Porvair plc Interim Report 2014

porvair

A strong performance
Positioned for growth

About Porvair

Porvair is a **specialist filtration and environmental technology** group with two operating divisions, Metals Filtration and Microfiltration. We employ about 650 people, with operations in the UK, US, Germany and China.

The Group serves 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 **filtration and engineering expertise,** which allows us to solve customer problems across all the markets we serve.

Contents

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

Interim results
for the six months ended 31 May 2014

Financial highlights

Encouraging financial performance:

- Revenues grew by 32% (36% in constant currency) to £51.0 million (2013: £38.6 million).
- Profit before tax increased by 27% to £3.8 million (2013: £3.0 million (restated*)).
- Earnings per share up 25% to 6.0 pence (2013: 4.8 pence (restated)).
- Net debt of £1 million (30 November 2013: net cash of £0.6 million).
- Interim dividend increased to 1.2 pence (2013: 1.1 pence).

*restatement for the implementation of IAS19 Revised, 2013 profit before tax as previously reported was £3.1 million.

Operating highlights

Microfiltration division:

- Revenues increased 48%.
- Large contracts running smoothly and contributing significantly to revenue growth.
- Expansion in UK and USA underway.
- Order position healthy.

Metals Filtration division:

- Revenues up 5% (12% at constant currency).
- Market share gains from patented products continue to drive growth.
- Promising new product development.

Operating review

Overview

Porvair continued to make progress against its objectives during the year as is shown in the results for the six months ended 31 May 2014. Revenues grew 32% (36% at constant currency) to £51.0 million (2013: £38.6 million); profit before tax grew 27% to £3.8 million (2013: £3.0 million (restated)); and earnings per share increased by 25% to 6.0 pence (2013: 4.8 pence (restated)). As explained below revenues in 2014 are boosted by the impact of three large projects. Underlying revenues, excluding these projects, grew by 8% (12% at constant currency).

The second half of 2014 has started well. Order books are healthy. The fundamentals of the principal markets in which the Group operates – aviation, energy, water, and aluminium – are satisfactory.

Encouraging progress towards key operating objectives was made in the period, including:

Microfiltration:

- Previously announced large contracts are running smoothly.
- Capacity expansion in the UK and USA is underway.
- Aerospace filtration continues to grow – record revenues were recorded in the period.
- Seal Analytical posted record results.

Metals Filtration:

- Continuing market share gains from patented products drove growth despite currency headwinds.
- New product development projects are going well and early commercial sales have started.

Strategic statement

Porvair's strategy has remained consistent for several years. It is to generate shareholder value through the development of specialist filtration and environmental technology businesses, both organically and by acquisition. Such businesses have certain key characteristics in common:

- specialist design or engineering skills are required;
- product use and replacement is mandated by regulation, quality accreditation or a maintenance cycle;
- products will be designed into a customer's systems or products and will typically have long life cycles.

In the five years since 2009 this strategy has delivered revenue growth of 70% (11% CAGR) and cash from operations of £44 million. In 2013 the Group's after tax operating profit return on operating capital was 39%.

Business model outline

Porvair's business model is as follows:

1. Focus on end-markets which show long term growth potential and where product use is mandatory.
2. Make new product development a core business activity.
3. Establish geographic presence where end-markets require.
4. Maintain a conservative balance sheet. Re-invest in both organic and acquired growth and pay a progressive dividend.

This business model determines the Group's day-to-day activities:

- We focus on four end-markets: aviation; energy and industrial; environmental laboratories and molten metals. All have clear structural growth drivers.
- Our products are specialist in nature: they typically protect more costly or complex downstream systems. As a result they are replaced regularly. Over 80% of our annual revenues are from repeat orders.
- We encourage new product development in order to generate growth rates in excess of the underlying market. We aim to build good intellectual property around our product developments. Approximately 30% of our revenues are derived from patent protected products.
- Our geographic presence follows the markets we serve. Annualised, 41% of revenues are from customers in the Americas, where aviation and metals filtration are strong. 27% of revenues are from customers in Asia, where sales into water analysis markets are growing and two of our major gasification projects are delivered.
- Porvair is a cash generative business. We aim to maintain a conservative balance sheet, meeting dividend and investment needs within our existing debt facilities. In the last two years we have expanded manufacturing capacity in the UK and China and made five small acquisitions.

Operating review continued

Operating structure

- The Group has two divisions. The Microfiltration division serves the aviation, environmental laboratory and energy/industrial markets. The Metals Filtration division serves global aluminium, NAFTA iron foundry and super-alloy markets.
- The Group manufactures in the UK, US, Germany and China.

Plans for investment and future development

In the January 2014 preliminary announcement we set out our plans to increase capital investment in the Group in 2014. These projects are:

- The consolidation and expansion of our operations at New Milton (UK), into a facility acquired in February 2014, and the addition of machining capacity in Fareham to enable aviation and industrial filtration growth. Aviation sales have grown strongly recently and we need more capacity.
- The expansion of facilities in Caribou, Maine, US following the acquisition of Eisenmann Metallurgical in 2013.
- Further investments in manufacturing capabilities in Metals filtration in both the USA and China.
- Expansion of facilities for Seal Analytical in the US, UK and Germany to allow for further growth following the 2013 acquisition of Thomas Cain.

As we stated in January 2014, these and other projects will increase expected capital investment in 2014 to levels roughly three times higher than the average of recent years. This will be met by in-year cash flows. Capacity increases and equipment upgrades are necessary due to the impact that new product introductions and small acquisitions have had on the business. We expect this capacity pressure to continue, with the 2014 product development pipeline looking promising in bioscience filtration; Metals Filtration manufacturing; water analysis; and nuclear filtration. Encouraging these projects is central to Porvair's business model.

These interim results show the benefits of the earlier large contract wins. These are principally those with POSCO of South Korea, the UK Government and Reliance Industries of India. The financial impact of these larger contracts, which are accounted for under long term contract accounting rules, are expected to cause the published results over the next three years to fluctuate more than has generally been the case.

- These results demonstrate the expected one-off boost to revenues in 2014 from these contracts. Revenues in 2014, as a result, are expected to be much higher than the underlying growth rate would normally deliver. Thereafter the impact on revenue of the large contracts will diminish and revenues are then expected to return to underlying levels.
- We recognise profits only once we are satisfied that we have provided for the outstanding liabilities and mitigated potential risks and warranties on each project. Profit recognition could therefore be spread over the period between 2013 and 2017.
- Cash inflows are expected to arise principally between 2013 and 2015. Whilst we will maintain suitable cash reserves against the possible needs of the contracts, this cash will be used to re-invest in the business as outlined above.

Divisional review – Microfiltration

Financial highlights

	2014 £m	2013 £m	Growth %
Revenue	**36.3**	24.5	48
Operating profit	**4.0**	3.5	15

This division includes the three large projects described above, which are the major contributor to the high revenue growth. Underlying performance has been sound with underlying revenue growth, excluding the three large contracts, of 10% in the period.

All three large projects are proceeding according to plan:

- Under the US$10 million POSCO contract announced in 2011, all manufactured parts have been shipped to South Korea and the division has started to build the char filtration package. Training materials have been developed for its operation. The plant is expected to begin commissioning in early 2015.
- A much larger contract for a similar project was signed in February 2013 with Reliance Industries for their installation at Jamnagar, India. First deliveries have been made with more scheduled for the second half.
- An £11.3 million contract with the UK Government was announced in January 2013, for which manufacturing has begun.

Operating review continued

All three projects will impact the financial results of the Group over several years, with significant revenue recognised throughout 2014.

In addition to these contracts, orders in the energy sector have again been robust. Aerospace revenues were at record levels in the period. In the US the integration of Chand Eisenmann into our operations is going as planned and like for like revenue growth was 15%. Order books for the second half are healthy.

Capital investment in this division has increased. More machining capacity is starting to feed through into capacity increases, a new facility in New Milton has been acquired and will be completed towards the end of 2014 and expansion of the plant in Caribou, Maine, US will be completed in early 2015.

Seal Analytical had a strong start to the year. Revenues grew 29% in the first half, driven by strong underlying demand in China and the US and helped by the 2013 acquisition of Thomas Cain. Business growth and the need for expanded technical facilities mean that we will invest in capacity expansion in the UK, USA and Germany during the second half.

Divisional review – Metals Filtration

Financial highlights

	2014 £m	2013 £m	Growth %
Revenue	14.8	14.1	5
Operating profit	1.2	1.1	8

Revenues grew 5% (12% in constant currency) to £14.8 million, with the stronger operating margins noted in previous announcements contributing to better profitability which increased 8% (15% in constant currency) to £1.2 million.

We continue to make steady market share gains from growing customer adoption of our patented range of filters: Selee CSX™ for aluminium; Selee SA™ for NiCo alloys; and Selee IC™ for grey and ductile iron. All three are widely accepted due to their better environmental impact and filtration efficiency. Sales of Selee IC™, used primarily in the foundry industry are at record levels.

Incremental product improvements are being made to the Selee CSX™ and Selee IC™ products to broaden their market appeal and offer range extensions. One of these is a promising new filter for lithium aluminium, a material increasingly being used in aerospace applications. Filter trials are going well. Revenues from other new filter projects, notably carbon foam filters and structured products are starting to grow steadily, albeit from a modest base.

Metals Filtration's revenue in China has been satisfactory and is expected to grow in the second half. The new plant, opened at the end of last year, is running well and we will consider further expansion later in the year.

Earnings per share and dividends

The basic earnings per share for the period increased 25% to 6.0 pence (2013: 4.8 pence (restated)). The Board is declaring an increased interim dividend of 1.2 pence (2013: 1.1 pence) per share.

Cash flow and net debt

Cash generated from operations in the six months to 31 May 2014 was £2.7 million (2013: £2.0 million). Working capital increased in the period by £3.0 million (2013: £2.7 million) principally as a result of timings of payments and receipts in relation to the three large projects.

Net interest paid was £0.2 million (2013: £0.2 million). Tax payments increased to £1.2 million (2013: £0.8 million).

Capital expenditure increased to £2.9 million (2013: £0.5 million), reflecting the significant capacity expansion being undertaken by the Group in the year.

Closing net debt at 31 May 2014 was £1.0 million (30 November 2013: net cash of £0.6 million).

Current trading and outlook

Porvair's strategic direction and operating objectives are unchanged and continue to deliver good results. We focus on niche markets which have structural growth drivers. 2014 has started strongly, and order books are healthy across the Group. The revenue benefits of previously announced large contracts are showing through with underlying growth also healthy. We continue to invest in US and UK capacity expansion and new product development. There is considerable opportunity in the Porvair businesses. The Board's outlook remains positive.

Ben Stocks Group Chief Executive

Operating review continued

Related parties

There were no related party transactions in the six months ended 31 May 2014 (2013: none).

Principal risks

Each division considers strategic, operational and financial risks and identifies actions to mitigate those risks. These risk profiles are reviewed by the Board and updated at least annually. The principal risks and uncertainties for the remaining six months of the financial year are discussed below. Further details of the Group's risk profile analysis can be found in the Strategic Report section of the Annual Report for the year ended 30 November 2013.

Certain elements of the Group's order position, although healthy at 31 May 2014, can change quickly in the face of changing economic circumstances. The Metals Filtration division and environmental laboratory supplies and general industrial filtration within the Microfiltration division all have relatively short lead times and order cycles and, therefore, revenues are subject to fluctuations, which could have a material effect on the Group's results for the balance of 2014.

The Microfiltration division serves several customers whose orders are large relative to Porvair's overall order book. Should any of these be cancelled or delayed it may affect the Group's results for the balance of 2014.

Forward looking statements

Certain statements in this half yearly financial information are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Consolidated income statement

For the six months ended 31 May	Note	Six months ended 31 May 2014 Unaudited £'000	2013 Unaudited Restated £'000
Revenue	1	**51,024**	38,604
Cost of sales		**(36,130)**	(25,406)
Gross profit		**14,894**	13,198
Other operating expenses		**(10,699)**	(9,803)
Operating profit	1	**4,195**	3,395
Interest payable and similar charges		**(413)**	(410)
Profit before income tax		**3,782**	2,985
Income tax expense		**(1,149)**	(951)
Profit for the period attributable to shareholders		**2,633**	2,034
Earnings per share (basic)	2	**6.0p**	4.8p
Earnings per share (diluted)	2	**5.9p**	4.7p

Consolidated statement of comprehensive income

For the six months ended 31 May	Six months ended 31 May 2014 Unaudited £'000	2013 Unaudited Restated £'000
Profit for the period	**2,633**	2,034
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Actuarial losses in defined benefit pension plans net of tax	**–**	65
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign subsidiaries	**(794)**	323
Changes in fair value of interest rate swaps held as a cash flow hedge	**20**	34
Changes in the fair value of foreign exchange contracts held as a cash flow hedge	**11**	–
	(763)	357
Net other comprehensive income	**(763)**	422
Total comprehensive income for the period attributable to shareholders of Porvair plc	**1,870**	2,456

The accompanying notes are an integral part of this interim financial information. The basis of the restatement of 2013 is described in note 12.

Consolidated balance sheet

As at 31 May	Note	As at 31 May 2014 Unaudited £'000	As at 31 May 2013 Unaudited £'000	As at 30 November 2013 Audited £'000
Non-current assets				
Property, plant and equipment	4	**10,865**	8,185	9,006
Goodwill and other intangible assets	4	**41,766**	39,986	42,535
Deferred tax asset		**2,468**	2,385	2,440
Derivative financial instruments		**–**	–	144
		55,099	50,556	54,125
Current assets				
Inventories		**12,733**	11,211	11,617
Trade and other receivables		**18,570**	12,817	13,978
Derivative financial instruments		**985**	–	1,027
Cash and cash equivalents	5	**6,428**	7,666	6,773
		38,716	31,694	33,395
Current liabilities				
Trade and other payables		**(24,230)**	(13,893)	(19,472)
Current tax liabilities		**(1,103)**	(1,196)	(995)
Bank overdraft and loans		**(984)**	(988)	(983)
Derivative financial instruments		**–**	(268)	(20)
		(26,317)	(16,345)	(21,470)
Net current assets		**12,399**	15,349	11,925
Non-current liabilities				
Bank loans		**(6,440)**	(9,708)	(5,211)
Retirement benefit obligations		**(11,787)**	(8,425)	(11,875)
Other payables		**(298)**	–	(1,159)
Provisions for other liabilities and charges		**(132)**	(122)	(125)
		(18,657)	(18,255)	(18,370)
Net assets		**48,841**	47,650	47,680
Capital and reserves				
Share capital	6	**883**	867	875
Share premium account	6	**35,155**	34,732	35,147
Cumulative translation reserve	7	**(1,103)**	935	(309)
Retained earnings	7	**13,906**	11,116	11,967
Total equity		**48,841**	47,650	47,680

The interim financial information on pages 6 to 17 was approved by the Board of Directors on 20 June 2014 and was signed on its behalf by:

Ben Stocks
Group Chief Executive

Chris Tyler
Group Finance Director

The accompanying notes are an integral part of this interim financial information.

Consolidated cash flow statement

For the six months ended 31 May	Note	Six months ended 31 May 2014 Unaudited £'000	2013 Unaudited £'000
Cash flows from operating activities			
Cash generated from operations	8	**2,658**	1,966
Interest paid		**(207)**	(185)
Tax paid		**(1,195)**	(838)
Net cash generated from operating activities		**1,256**	943
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)		**–**	(63)
Purchase of property, plant and equipment	4	**(2,866)**	(374)
Purchase of intangible assets	4	**(12)**	(153)
Proceeds from sale of property, plant and equipment		**9**	478
Net cash used in investing activities		**(2,869)**	(112)
Cash flows from financing activities			
Net proceeds from the issue of ordinary shares	6	**16**	236
Increase in/(repayment of) borrowings	9	**1,333**	(886)
Net cash generated from/(used in) financing activities		**1,349**	(650)
Net (decrease)/increase in cash and cash equivalents	9	**(264)**	181
Effects of exchange rate changes		**(81)**	210
		(345)	391
Cash and cash equivalents at the beginning of the period		**6,773**	7,275
Cash and cash equivalents at the end of the period	5	**6,428**	7,666

The accompanying notes are an integral part of this interim financial information.

Consolidated statement of changes in equity

For the six months ended 31 May (Unaudited)	Share capital £'000	Share premium account £'000	Cumulative translation reserve £'000	Retained earnings Restated £'000	Total Restated £'000
Balance at 1 December 2012	852	34,511	612	9,199	45,174
Profit for the period	–	–	–	2,034	2,034
Other comprehensive income for the period:					
Exchange differences on translation of foreign subsidiaries	–	–	323	–	323
Changes in fair value of interest rate swaps held as a cash flow hedge	–	–	–	34	34
Actuarial losses in defined benefit pension plans net of tax	–	–	–	65	65
Total comprehensive income for the period	–	–	323	2,133	2,456
Transactions with owners:					
Proceeds from shares issued, net of costs	15	221	–	–	236
Employee share option schemes:					
Value of employee services net of tax	–	–	–	478	478
Dividends approved as final or paid	–	–	–	(694)	(694)
Balance at 31 May 2013	867	34,732	935	11,116	47,650
Balance at 1 December 2013	**875**	**35,147**	**(309)**	**11,967**	**47,680**
Profit for the period	**–**	**–**	**–**	**2,633**	**2,633**
Other comprehensive income for the period:					
Exchange differences on translation of foreign subsidiaries	**–**	**–**	**(794)**	**–**	**(794)**
Changes in fair value of interest rate swaps held as a cash flow hedge	**–**	**–**	**–**	**20**	**20**
Changes in the fair value of foreign exchange contracts held as a cash flow hedge	**–**	**–**	**–**	**11**	**11**
Total comprehensive income for the period	**–**	**–**	**(794)**	**2,664**	**1,870**
Transactions with owners:					
Proceeds from shares issued, net of costs	**8**	**8**	**–**	**–**	**16**
Employee share option schemes:					
Value of employee services net of tax	**–**	**–**	**–**	**70**	**70**
Dividends approved as final or paid	**–**	**–**	**–**	**(795)**	**(795)**
Balance at 31 May 2014	**883**	**35,155**	**(1,103)**	**13,906**	**48,841**

The accompanying notes are an integral part of this interim financial information.

Notes to the financial information

1 Segmental analyses

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

As at 31 May 2014, the Group is organised on a worldwide basis into two operating segments:

1) Metals Filtration
2) Microfiltration

The segment results for the period ended 31 May 2014 are as follows:

Six months ended 31 May 2014 – Unaudited	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Revenue	14,755	36,269	–	**51,024**
Operating profit/(loss)	1,166	3,963	(934)	**4,195**
Interest payable and similar charges	–	–	(413)	**(413)**
Profit/(loss) before income tax	1,166	3,963	(1,347)	**3,782**
Income tax expense	–	–	(1,149)	**(1,149)**
Profit/(loss) for the period	**1,166**	**3,963**	**(2,496)**	**2,633**

The segment results for the period ended 31 May 2013 are as follows:

Six months ended 31 May 2013 – Unaudited – Restated	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Revenue	14,081	24,523	–	38,604
Operating profit/(loss)	1,075	3,461	(1,141)	3,395
Interest payable and similar charges	–	–	(410)	(410)
Profit/(loss) before income tax	1,075	3,461	(1,551)	2,985
Income tax expense	–	–	(951)	(951)
Profit/(loss) for the period	1,075	3,461	(2,502)	2,034

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

Notes to the financial information continued

1 Segmental analyses (continued)

Segment assets and liabilities

At 31 May 2014 – Unaudited	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Segmental assets	24,920	57,987	4,480	87,387
Cash and cash equivalents	–	–	6,428	6,428
Total assets	**24,920**	**57,987**	**10,908**	**93,815**
Segmental liabilities	(3,832)	(18,561)	(3,370)	(25,763)
Retirement benefit obligations	–	–	(11,787)	(11,787)
Borrowings	–	–	(7,424)	(7,424)
Total liabilities	**(3,832)**	**(18,561)**	**(22,581)**	**(44,974)**

At 31 May 2013 – Unaudited	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Segmental assets	24,896	45,914	3,774	74,584
Cash and cash equivalents	–	–	7,666	7,666
Total assets	24,896	45,914	11,440	82,250
Segmental liabilities	(2,794)	(9,784)	(2,901)	(15,479)
Retirement benefit obligations	–	–	(8,425)	(8,425)
Borrowings	–	–	(10,696)	(10,696)
Total liabilities	(2,794)	(9,784)	(22,022)	(34,600)

At 30 November 2013 – Audited	Metals Filtration £'000	Microfiltration £'000	Other unallocated £'000	Group £'000
Segmental assets	24,623	51,606	4,518	80,747
Cash and cash equivalents	–	–	6,773	6,773
Total assets	24,623	51,606	11,291	87,520
Segmental liabilities	(3,360)	(15,459)	(2,952)	(21,771)
Retirement benefit obligations	–	–	(11,875)	(11,875)
Borrowings	–	–	(6,194)	(6,194)
Total liabilities	(3,360)	(15,459)	(21,021)	(39,840)

Notes to the financial information continued

1 Segmental analyses (continued)

Geographical analysis
Revenue

	Six months ended 31 May			
	2014 Unaudited		2013 Unaudited	
	By destination £'000	By origin £'000	By destination £'000	By origin £'000
United Kingdom	8,515	25,639	7,901	15,759
Continental Europe	6,339	4,014	5,838	3,035
United States of America	15,845	20,631	16,467	18,962
Other NAFTA	3,232	–	1,626	–
South America	834	–	697	–
Asia	15,147	740	4,733	848
Australasia	432	–	622	–
Africa	680	–	720	–
	51,024	51,024	38,604	38,604

2 Earnings per share

	Six months ended 31 May					
	2014 Unaudited			2013 Unaudited		
	Earnings £'000	Weighted average number of shares	Per share amount (pence)	Earnings Restated £'000	Weighted average number of shares	Per share amount Restated (pence)
Basic EPS – Earnings attributable to ordinary shareholders	2,633	44,017,345	6.0	2,034	42,813,469	4.8
Effect of dilutive securities – share options	–	283,053	(0.1)	–	363,563	(0.1)
Diluted EPS	2,633	44,300,398	5.9	2,034	43,177,032	4.7

3 Dividends per share

	Six months ended 31 May			
	2014 Unaudited		2013 Unaudited	
	Per share	£'000	Per share	£'000
Final dividend approved	1.80p	795	1.60p	694

The final dividend approved was paid to shareholders on 6 June 2014.

The Directors have declared an interim dividend of 1.2 pence (2013: 1.1 pence) per share to be paid on 5 September 2014 to shareholders on the register at the close of business on 1 August 2014. The ex-dividend date for the shares is 30 July 2014.

Notes to the financial information continued

4 Property, plant and equipment and goodwill and other intangible assets

Six months ended 31 May 2014 – Unaudited	Property, plant and equipment £'000	Goodwill and other intangible assets £'000	Total £'000
Opening net book amount at 1 December 2013	9,006	42,535	51,541
Additions	2,866	12	2,878
Disposals	(18)	–	(18)
Depreciation and amortisation	(849)	(177)	(1,026)
Exchange movements	(140)	(604)	(744)
Closing net book amount at 31 May 2014	**10,865**	**41,766**	**52,631**

Six months ended 31 May 2013 – Unaudited	Property, plant and equipment £'000	Goodwill and other intangible assets £'000	Total £'000
Opening net book amount at 1 December 2012	8,641	39,983	48,624
Additions	374	153	527
Disposals	(360)	–	(360)
Depreciation and amortisation	(735)	(181)	(916)
Exchange movements	265	31	296
Closing net book amount at 31 May 2013	8,185	39,986	48,171

5 Cash and cash equivalents

	As at 31 May		As at 30 November
	2014 Unaudited £'000	2013 Unaudited £'000	2013 Audited £'000
Cash at bank and in hand	6,428	7,666	6,773
Cash and cash equivalents	6,428	7,666	6,773

Notes to the financial information continued

6 Share capital and premium

	Number of shares (thousands)	Ordinary shares Unaudited £'000	Share premium account Unaudited £'000	Total Unaudited £'000
At 1 December 2012	42,613	852	34,511	35,363
Employee share options schemes:				
Exercise of options under share option schemes	748	15	221	236
At 31 May 2013	43,361	867	34,732	35,599
At 1 December 2013	**43,734**	**875**	**35,147**	**36,022**
Employee share options schemes:				
Exercise of options under share option schemes	**433**	**8**	**8**	**16**
At 31 May 2014	**44,167**	**883**	**35,155**	**36,038**

The authorised number of ordinary shares is 75 million (2013: 75 million) shares with a par value of 2.0 pence (2013: 2.0 pence) per share. All issued shares are fully paid. 433,345 (2013:748,500) ordinary shares of 2p each were issued in the period on the exercise of employee share options for a cash consideration of £16,000 (2013: £236,000).

7 Other reserves

	Cumulative translation reserve Unaudited £'000	Retained earnings Restated Unaudited £'000
At 1 December 2012	612	9,199
Profit for the period attributable to shareholders	–	2,034
Direct to equity:		
Final dividends approved	–	(694)
Share based payments	–	208
Tax on share based payments	–	270
Interest rate swap cash flow hedge	–	34
Actuarial losses in defined benefit pension plans net of tax	–	65
Exchange differences	323	–
At 31 May 2013	935	11,116
At 1 December 2013	**(309)**	**11,967**
Profit for the period attributable to shareholders	**–**	**2,633**
Direct to equity:		
Final dividends approved	**–**	**(795)**
Share based payments	**–**	**238**
Tax on share based payments	**–**	**(168)**
Interest rate swap cash flow hedge	**–**	**20**
Foreign exchange contract cash flow hedge	**–**	**11**
Exchange differences	**(794)**	**–**
At 31 May 2014	**(1,103)**	**13,906**

Notes to the financial information continued

8 Cash generated from operations

	Six months ended 31 May	
	2014 Unaudited £'000	2013 Restated Unaudited £'000
Operating profit	4,195	3,395
Non-cash pension charge	260	215
Share based payments	238	208
Depreciation and amortisation	1,026	916
Loss/(profit) on disposal of property, plant and equipment	9	(118)
Operating cash flows before movement in working capital	5,728	4,616
Increase in inventories	(1,273)	(673)
Increase in trade and other receivables	(4,558)	(494)
Increase/(decrease) in payables	2,761	(1,483)
Increase in working capital	(3,070)	(2,650)
Cash generated from operations	2,658	1,966

9 Reconciliation of net cash flow to movement in net debt

	Six months ended 31 May	
	2014 Unaudited £'000	2013 Unaudited £'000
Net (decrease)/increase in cash and cash equivalents	(264)	181
Effects of exchange rate changes	22	(227)
(Increase in)/repayment of borrowings	(1,333)	886
Net cash/(debt) at the beginning of the period	579	(3,870)
Net debt at the end of the period	(996)	(3,030)

10 Exchange rates

Exchange rates for the US dollar during the period were:

	Average rate to 31 May 14 Unaudited	Average rate to 31 May 13 Unaudited	Closing rate at 31 May 14 Unaudited	Closing rate at 30 Nov 13 Unaudited
US dollar	1.66	1.55	1.68	1.64

Notes to the financial information continued

11 Seasonality

The results for the six months ended 31 May 2014 are impacted by a lower number of working days in the first six months of the year than in the second half of the year.

12 Basis of preparation

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

This unaudited condensed half-yearly consolidated financial information for the six months ended 31 May 2014 has been prepared in accordance with the Disclosure and Transparency Rules ('DTR') of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The condensed half-yearly consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 November 2013, which were approved by the Board of Directors on 24 January 2014 and which have been prepared in accordance with IFRSs as adopted by the European Union.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 November 2013, as described in those financial statements, except as described below:

IAS 19 (revised) 'Employee benefits' amends the accounting for employment benefits. The Group has applied the standard retrospectively in accordance with the transition provisions of the standard. The impact on the Group has been in the following areas:

- The standard replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. There is no change to determining the discount rate. This has increased the income statement charge as the discount rate applied to assets is lower than the expected return on assets. This has no effect on total comprehensive income as the increased charge in profit or loss is offset by a credit in other comprehensive income. The effect has been that the income statement charge for the period ended 31 May 2013 has increased by £65,000 as the discount rate was lower than the expected return on assets. The effect of the change in accounting policy on deferred tax was immaterial.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

This condensed half-yearly consolidated financial information has been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of certain current assets, financial assets and financial liabilities held for trading and derivative contracts, which are held at fair value.

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

Notes to the financial information continued

12 Basis of preparation (continued)

After having made appropriate enquiries, including a review of progress against the Group's budget for 2014, its medium term plans and taking into account the banking facilities available until January 2018, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing this condensed half-yearly consolidated financial information.

This condensed half-yearly consolidated financial information and the comparative figures does not constitute full accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 November 2013, which include an unqualified audit report, no emphasis of matter paragraph and no statements under sections 498(2) or (3) of the Companies Act 2006, have been delivered to the Registrar of Companies.

The condensed half-yearly financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements for the year ended 30 November 2013. There have been no changes in the risk management department or in any risk management policies since the year end.

This report will be available at Porvair plc's registered office at 7 Regis Place, Bergen Way, King's Lynn, PE30 2JN and on the Company's website www.porvair.com.

Statement of Directors' responsibilities

The Directors confirm that this condensed half-yearly consolidated financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months of the year, their impact on the condensed half-yearly consolidated financial information and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related party transactions in the first six months of the year and any material changes in the related party transactions described in the last annual report.

The Directors of Porvair plc are listed in the Porvair plc Annual Report for the year ended 30 November 2013. Dr Krishnamurthy Rajagopal was appointed to the Board as a Non-Executive Director on 1 April 2014 and Andrew Walker resigned from the Board at the Annual General Meeting on 8 April 2014. A list of current Directors is maintained on the Porvair plc website www.porvair.com.

By order of the Board

Ben Stocks
Group Chief Executive

Chris Tyler
Group Finance Director

20 June 2014

Independent review report to Porvair plc

Report on the interim financial information

Our conclusion

We have reviewed the interim financial information defined below, in the half-yearly results of Porvair plc for the six months ended 31 May 2014. Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority. This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The interim financial information which is prepared by Porvair plc comprise:

- the condensed consolidated balance sheet as at 31 May 2014;
- the condensed consolidated income statement and statement of comprehensive income for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed consolidated interim financial statements.

As disclosed in note 12, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial statements included in the half-yearly results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half-yearly results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the directors

The half-yearly results including the condensed consolidated interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly results in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the half-yearly results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

PricewaterhouseCoopers LLP
Chartered Accountants
20 June 2014
Cambridge

Shareholder information

Registrar services

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

Capita Asset Services can be contacted at:

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

www.capitaassetservices.com

Telephone: 0871 664 0300 (calls cost 10p a minute plus network extras, lines are open 9.00am – 5.30pm Mon-Fri) (from outside the UK: +44 20 8639 3399) E-mail: shareholderenquiries@capita.co.uk.

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 664 0364 – telephone dealing

email: info@capitadeal.com

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.

Board committees, Secretary and advisers

Directors
Ben Stocks (Group Chief Executive)
Chris Tyler (Group Finance Director)
Charles Matthews* (Chairman)
Paul Dean* (Senior Non-Executive Director)
Dr Krishnamurthy Rajagopal* (Non-Executive Director)

*denotes independent Non-Executive Director

Members of the Audit Committee
Paul Dean (Chairman)
Charles Matthews
Dr Krishnamurthy Rajagopal

Members of the Remuneration Committee
Dr Krishnamurthy Rajagopal (Chairman)
Charles Matthews
Paul Dean

Members of the Nomination Committee
Charles Matthews (Chairman)
Paul Dean
Dr Krishnamurthy Rajagopal

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

Company registration number
01661935

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

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

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

Solicitors
Travers Smith LLP
10 Snow Hill
London EC1A 2AL

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

Designed and produced by Bexon Woodhouse
www.bexonwoodhouse.com

Porvair plc
7 Regis Place
Bergen Way
King's Lynn
Norfolk PE30 2JN

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

www.porvair.com