings per share (basic)	7	**10.1p**	7.3p
Earnings per share (diluted)	7	**9.9p**	7.3p

Consolidated statement of comprehensive income

For the year ended 30 November	Note	2012 £'000	2011 £'000
Profit for the year		**4,282**	3,099
Other comprehensive income/(expense):			
Exchange differences on translation of foreign subsidiaries	23	**(271)**	81
Changes in fair value of interest rate swaps held as a cash flow hedge	23	**81**	90
Actuarial losses in defined benefit pension plans net of tax	23	**(635)**	(1,576)
Net other comprehensive expense		**(825)**	(1,405)
Total comprehensive income for the year attributable to shareholders of Porvair plc		**3,457**	1,694

Consolidated balance sheet

Company registered number 1661935

As at 30 November	Note	2012 £'000	2011 £'000
Non-current assets			
Property, plant and equipment	9	8,641	8,213
Goodwill and other intangible assets	10	39,983	37,070
Deferred tax asset	19	1,996	1,400
		50,620	46,683
Current assets			
Inventories	12	10,258	9,056
Trade and other receivables	13	11,911	11,604
Derivative financial instruments	11	67	13
Cash and cash equivalents	14	7,275	5,111
		29,511	25,784
Current liabilities			
Trade and other payables	15	(14,228)	(12,355)
Current tax liabilities		(875)	(361)
Bank overdrafts and loans	17	(1,000)	(865)
Finance lease liabilities	18	–	(6)
Derivative financial instruments	11	(99)	(180)
		(16,202)	(13,767)
Net current assets		13,309	12,017
Non-current liabilities			
Bank loans	17	(10,145)	(9,331)
Retirement benefit obligations	20	(8,494)	(7,171)
Provisions for other liabilities and charges	21	(116)	(107)
		(18,755)	(16,609)
Net assets		45,174	42,091
Capital and reserves			
Share capital	22	852	851
Share premium account	22	34,511	34,471
Cumulative translation reserve	23	612	883
Retained earnings	23	9,199	5,886
Total equity		45,174	42,091

The financial statements on pages 36 to 68 were approved by the Board of Directors on 25 January 2013 and were signed on its behalf by:

B D W Stocks

C P Tyler

Consolidated cash flow statement

For the year ended 30 November	Note	2012 £'000	2011 £'000
Cash flows from operating activities			
Cash generated from operations	24	9,163	8,137
Interest received		–	85
Interest paid		(518)	(629)
Tax paid		(1,238)	(1,223)
Net cash generated from operating activities		7,407	6,370
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)	25	(3,329)	–
Purchase of property, plant and equipment	9	(1,780)	(1,370)
Purchase of intangible assets	10	(171)	(38)
Proceeds from sale of property, plant and equipment		23	54
Net cash used in investing activities		(5,257)	(1,354)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	22	41	457
Increase in/(repayment of) borrowings		1,071	(5,271)
Dividends paid to shareholders	8	(1,023)	(976)
Capital element of finance leases		(6)	(34)
Net cash generated from/(used in) financing activities		83	(5,824)
Net increase/(decrease) in cash and cash equivalents		2,233	(808)
Effects of exchange rate changes		(69)	22
		2,164	(786)
Cash and cash equivalents at 1 December		5,111	5,897
Cash and cash equivalents at 30 November	14	7,275	5,111

Reconciliation of net cash flow to movement in net debt

	2012 £'000	2011 £'000
Net increase/(decrease) in cash and cash equivalents	2,233	(808)
Effects of exchange rate changes	53	87
(Increase in)/repayment of borrowings	(1,071)	5,271
Repayment of finance leases	6	34
Net debt at 1 December	(5,091)	(9,675)
Net debt at 30 November	(3,870)	(5,091)

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 2010	841	34,024	802	4,814	40,481
Profit for the year	–	–	–	3,099	3,099
Other comprehensive income/(expense):					
Exchange differences on translation of foreign subsidiaries	–	–	81	–	81
Changes in fair value of interest rate swaps held as a cash flow hedge	–	–	–	90	90
Actuarial (losses) in defined benefit pension plans net of tax	–	–	–	(1,576)	(1,576)
Total comprehensive income for the year	–	–	81	1,613	1,694
Transactions with owners:					
Employee share options scheme					
– Value of employee services net of tax	–	–	–	435	435
Proceeds from shares issued, net of costs	10	447	–	–	457
Dividends approved or paid	–	–	–	(976)	(976)
Balance at 30 November 2011	851	34,471	883	5,886	42,091
Balance at 1 December 2011	851	34,471	883	5,886	42,091
Profit for the year	–	–	–	4,282	4,282
Other comprehensive income/(expense):					
Exchange differences on translation of foreign subsidiaries	–	–	(271)	–	(271)
Changes in fair value of interest rate swaps held as a cash flow hedge	–	–	–	81	81
Actuarial (losses) in defined benefit pension plans net of tax	–	–	–	(635)	(635)
Total comprehensive income for the year	–	–	(271)	3,728	3,457
Transactions with owners:					
Employee share options scheme					
– Value of employee services net of tax	–	–	–	608	608
Proceeds from shares issued, net of costs	1	40	–	–	41
Dividends approved or paid	–	–	–	(1,023)	(1,023)
Balance at 30 November 2012	**852**	**34,511**	**612**	**9,199**	**45,174**

Notes to the consolidated financial statements

1 Summary of significant accounting policies

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

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union, the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee (IFRIC)) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its entity accounts in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and these are presented on pages 70 to 76.

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

Basis of consolidation

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

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

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

Use of assumptions and estimates

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

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

Material estimates and assumptions are made in particular with regard to: establishing uniform depreciation and amortisation periods for the Group, goodwill and intangible assets valuation (cash flows and discount rate), impairment testing, assumptions used in the calculation of share-based payments, parameters for measuring pension and other provisions and the likelihood that tax assets can be realised.

The Group applies the percentage of completion method in accounting for its construction contracts. Use of the percentage of completion method requires the Group to estimate the construction performed to date as a proportion of the total construction to be performed. Estimating the costs to complete is considered to be a material estimate.

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

Goodwill

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

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

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

1 Summary of significant accounting policies continued

Revenue recognition

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

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

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. Contract costs include costs directly related to the specific contract and indirect costs attributable to the contract.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

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.

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

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

Borrowing costs

All borrowing costs are typically recognised in the income statement in the period in which they are incurred. 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.

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

The retirement benefit obligation in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets.

Taxation

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

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

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

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

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

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

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

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

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

Freehold land is not depreciated.

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

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

1 Summary of significant accounting policies continued

Internally generated intangible assets – research and development expenditure

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

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

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

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

Patents, trademarks and know-how

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

Software

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

Impairment of tangible and intangible assets

The Group reviews annually the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

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

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

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.

Notes to the consolidated financial statements continued

1 Summary of significant accounting policies continued

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown with borrowings in current liabilities.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest method and are added to the carrying amount of the instrument, to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are initially recognised at fair value and subsequently held at amortised cost.

Equity instruments

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

Derivative financial instruments and hedge accounting

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

The Group uses foreign exchange forward contracts and interest rate swap agreements to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

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

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

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

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

Provisions

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

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

Share based payments

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

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

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

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

Exceptional items

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

1 Summary of significant accounting policies continued

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 2012:

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

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

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

- IAS 19 (revised 2011), 'Employee benefits';
- Amendment to IAS 1, 'Financial statement presentation' on other comprehensive income (OCI);
- Amendment to IAS 12, 'Income taxes' on deferred tax;
- IFRS 9, 'Financial instruments' on 'Classification and measurement' of financial assets;
- IFRS 9, 'Financial instruments' on 'Classification and measurement' of financial liabilities;
- IFRS 10, 'Consolidated financial statements';
- IFRS 11, 'Joint arrangements';
- IFRS 12, 'Disclosure of interests in other entities';
- IFRS 13, 'Fair value measurement';
- IAS 27 (revised), 'Separate financial statements';
- IAS 28 (revised), 'Investments in associates and joint ventures';
- Amendments to IAS 32 and IFRS 7 'Financial instruments on asset and liability offsetting';
- Annual improvements 2011;
- IFRC 20, 'Stripping costs in the production phase of a surface mine'.

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

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

Notes to the consolidated financial statements continued

2 Segment information

The chief operating decision maker has been identified as the Board of Directors. The Board of Directors reviews 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 2012, the Group is organised on a worldwide basis into two operating segments:

(1) Metals Filtration

(2) Microfiltration

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

The segment results for the year ended 30 November 2012 are as follows:

30 November 2012	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Revenue		27,977	48,478	–	**76,455**
Operating profit/(loss)		2,383	6,688	(1,866)	**7,205**
Net finance costs	5	–	–	(906)	**(906)**
Profit/(loss) before income tax		2,383	6,688	(2,772)	**6,299**
Income tax expense		–	–	(2,017)	**(2,017)**
Profit/(loss) for the year		2,383	6,688	(4,789)	**4,282**

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

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

2 Segment information continued

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

30 November 2012	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Depreciation and amortisation (tangible and intangible assets)	9,10	681	981	–	**1,662**

30 November 2011	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Depreciation and amortisation (tangible and intangible assets)	9,10	804	1,132	–	1,936

The segment assets and liabilities at 30 November 2012 are as follows:

30 November 2012	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Segmental assets		24,362	45,285	3,209	**72,856**
Cash and cash equivalents	14	–	–	7,275	**7,275**
Total assets		24,362	45,285	10,484	**80,131**
Segmental liabilities		(3,102)	(10,059)	(2,157)	**(15,318)**
Retirement benefit obligations	20	–	–	(8,494)	**(8,494)**
Borrowings	17,18	–	–	(11,145)	**(11,145)**
Total liabilities		(3,102)	(10,059)	(21,796)	**(34,957)**

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

30 November 2011	Note	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Segmental assets		26,005	39,068	2,283	67,356
Cash and cash equivalents	14	–	–	5,111	5,111
Total assets		26,005	39,068	7,394	72,467
Segmental liabilities		(3,042)	(8,466)	(1,495)	(13,003)
Retirement benefit obligations	20	–	–	(7,171)	(7,171)
Borrowings	17,18	–	(6)	(10,196)	(10,202)
Total liabilities		(3,042)	(8,472)	(18,862)	(30,376)

Notes to the consolidated financial statements continued

2 Segment information continued

Geographical analysis

Revenue	2012 By destination £'000	2012 By origin £'000	2011 By destination £'000	2011 By origin £'000
United Kingdom	14,250	34,877	14,919	29,697
Continental Europe	11,506	6,749	10,384	6,207
United States of America	30,963	33,350	27,865	30,763
Other NAFTA	2,846	–	2,403	–
South America	1,904	–	1,588	–
Asia	12,440	1,479	8,018	1,423
Australasia	1,048	–	1,341	–
Africa	1,498	–	1,572	–
	76,455	76,455	68,090	68,090

Non-current assets	2012 £'000	2011 £'000
United Kingdom	19,389	18,711
Continental Europe	3,402	3,698
Americas	25,489	22,639
Asia	344	235
	48,624	45,283

Capital expenditure (including intangibles)	2012 £'000	2011 £'000
United Kingdom	1,038	918
Continental Europe	98	39
Americas	677	418
Asia	138	33
	1,951	1,408

No single customer represents 10% or more of the Group's revenue in 2012 or 2011.

3 Profit before income tax

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

	2012 £'000	2011 £'000
Staff costs	23,257	21,331
Inventories – Cost of inventories recognised as an expense (included in cost of sales)	28,900	24,634
Net realised foreign exchange gains	(301)	(114)
Depreciation on tangible fixed assets – owned	1,329	1,631
Depreciation on tangible fixed assets – leased	–	13
Impairment charge on tangible fixed assets – owned	–	121
Amortisation of intangible fixed assets	333	292
Impairment charge on intangible fixed assets	–	492
(Profit) on sale of tangible and intangible fixed assets	(1)	(34)
Other operating lease rentals payable:		
– Plant and machinery	236	255
– Property	1,127	1,230
Repairs and maintenance on property, plant and equipment	1,589	1,558
Trade receivables impairment	189	110
Research and development expenditure	3,122	2,592
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	51	50
The audit of Company's subsidiaries pursuant to legislation	79	78
Other services pursuant to legislation	17	16
Tax services – Compliance	64	89
Tax services – Advisory	33	13
	244	246

In addition to the above services, the Group's auditors acted as auditors to The Porvair plc Pension and Death Benefit Plan. The appointment of auditors to the Group's pension plan and the fees paid in respect of those audits are agreed by the Trustees who act independently from the management of the Group. The aggregate fees paid to the Group's auditors for the audit services to the pension plan during the year were £13,000 (2011: £13,000).

4 Employee benefit expense

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

	2012 Average	2011 Average
Number		
Metals Filtration	160	152
Microfiltration	396	367
Head office	7	7
	563	526
North American employees included above	168	154

	2012 £'000	2011 £'000
Staff costs		
Wages and salaries	19,127	17,704
Social security costs	2,831	2,492
Other pension costs	919	855
Share based payments	380	280
	23,257	21,331

Detailed disclosures of Directors' emoluments and interests in share options are shown in the Report of the Remuneration Committee on pages 27 to 31. The Directors comprise the key management and their remuneration is disclosed in note 30.

Notes to the consolidated financial statements continued

5 Finance income and costs

	Note	2012 £'000	2011 £'000
Interest payable on bank loans and overdrafts		496	593
Interest payable on finance leases		1	4
Unwinding of discount on provisions	21	9	9
Pension scheme finance expense	20	400	200
Interest receivable – long term receivable		–	(9)
Interest receivable – other		–	(3)
		906	794

6 Income tax expense

	Note	2012 £'000	2011 £'000
Current tax			
UK Corporation tax		731	358
Adjustment in respect of prior periods		169	(110)
Overseas tax		900	529
		1,800	777
Deferred tax			
Origination and reversal of temporary differences – UK	19	(256)	(104)
Origination and reversal of temporary differences – Overseas	19	473	741
		217	637
		2,017	1,414

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:

	2012 £'000	2011 £'000
Profit before tax	6,299	4,513
Tax at the UK Corporation tax rate of 24.67% (2011: 26.67%)	1,554	1,204
Tax adjustments in respect of prior periods	169	(110)
Deferred tax on share based payments within income statement	(94)	(75)
Tax effect of expenses not deductible in determining taxable profit	(32)	61
Effect of change in deferred tax rates	5	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	415	334
Tax charge	2,017	1,414

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

	2012 £'000	2011 £'000
Deferred tax on share based payments (direct to equity)	(228)	(155)
Deferred tax on actuarial losses on the pension fund (direct to comprehensive income)	(565)	(224)
	(793)	(379)

The standard rate of Corporation Tax in the UK changed from 26% to 24% with effect from 1 April 2012. Accordingly, the Group's profits for this accounting period are taxed at an effective rate of 24.67%.

During the year, as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2013, deferred tax balances have been remeasured. Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2013 is measured at 24% and deferred tax relating to temporary differences expected to reverse after 1 April 2013 is measured at the tax rate of 23% as these are the rates that will apply on reversal. A further reduction has been proposed to reduce the rate to 21% from 1 April 2014, although this has not yet been substantively enacted.

7 Earnings per share

	2012			2011		
	Earnings £'000	Weighted average number of shares	Per share amount (pence)	Earnings £'000	Weighted average number of shares	Per share amount (pence)
Basic EPS						
Earnings attributable to ordinary shareholders	**4,282**	**42,601,240**	**10.1**	3,099	42,380,215	7.3
Effect of dilutive securities						
Earnings attributable to ordinary shareholders	**4,282**	**–**	**10.1**	3,099	–	7.3
Dilutive impact of share options	**–**	**777,195**	**(0.2)**	–	156,228	–
Diluted EPS	**4,282**	**43,378,435**	**9.9**	3,099	42,536,443	7.3

8 Dividends per share

	2012		2011	
	Per share (pence)	£'000	Per share (pence)	£'000
Final dividend paid	**1.40p**	**597**	1.30p	552
Interim dividend paid	**1.00p**	**426**	1.00p	424
	2.40p	**1,023**	2.30p	976

The Directors recommend a final dividend of 1.6p for the financial year ended 30 November 2012 to be paid on 7 June 2013.

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

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 2011	4,159	368	23,388	27,915
Reclassification	–	(639)	639	–
Additions	50	651	1,079	1,780
Acquisitions	–	13	78	91
Disposals	–	–	(555)	(555)
Exchange differences	(45)	(6)	(255)	(306)
At 30 November 2012	**4,164**	**387**	**24,374**	**28,925**
Depreciation				
At 1 December 2011	(1,761)	–	(17,941)	(19,702)
Charge for year	(78)	–	(1,251)	(1,329)
Disposals	–	–	534	534
Exchange differences	22	–	191	213
At 30 November 2012	**(1,817)**	**–**	**(18,467)**	**(20,284)**
Net book value at 30 November 2012	**2,347**	**387**	**5,907**	**8,641**

The net book value of plant, machinery and equipment in 2011 included £56,000 held under finance leases (note 18).

The impairment charge in 2011 related to a property held in the Microfiltration division.

10 Goodwill and other intangible assets

	Goodwill £'000	Development expenditure capitalised £'000	Software capitalised £'000	Trademarks, know-how and other intangibles £'000	Total £'000
At 1 December 2010					
Cost	54,922	1,880	975	35	57,812
Accumulated amortisation and impairment	(18,542)	(632)	(705)	(17)	(19,896)
Net book amount	36,380	1,248	270	18	37,916
Year ended 30 November 2011					
Opening net book amount	36,380	1,248	270	18	37,916
Additions	–	–	38	–	38
Impairment charge	–	(492)	–	–	(492)
Amortisation charges	–	(126)	(159)	(7)	(292)
Exchange differences	(85)	(17)	2	–	(100)
Closing net book amount	36,295	613	151	11	37,070
At 30 November 2011					
Cost	54,832	1,863	1,016	35	57,746
Accumulated amortisation and impairment	(18,537)	(1,250)	(865)	(24)	(20,676)
Net book amount	36,295	613	151	11	37,070
Year ended 30 November 2012					
Opening net book amount	36,295	613	151	11	37,070
Additions	–	–	91	80	171
Acquisitions	2,458	–	19	709	3,186
Disposals cost	–	–	(157)	–	(157)
Disposals amortisation	–	–	156	–	156
Amortisation charges	–	(124)	(117)	(92)	(333)
Exchange differences	(87)	(15)	(5)	(3)	(110)
Closing net book amount	**38,666**	**474**	**138**	**705**	**39,983**
At 30 November 2012					
Cost	57,203	1,829	962	820	60,814
Accumulated amortisation and impairment	(18,537)	(1,355)	(824)	(115)	(20,831)
Net book amount	**38,666**	**474**	**138**	**705**	**39,983**

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 £333,000 (2011: £292,000) is included in 'cost of sales' in the income statement.

The impairment charge in 2011 related to the reduction in the carrying value of a development project in the Metals Filtration division.

Impairment tests for goodwill

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

A segment level summary of the goodwill allocation is presented below.

	2012			2011		
	Metals Filtration £'000	Microfiltration £'000	Total £'000	Metals Filtration £'000	Microfiltration £'000	Total £'000
	15,285	23,381	38,666	14,845	21,450	36,295

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%
Growth rate used to extrapolate cash flows beyond the budget period	3%	3%	3%	3%
Weighted average cost of capital	8%	8%	8%	8%

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

Based on the results of the current period impairment review, no impairment charges have been recognised by the Group in the year ended 30 November 2012. Having assessed the anticipated future cash flows, the Directors do not currently foresee any reasonable changes in assumptions that would lead to such an impairment charge in the year ended 30 November 2012.

11 Derivative financial instruments

	2012		2011	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward foreign exchange contracts – current	67	–	13	–
Interest rate swap agreements – cash flow hedges – current	–	(99)	–	(180)
	67	(99)	13	(180)

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

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

The notional principal amount of the outstanding US dollar forward foreign exchange contracts at 30 November 2012 is £6.8 million (2011: £1.0 million) which mature in December 2012, January 2013, February 2013, March 2013, April 2013, May 2013, November 2013 and June 2014. The notional principal amount of the outstanding Euro forward exchange contract at 30 November 2012 is £nil (2011: £0.3 million).

The Group has contracted interest rate swap agreements for US$7.5 million (2011: US$10 million) of its US$ borrowings until December 2013. The Group also has contracted interest rate swap agreements for £nil (2011: £1 million) of its UK borrowings. The Group has accounted for these swap agreements using hedge accounting with gains or losses being credited/charged directly to equity.

Notes to the consolidated financial statements continued

12 Inventories

	2012 £'000	2011 £'000
Raw materials	3,001	2,746
Work in progress	4,036	3,290
Finished goods	3,221	3,020
	10,258	9,056

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £28,900,000 (2011: £24,634,000). The Group has recognised a provision of £253,000 (2011: £656,000) for the write-down of its inventories during the year ended 30 November 2012. The Group has utilised provisions of £349,000 (2011: £142,000) during the year ended 30 November 2012.

13 Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	11,159	10,768
Less: provision for impairment	(275)	(173)
Trade receivables – net	10,884	10,595
Other debtors	76	108
Prepayments	951	901
	11,911	11,604

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

Credit risk in relation to trade receivables

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

The Group does not hold security over its receivables, so was exposed to credit risk in respect of the net trade receivables balance of £10,884,000 (2011: £10,595,000). Management believe the credit quality of trade receivables which are within the Group's typical payment terms of between 30 and 90 days (and which are less than 3 months overdue) are good, with £1,388,000 (2011: £1,891,000) being past due but not impaired at the year end, of which £1,070,000 (2011: £1,190,000) are less than 30 days overdue.

	2012			2011		
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	9,278	–	–	8,502	–	–
0-3 months overdue	–	1,388	45	–	1,891	93
3-6 months overdue	–	213	158	–	168	38
>6 months overdue	–	5	72	–	34	42
Total	9,278	1,606	275	8,502	2,093	173

The Group has recognised a provision of £189,000 (2011: £110,000) within administrative expenses for the impairment of its trade receivables during the year ended 30 November 2012. The Group has utilised provisions for impaired receivables of £87,000 (2011: £52,000) during the year ended 30 November 2012.

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

14 Cash and cash equivalents

	2012 £'000	2011 £'000
Cash at bank and in hand	5,863	5,111
Restricted cash	1,412	–
Cash and cash equivalents	7,275	5,111

Cash and cash equivalents includes a restricted balance of £1,412,000 (US$2,263,000) held as a guarantee by a UK bank against the advance payment bond in relation to the POSCO contract which will be released no later than 31 August 2015 (2011: £nil).

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

	2012 £'000	2011 £'000
Pounds Sterling	246	1,928
US dollar	4,899	1,882
Euro	1,789	1,108
Other	341	193
	7,275	5,111

15 Trade and other payables

	2012 £'000	2011 £'000
Amounts falling due within one year:		
Trade payables	6,723	5,691
Taxation and social security	560	735
Accruals and deferred income	6,945	5,929
	14,228	12,355

16 Construction contracts

	2012 £'000	2011 £'000
Amounts due from contract customers included in trade and other receivables	589	–
Contracts in progress at the balance sheet date:		
Amounts due to contract customers included in trade and other payables	(946)	–
Net amounts due to contract customers	(946)	–
Contract costs incurred plus recognised profits less recognised losses to date	4,122	–
Less: progress billings	(5,068)	–
Contracts in progress at the balance sheet date	(946)	–

At 30 November 2012, retentions held by customers for contract work amounted to £nil (2011: £nil). Advances received from customers for contract work amounted to £524,000 (2011: £nil).

The Directors consider that the carrying amount due from/to contract customers is a reasonable approximation of their fair value.

Notes to the consolidated financial statements continued

17 Borrowings

	2012 £'000	2011 £'000
Secured multi-currency revolving credit facility of US$15 million (2011: US$15 million) maturing in December 2013 with interest at 2.7% (2011: 2.7%) above US dollar LIBOR	8,395	6,492
Secured five year amortising debt facility of £2.75 million (2011: £3.75 million) expiring in December 2013 with interest at 2.7% (2011: 2.7%) above LIBOR	2,750	3,704
	11,145	10,196

Bank and other loans of the Group are repayable as follows:	2012 £'000	2011 £'000
Within one year	1,000	865
One to two years	10,145	1,000
Two to five years	–	8,331
	11,145	10,196

The loans are shown net of issue costs of £nil (2011: £135,000) which are being amortised over the life of the loan arrangements. The term and multi-currency revolving credit facilities expire in December 2013.

At 30 November 2012, the Group had £1.0 million unused facility (2011: £3.0 million unused facility) and an unutilised £2.5 million (2011: £2.5 million) overdraft facility.

The carrying values of bank borrowings approximate their fair value.

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

On 25 January 2013, the Group entered into new five year banking facilities sufficient for its foreseeable needs comprising a US$20 million revolving credit facility, a £2.5 million amortising term loan and a £2.5 million multi-currency overdraft facility.

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

	2012 £'000	2011 £'000
Pounds Sterling	4,750	3,704
US Dollar	6,395	6,492
	11,145	10,196

18 Finance lease liabilities

	2012 £'000	2011 £'000
Gross lease liabilities		
Within one year	–	7
	–	7
Future interest	–	(1)
Present value of lease liabilities	–	6
Present value of lease liabilities are repayable as follows:		
Within one year	–	6
Total	–	6

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

19 Deferred tax asset

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

	Note	2012 £'000	2011 £'000
At 1 December		**1,400**	1,652
Exchange differences		**20**	6
Income statement (charge)	6	**(217)**	(637)
Tax credited to comprehensive income		**565**	224
Tax credited to equity		**228**	155
At 30 November		**1,996**	1,400

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 2010	(1,156)	1,505	–	(481)	192	1,592	1,652
Credited/(charged) to income statement	155	(854)	–	48	75	(61)	(637)
Credited to equity	–	–	–	–	155	–	155
Credited to comprehensive income	–	–	–	–	–	224	224
Exchange differences	8	–	–	(2)	–	–	6
At 30 November 2011	(993)	651	–	(435)	422	1,755	1,400
(Charged)/credited to income statement	(292)	(188)	–	137	94	32	(217)
Credited to equity	–	–	–	–	228	–	228
Credited to comprehensive income	–	–	–	–	–	565	565
Exchange differences	19	(6)	–	7	–	–	20
At 30 November 2012	**(1,266)**	**457**	**–**	**(291)**	**744**	**2,352**	**1,996**

There were £nil (2011: £876,000) of unrecognised deferred tax assets at 30 November 2012 relating to unutilised tax losses, primarily in the US. The tax assets in relation to losses incurred in the US had been recognised to the extent that they were expected to be relieved against future profits.

There were no other unprovided deferred tax amounts at 30 November 2012 (2011: £nil).

20 Retirement benefit obligations

	2012 £'000	2011 £'000
Defined benefit scheme deficit	**8,351**	7,020
Additional pension commitments	**143**	151
	8,494	7,171

The additional pension commitments arise out of contractual commitments to certain employees outside the scope of the defined benefit plan. These liabilities will crystallise between two and eleven 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 2012, this amounted to £153,000 (2011: £177,000). In 2012, the Group also made payments of £155,000 (2011: £159,000) to designated US 401k schemes on behalf of its employees.

In the UK, after the closure of the defined benefit plan to new members, the Group introduced a stakeholder plan to be offered to all new employees. Total employer contributions in the UK paid to defined contribution schemes were £266,000 (2011: £246,000).

Notes to the consolidated financial statements continued

20 Retirement benefit obligations continued

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 available 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 agreed in 2010 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 and is expected to be completed by June 2013.

The UK pension charge for the year was £200,000 (2011: £200,000); the funding via employer contributions was £469,000 (2011: £628,000).

The valuation of the deficit in the balance sheet is based on the most recent actuarial valuation of the Plan as updated by a qualified actuary to take account of the market value of the assets and the present value of the liabilities of the Plan at 30 November 2012.

Balance sheet

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

	2012	2011	2010
Valuation method	Projected Unit	Projected Unit	Projected Unit
Discount rate	4.2%	4.8%	5.4%
RPI inflation rate	2.8%	3.0%	3.2%
CPI inflation rate	2.1%	2.0%	2.5%
General salary increases	2.8%	3.0%	3.2%
Rate of increase of pensions in payment	2.1%	2.0%	2.5%
Rate of increase for deferred pensioners	2.1%	2.0%	2.5%

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 (2011: 1.0% per annum). The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is 19.7 (2011: 19.6) for men and 22.3 (2011: 22.2) for women.

20 Retirement benefit obligations continued

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

	Long term expected rate of return at 30 November 2012	Value at 30 November 2012 £'000	Long term expected rate of return at 30 November 2011	Value at 30 November 2011 £'000	Long term expected rate of return at 30 November 2010	Value at 30 November 2010 £'000	Long term expected rate of return at 30 November 2009	Value at 30 November 2009 £'000	Long term expected rate of return at 30 November 2008	Value at 30 November 2008 £'000
Equities	6.9%	11,000	7.1%	10,100	8.2%	10,300	8.1%	9,800	8.4%	8,100
Bonds	4.2%	1,800	4.8%	8,300	5.4%	8,000	5.5%	7,500	4.4%	6,360
Gilts	2.9%	7,200	–	–	–	–	–	–	–	–
Other	3.6%	149	3.8%	180	3.9%	52	4.0%	47	4.4%	–
Fair value of plan assets		20,149		18,580		18,352		17,347		14,460
Present value of unfunded obligations		(28,500)		(25,600)		(23,800)		(25,800)		(18,000)
Deficit in the Plan (excluding deferred tax)		(8,351)		(7,020)		(5,448)		(8,453)		(3,540)

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

	2012 £'000	2011 £'000	2010 £'000
Deficit at 1 December	(7,020)	(5,448)	(8,453)
Contributions paid	469	628	505
Current service cost	(200)	(200)	(200)
Other finance (expense)	(400)	(200)	(400)
Actuarial (losses)/gains	(1,200)	(1,800)	3,100
Deficit at 30 November	(8,351)	(7,020)	(5,448)

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

	2012 £'000	2011 £'000
Plan assets at the start of the year	18,580	18,352
Benefit payments	(1,200)	(1,100)
Company contributions	469	628
Member contributions	100	100
Expected return on assets	800	1,100
Actual return on assets in excess of/(less than) expected return	1,400	(500)
Plan assets at the end of the year	20,149	18,580

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

	2012 £'000	2011 £'000
Plan liabilities at the start of the year	(25,600)	(23,800)
Current service cost	(200)	(200)
Interest cost	(1,200)	(1,300)
Member contributions	(100)	(100)
Benefits paid	1,200	1,100
(Losses) on change in financial and demographic assumptions	(2,600)	(1,300)
Plan liabilities at the end of the year	(28,500)	(25,600)

Notes to the consolidated financial statements continued

20 Retirement benefit obligations continued

Income statement	2012 £'000	2011 £'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	(1,200)	(1,300)
Expected return on assets in the Plan	800	1,100
Net amount (charged) to other finance income and costs	(400)	(200)
Total chargeable to the income statement before deduction of tax	**(600)**	(400)
Other items		
Analysis of amounts recognised in the consolidated statement of comprehensive income:		
Actual return/(loss) on assets in excess of expected return	1,400	(500)
(Losses) on change in financial and demographic assumptions	(2,600)	(1,300)
Total actuarial (loss) recognised in the consolidated statement of comprehensive income	**(1,200)**	(1,800)
Cumulative actuarial (loss) recognised in the consolidated statement of comprehensive income	(2,000)	(800)

21 Provisions for other liabilities and charges

	2012 £'000	2011 £'000
At 1 December	107	71
Charged to consolidated income statement:		
– Additional provisions	–	27
– Unwinding of discount	9	9
At 30 November	**116**	107

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

Analysis of total provisions	2012 £'000	2011 £'000
Non-current	116	107

22 Share capital and share premium account

	Number of shares	Ordinary shares £'000	Share premium account £'000	Total £'000
At 30 November 2010	42,073,640	841	34,024	34,865
Issue of shares on exercise of share options	487,232	10	447	457
At 30 November 2011	42,560,872	851	34,471	35,322
At 30 November 2011	42,560,872	851	34,471	35,322
Issue of shares on exercise of share options	51,700	1	40	41
At 30 November 2012	**42,612,572**	**852**	**34,511**	**35,363**

In December 2011, February 2012 and March 2012, 51,700 ordinary shares of 2p each were issued on the exercise of Save As You Earn share options for cash consideration of £41,000.

22 Share capital and share premium account continued

Share options

Share options are granted to Executive Directors and to selected employees. Details of share options awarded, including exercise price and performance conditions, are disclosed in the Report of the Remuneration Committee on pages 27 to 31.

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

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

Details of the share options are:

Scheme	Year of grant	Exercise period	Subscription price (pence)	2012 Number of shares	2011 Number of shares
1997 (Revenue unapproved)	2005	2008 – 2012	98.00	–	12,000
2005 EMI (Revenue approved)	2006	2009 – 2016	151.00	10,000	20,000
2005 EMI (Revenue approved)	2006	2009 – 2016	131.00	162,660	172,660
2005 (Revenue unapproved)	2006	2009 – 2016	131.00	147,340	147,340
2008 3yr Save As You Earn Scheme	2008	2011 – 2012	80.00	–	139,120
2005 (Revenue unapproved)	2009	2012 – 2019	69.50	350,000	350,000
2005 (Revenue unapproved)	2010	2013 – 2020	57.00	15,000	15,000
2008 Long term share plan	2010	2013 – 2020	2.00	461,500	500,000
2008 Long term share plan	2011	2014 – 2021	2.00	425,000	465,000
2011 3yr Save As You Earn Scheme	2011	2014 – 2015	93.00	239,858	279,833
2011 5yr Save As You Earn Scheme	2011	2016 – 2017	93.00	192,060	192,060
2008 Long term share plan	2012	2015 – 2022	2.00	441,000	–
At 30 November				**2,444,418**	2,293,013

Movements in share options during the year were:

	2012 Weighted average exercise price (pence)	2011 Weighted average exercise price (pence)	2012 Number of shares	2011 Number of shares
At 1 December	55.93	74.57	2,293,013	2,058,810
Options granted	2.00	47.83	486,000	936,893
Options expired	98.00	113.71	(12,000)	(205,000)
Options forfeited	50.86	105.77	(270,895)	(10,458)
Options exercised	80.00	93.77	(51,700)	(487,232)
At 30 November	**45.05**	55.93	**2,444,418**	2,293,013
Options exercisable at 30 November	99.17	116.56	670,000	404,640
Options not exercisable at 30 November	24.62	23.41	1,774,418	1,888,373
Total	**45.05**	55.93	**2,444,418**	2,293,013

	Year of grant	Scheme	Exercise price (pence)	2012 Number of shares	2011 Number of shares
Options expiring during the year were:	2005	1997	98.00	12,000	–
	2004	1997	114.00	–	40,000
	2008	2005	110.00	–	15,000
	2008	2005	114.00	–	150,000
At 30 November				**12,000**	205,000
Options forfeited during the year were:					
	2007	SAYE	108.00	–	9,625
	2008	SAYE	80.00	87,420	833
	2011	SAYE	93.00	39,975	–
	2006	2005	131.00	10,000	–
	2006	2005	151.00	10,000	–
	2010	2008	2.00	38,500	–
	2011	2008	2.00	40,000	–
	2012	2008	2.00	45,000	–
At 30 November				**270,895**	10,458

Notes to the consolidated financial statements continued

22 Share capital and share premium account continued

Options exercised during the year were:

	Scheme	Exercise price (pence)	2012 Number of shares	2011 Number of shares
	1997	101.50	–	60,000
	1997	103.50	–	30,000
	1997	98.00	–	262,000
	SAYE	80.00	51,700	135,232
At 30 November			51,700	487,232

Share based payments

30 November 2012

Grant date / Scheme	25/1/05 Porvair 1997 share option	27/1/06 Porvair 2005 share option	07/3/06 Porvair 2005 share option	1/10/08 Share save 2008	30/1/09 Porvair 2005 share option	28/1/10 Porvair 2005 share option	28/1/10 Porvair LTSP	27/1/11 Porvair LTSP	1/10/11 Share save 2011 3 year	1/10/11 Share save 2011 5 year	2/2/12 Porvair LTSP
Share price at grant date	98.00p	131.00p	151.00p	99.50p	69.50p	57.00p	57.00p	123.50p	116.25p	116.25p	111.50p
Exercise price	98.00p	131.00p	151.00p	80.00p	69.50p	57.00p	2.00p	2.00p	93.0p	93.0p	2.00p
Shares under option	274,000	330,000	40,000	470,470	350,000	15,000	500,000	465,000	279,833	192,060	486,000
Vesting period (years)	3	3	3	3	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	50%	50%	30%	30%	30%	30%	30%	30%
Expected life (years)	3	3	3	3	3	3	3	3	3	3	3
Risk free rate	4.75%	4.50%	4.50%	5.00%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Dividend yield	2.09%	1.60%	1.39%	2.10%	1.80%	3.95%	3.95%	1.86%	2.47%	2.47%	2.15%
Fair value per option (£)	0.21883	0.30066	0.35263	0.41019	0.21209	0.08395	0.48660	1.14827	0.29606	0.31849	1.02565

Share based payments	2012 £'000	2011 £'000
Charge for the year	380	280

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

23 Other reserves

	2012		2011	
	Cumulative translation reserve £'000	Retained earnings £'000	Cumulative translation reserve £'000	Retained earnings £'000
At 1 December	883	5,886	802	4,814
Profit for the year attributable to shareholders	–	4,282	–	3,099
Dividends paid	–	(1,023)	–	(976)
Actuarial (losses)	–	(1,200)	–	(1,800)
Tax on actuarial (losses)	–	565	–	224
Share based payments	–	380	–	280
Tax on share based payments	–	228	–	155
Interest rate swap cash flow hedge	–	81	–	90
Exchange differences	(271)	–	81	–
At 30 November	612	9,199	883	5,886

24 Cash generated from operations

	2012 £'000	2011 £'000
Operating profit	7,205	5,307
Adjustments for:		
– Non cash pension charge	200	200
– Share based payments	380	280
– Depreciation, amortisation and impairment	1,662	2,549
– (Profit) on disposal of property, plant and equipment	(1)	(34)
Operating cash flows before movement in working capital	9,446	8,302
Changes in working capital (excluding the effects of exchange differences on consolidation):		
– (Increase) in inventories	(1,069)	(1,300)
– (Increase) in trade and other receivables	(486)	(331)
– Increase in payables	1,272	1,466
(Increase) in working capital	(283)	(165)
Cash generated from operations	**9,163**	8,137

25 Acquisitions

Acquisition of Block Digestion Business

On 5 December 2011 the Group, through its subsidiary Seal Analytical Limited, purchased the Block Digestion product range ("Block Digesters") from Aim Lab Automation Technologies Pty Limited based in Australia. The product range contributed external revenues of £0.4m and a net profit of £0.1m in the period 5 December 2011 to 30 November 2012. The total consideration paid was £485,000.

	£'000
Purchase consideration:	
Cash paid	485
Total purchase consideration	485
Fair value of net assets acquired (see below)	(79)
Goodwill	**406**

Acquisition-related costs of £43,000 have been charged to administrative expenses in the consolidated income statement in the year ended 30 November 2012.

The goodwill is attributable to the acquired customer base and non-contractual relationships, the synergies between the business acquired and the existing operations of the Group and the potential to develop the technologies acquired.

The purchase is accounted for as an acquisition.

	Fair value £'000	Acquiree's carrying value £'000
Software	19	–
Process technology and know-how	33	–
Inventory	27	27
Net assets acquired	**79**	**27**
Purchase consideration settled in cash	485	
Cash outflow on acquisition	**485**	

Notes to the consolidated financial statements continued

25 Acquisitions continued

Acquisition of powdered metal assets from Pell Industries

On 10 February 2012 the Group, through Selee Corporation, purchased the trade and assets of Pell Industries, a company in the powdered metal industry. The product line contributed external revenues of £0.1 million and net profit of £0.1 million to the Group in the period from 10 February to 30 November 2012. It is estimated that if the acquisition had occurred on 1 December 2011, the company would have contributed external revenues of £0.1 million and a net profit of £0.1 million for the year ended 30 November 2012. Total consideration is up to US$500,000 (£316,000) with a US$300,000 (£191,000) initial payment and the remaining US$200,000 (£125,000) contingent upon achievement of agreed average monthly revenue from acquisition until the latter part of 2013. The contingent consideration may be paid in cash or shares at the Group's option. The Group expects the contingent consideration to be paid in full in cash. The purchase is accounted for as an acquisition.

	£'000
Purchase consideration:	
Cash paid	191
Contingent consideration	125
Total purchase consideration	316
Fair value of net assets acquired (see below)	(45)
Goodwill	**271**

Acquisition-related costs of £14,000 have been charged to administrative expenses in the consolidated income statement in the year ended 30 November 2012.

The goodwill is attributable to the acquired non-contractual customer relationships, the process synergies and the potential for development expected to arise after the acquisition.

	Fair value £'000	Acquiree's carrying value £'000
Property, plant and equipment	13	–
Process technology and know-how	32	–
Net assets acquired	**45**	–
Purchase consideration settled in cash	191	
Cash outflow on acquistion	**191**	

Acquisition of trade and assets from Pulse Instrumentation

On 17 April 2012 the Group, through Seal Analytical Inc, purchased the trade and assets of Pulse Instrumentation (1992) Ltd, a laboratory consumables company based in Canada. The business contributed external revenues of £0.9 million to the Group in the period 17 April to 30 November 2012 and profit of £0.1 million. It is estimated that if the acquisition had occurred on 1 December 2011, the acquisition would have contributed external revenues of £1.4 million and a £0.2 million net profit for the year ended 30 November 2012. Total consideration is up to Can$4,289,000 (£2,716,000) with a Can$3,789,000 (£2,400,000) initial payment, Can$400,000 (£253,000) contingent upon cumulative revenue in the 6 months after acquisition to 31 October 2012 and Can$100,000 (£63,000) deferred until 2 January 2013. £253,000 paid and held in escrow has been released on revenue performance for the six months following acquisition.

	£'000
Purchase consideration:	
Cash paid	2,400
Contingent consideration (paid on 15 November 2012)	253
Deferred consideration	63
Total purchase consideration	2,716
Fair value of net assets acquired (see below)	(935)
Goodwill	**1,781**

Acquisition-related costs of £65,000 have been charged to administrative expenses in the consolidated income statement in the year ended 30 November 2012.

The purchase is accounted for as an acquisition.

25 Acquisitions continued

The goodwill is attributable to the acquired customer base, the synergies between the business acquired and the existing operations of the Group and the potential to develop the acquired technologies. The goodwill is also attributable to the strategic benefits that arise from broadening the range of consumable products offered to the Group's existing customer base and the potential for economies of scale that will accrue to the Group.

	Provisional fair value £'000	Acquiree's carrying value £'000
Property, plant and equipment	78	80
Non-competition agreements (included in intangible assets)	628	–
Internet domain names	16	–
Inventory	213	637
Net assets acquired	**935**	**717**
Purchase consideration settled in cash	2,653	
Cash outflow on acquisition	**2,653**	

26 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate cash flow risk), credit risk and liquidity risk. The Group's overall risk management programme is disclosed on pages 17 to 19 and page 22 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:

	2012 $'000	2011 $'000
Outstanding forward contracts	10,960	1,500

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

	2012 $'000	2011 $'000
Trade receivables denominated in US dollars	9,278	8,965
Other receivables denominated in US dollars	8,185	5,087
Cash balances denominated in US dollars	7,852	2,960
Trade payables denominated in US dollars	(4,103)	(3,978)
Other payables denominated in US dollars	(7,823)	(2,014)
	13,389	11,020

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

	2012 £'000	2011 £'000
US dollar strengthens	928	779
US dollar weakens	(758)	(636)

Notes to the consolidated financial statements continued

26 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 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:

	2012 €'000	2011 €'000
Outstanding forward contracts	–	375

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

	2012 €'000	2011 €'000
Trade receivables denominated in Euros	1,937	1,882
Other receivables denominated in Euros	1,113	828
Cash balances denominated in Euros	2,205	1,295
Trade payables denominated in Euros	(1,340)	(1,055)
Other payables denominated in Euros	(535)	(469)
	3,380	2,481

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

	2012 £'000	2011 £'000
Euro strengthens	306	236
Euro weakens	(250)	(194)

Cash flow interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings in the years ended 30 November 2012 and 2011 carry interest at variable rates and are denominated in US dollars and Sterling. The Group has entered into interest rate swap agreements on 73% (2011: 97%) of the US denominated borrowings to reduce the impact of future changes in US interest rates. On 12 December 2011, an interest rate swap agreement expired reducing the fixed proportion of US denominated borrowings to 73%. The Group has entered into an interest rate swap agreement on nil% (2011: 27%) 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 £31,000 (2011: £36,000) lower/higher respectively.

Credit risk

Credit risk is disclosed in note 13.

Liquidity risk

Banking facilities, including a maturity profile, are disclosed in note 17. The amortising debt commits the Group to quarterly repayments of principal of £250,000 (2011: £250,000). Interest is payable based on the length of the revolving facilities, typically between 1 and 3 months and on a quarterly basis for the term loan. The Group is required to meet banking covenants on a quarterly basis. Whilst the Group has sufficient cash reserves and expects future trading to enable it to meet its cash flow obligations, should trading performance prevent it from doing so then the lender has recourse over the Group's assets.

The table on page 67 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.

26 Financial risk management continued

30 November 2012	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Borrowings (excluding finance lease liabilities)	1,411	10,178	–
Derivatives (excluding foreign exchange)	96	3	–
Trade and other payables	13,668	–	–
	15,175	**10,181**	**–**

30 November 2011	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Borrowings (excluding finance lease liabilities)	1,399	1,361	8,360
Finance lease liabilities	7	–	–
Derivatives (excluding foreign exchange)	108	72	–
Trade and other payables	11,620	–	–
	13,134	1,433	8,360

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

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

30 November 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss:				
– Trading derivatives	–	67	–	67
Derivatives used for hedging	–	(99)	–	(99)
	–	**(32)**	**–**	**(32)**

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

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

Capital risk management

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net 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 2012 was 9% (2011: 12%) which is in line with the Group's repayments of its borrowings.

The Group's borrowings are subject to certain covenant restrictions imposed by the bank. These covenants have been fully complied with during the year ended 30 November 2012.

Notes to the consolidated financial statements continued

27 Contingent liabilities

On 21 November 2011 and 21 December 2011, the Group entered into advanced payment bonds totalling US$4,526,000 relating to monies received on a contract in advance. The bonds require the amount to be repaid in the event delivery is not made within certain parameters. The advanced payment bonds are released 30 days after despatch and in any event no later than August 2015. Also on 21 November 2011, the Group entered into a performance bond totalling US$981,000. The bond is released after a warranty period and in any event no later than August 2016.

28 Commitments

Capital and other financial commitments

Contracts placed for future capital expenditure not provided in the financial statements at 30 November 2012 were £161,000 (2011: £150,000).

Operating lease commitments – minimum lease payments

	2012		2011	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Future aggregate minimum lease payments in respect of leases expiring in:				
No later than one year	**1,078**	**176**	351	122
Later than one year and no later than five years	**3,500**	**140**	1,558	306
Later than five years	**2,286**	**–**	6,139	–
	6,864	**316**	8,048	428

29 Post balance sheet events

On 11 January 2013, the Group announced that it had signed an £11.3 million contract with the UK Government for the design and manufacture of a nuclear remediation filtration system. The financial impact of the contract will be spread over two to three years commencing in 2013. Certain aspects of the project require further engineering and the precise timing of deliveries is yet to be determined.

On 25 January 2013, the Group entered into new five year banking facilities sufficient for its foreseeable needs comprising a US$20 million revolving credit facility, a £2.5 million amortising term loan and a £2.5 million multi-currency overdraft facility.

30 Key management compensation

The Board of Directors, including the Non-Executive Directors, are classified as key management. Their remuneration is shown in the Report of the Remuneration Committee.

	2012 £'000	2011 £'000
Salaries and other short term employee benefits	**969**	899
Post employment benefits	**66**	45
Share based payments	**330**	239
	1,365	1,183

31 Principal subsidiaries

The principal operating companies at 30 November 2012 are as follows:

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

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

Independent auditors' report to the members of Porvair plc

We have audited the parent company financial statements of Porvair plc for the year ended 30 November 2012 which comprise the parent company balance sheet (under UK GAAP), the Company loss for the financial year, the parent company reconciliation of movements in shareholders' funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 24, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 30 November 2012;
- 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 2012.

Christopher Maw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
25 January 2013

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

Company registered number 1661935

As at 30 November	Note	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	4	**17**	34
Investments	5	**58,271**	61,694
		58,288	61,728
Current assets			
Debtors: amounts falling due after more than one year	6	**258**	173
Debtors: amounts falling due within one year	6	**116**	196
		374	369
Cash at bank and in hand	7	**1,412**	–
		1,786	369
Creditors: amounts falling due within one year	8	**(11,677)**	(13,494)
Net current liabilities		**(9,891)**	(13,125)
Total assets less current liabilities		**48,397**	48,603
Creditors: amounts falling due after more than one year	8	**(10,288)**	(9,482)
Net assets		**38,109**	39,121
Capital and reserves			
Called up share capital	11	**852**	851
Share premium account	12	**34,511**	34,471
Exchange reserves	12	**(839)**	(808)
Profit and loss account	12	**3,585**	4,607
Total shareholders' funds		**38,109**	39,121

The financial statements on pages 70 to 76 were approved by the Board of Directors on 25 January 2013 and were signed on its behalf by:

B D W Stocks

C P Tyler

Company loss for the financial year

As permitted by Section 408 of the Companies Act 2006, no profit and loss account is presented for the holding company. The loss for the financial year is £379,000 (2011: £631,000).

Parent company – reconciliation of movements in shareholders' funds

For the year ended 30 November	Note	2012 £'000	2011 £'000
(Loss) for the financial year		**(379)**	(631)
Dividends		**(1,023)**	(976)
		(1,402)	(1,607)
Exchange differences	12	**(31)**	324
Net proceeds from issue of ordinary share capital		**41**	457
Share based payments	12	**380**	280
Net decrease in shareholders' funds		**(1,012)**	(546)
Opening shareholders' funds		**39,121**	39,667
Closing shareholders' funds		**38,109**	39,121

Notes to the financial statements

1 Summary of significant accounting policies

These financial statements have been prepared on a going concern basis, under the historical cost convention and 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% straight line for plant, machinery and equipment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2 (Loss) on ordinary activities before taxation

(Loss) on ordinary activities before taxation is stated after charging:	2012 £'000	2011 £'000
Staff costs		
Wages and salaries	1,145	1,063
Social security costs	93	110
Other pension costs	94	69
Share based payments	341	258
	1,673	1,500
Average monthly number of employees – administrative	7	7

Directors' share based payments are shown in note 30 of the Group's financial statements.

Services provided by the Company's auditors and network firms

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

	2012 £'000	2011 £'000
Fees payable to Company auditors for audit of parent company financial statements	12	13
Tax services – compliance	15	21
Tax services – advisory	13	13
	40	47

In addition to the above services, the Company's auditors acted as auditors to The Porvair plc Pension and Death Benefit Plan. The appointment of auditors to the Group's pension plan and the fees paid in respect of those audits are agreed by the Trustees who act independently from the management of the Company. The aggregate fees paid to the Company's auditors for the audit services to the pension plan during the year were £13,000 (2011: £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 27 to 31.

4 Tangible fixed assets

	Plant, machinery and equipment £'000
Cost	
At 1 December 2011	171
Additions	1
At 30 November 2012	**172**
Depreciation	
At 1 December 2011	(137)
Charge for year	(18)
At 30 November 2012	**(155)**
Net book value	
At 30 November 2012	**17**
At 30 November 2011	34

There were no capital commitments, authorised and contracted for, in the Company at 30 November 2012 (2011: £nil).

Notes to the financial statements continued

5 Fixed asset investments

	2012			2011		
	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	48,104	29,664	77,768	47,977	32,481	80,458
Additions in the year	–	–	–	105	–	105
(Repayments)	–	(3,309)	(3,309)	–	(2,731)	(2,731)
Capital contributions arising from FRS 20 share based payments charge	39	–	39	22	–	22
Exchange differences	–	(153)	(153)	–	(86)	(86)
At 30 November	48,143	26,202	74,345	48,104	29,664	77,768
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	45,545	12,726	58,271	45,506	16,188	61,694
At 1 December	45,506	16,188	61,694	45,379	19,005	64,384

The addition in 2011 relates to an investment in Seal Analytical Shanghai Company Limited of £105,000.

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

Details of the principal subsidiary undertakings are given in Note 31 of the Group financial statements.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

6 Debtors

	Note	2012 £'000	2011 £'000
Amounts falling due within one year:			
Corporation tax recoverable		70	174
Prepayments		46	22
		116	196
Amounts falling due after more than one year:			
Deferred taxation	10	258	173
		258	173

7 Cash at bank and in hand

	2012 £'000	2011 £'000
Restricted cash	1,412	–
Cash and cash equivalents	1,412	–

Cash and cash equivalents includes a restricted balance of £1,412,000 (US$2,263,000) held as a guarantee by a UK bank against the advance payment bond in relation to the POSCO contract and will be released no later than 31 August 2015 (2011: £nil).

8 Creditors

	Note	2012 £'000	2011 £'000
Amounts falling due within one year:			
Bank overdraft and other loans	9	10,383	12,551
Trade creditors		122	55
Taxation and social security		35	62
Accruals and deferred income		1,137	826
		11,677	13,494
Amounts falling due after more than one year:			
Bank loans	9	10,145	9,331
Retirement obligations		143	151
		10,288	9,482

9 Bank overdraft and other loans

	2012 £'000	2011 £'000
Secured multi-currency revolving credit facility of US$15 million (2011: US$15 million) maturing in December 2013 with interest at 2.70% (2011: 2.70%) above US dollar LIBOR	8,395	6,492
Secured five year amortising debt facility of £2.75 million (2011: £3.75 million) expiring in December 2013 with interest at 2.70% (2011: 2.70%) above LIBOR	2,750	3,704
Bank overdraft offset against cash balances in other Group companies under a Group banking offset arrangement	9,383	11,686
	20,528	21,882

	2012 £'000	2011 £'000
Bank and other loans of the Company are repayable as follows:		
Within one year	10,383	12,551
One to two years	10,145	1,000
Two to five years	–	8,331
	20,528	21,882

The loans are shown net of issue costs of £nil (2011: £135,000) which are being amortised over the life of the loan arrangements. The term and multi-currency revolving credit facilities expire in December 2013.

At 30 November 2012, the Company had a £1.0 million unused facility (2011: £3.0 million unused facility) and an unutilised £2.5 million (2011: £2.5 million) overdraft facility.

On 25 January 2013, the Group signed a new five year banking facility agreement providing a US$20 million revolving credit facility, a £2.5 million amortising term loan and a £2.5 million overdraft.

The carrying values of bank borrowings approximate to their fair value.

The multi-currency facility and amortising debt facility are secured by fixed and floating charges against the assets of the Company and its subsidiaries.

Notes to the financial statements continued

10 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	2012 £'000	2011 £'000
Accelerated capital allowances	4	1
Short term timing differences	254	172
	258	173

There were no unrecognised deferred tax amounts at 30 November 2012 (2011: £nil).

During the year, as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2013, deferred tax balances have been remeasured. Deferred tax relating to timing differences which are expected to reverse prior to 1 April 2013 is measured at 24% and deferred tax relating to timing differences expected to reverse after 1 April 2013 is measured at the tax rate of 23% as these are the rates that will apply on reversal. A further reduction has been proposed to reduce the rate to 21% from 1 April 2014, although this has not yet been substantively enacted.

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

11 Called up share capital

	2012 £'000	2011 £'000
Allotted and fully paid:		
42,612,572 ordinary shares of 2 pence each (2011: 42,560,872)	852	851

Details of shares issued and share options are disclosed in note 22 of the Group financial statements.

12 Reserves

	Share premium account £'000	Exchange reserves £'000	Profit and loss account £'000
At 1 December 2011	34,471	(808)	4,607
Premium on shares issued	40	–	–
Deficit for the year	–	–	(1,402)
Exchange differences	–	(31)	–
Share based payments	–	–	380
At 30 November 2012	34,511	(839)	3,585

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

13 Contingent liabilities

On 21 November 2011, the Company entered into an advanced payment bond totalling US$2,263,000 relating to monies received on a contract in advance. The bond requires this amount to be repaid in the event delivery is not made within certain parameters. The advanced payment bond is released 30 days after despatch and in any event no later than August 2015. The Company's restricted cash is held as a security for this bond.

14 Financial Commitments

At 30 November 2012, the Company had annual commitments under non-cancellable operating leases expiring as follows:

	2012		2011	
	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	–	48	2

Shareholder information

Registrar services

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

Capita can be contacted at:

Capita Registrars

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

www.capitaregistrars.com

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

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

Share dealing service

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

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

www.capitadeal.com – online dealing

0870 458 4577 – telephone dealing

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

Financial calendar 2013

30 November 2012
Financial year end 2012

28 January 2013
Full year 2012 results

16 April 2013
AGM/Interim Management Statement

01 May 2013
Ex-dividend date

03 May 2013
Record date for dividend

31 May 2013
Half year 2013 period end

07 June 2013
Payment date for dividend

24 June 2013
Half year 2013 results announcement

31 July 2013
Ex-dividend date

02 August 2013
Record date for dividend

07 September 2013
Payment date for dividend

October 2013
Interim Management Statement

30 November 2013
Financial year end 2013

28 January 2014
Full year 2013 results

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