Porvair plc

Annual Report and Accounts 2004

Contents

About Porvair

Porvair is a specialist filtration business with operations in both the UK and US whose competitive strength is based on proprietary porous and microporous materials expertise.

Our strategy

Our strategy is to focus on specialist filtration markets that are growing, specification led, require porous and microporous materials expertise, and have long product cycles. We continue to invest in R&D to find proprietary high growth opportunities that will build long term shareholder value.

Specialist filtration

Our core specialist filtration businesses are growing, profitable, cash generative and address market segments where technology and know-how are critical. Our markets include the aluminium, foundry, aerospace, life sciences and nuclear clean-up industries.

New opportunities

Porvair seeks to develop a range of growth opportunities by capitalising on our market knowledge and technical expertise. We are developing new porous and microporous materials and products that we believe have the potential to transform Porvair.

Key highlights in 2004:

- Operational benefits, following 2003 disposals, are now evident.
- Profit before taxation, exceptional items and goodwill increased by 60% to £2.6 million (2003: £1.6 million). Profit before taxation was £0.3 million (2003: continuing operations £2.2 million loss).
- Gross revenue of £44.6 million (2003: continuing operations £46.2 million). Revenue growth was suppressed by the weak dollar.
- Net debt reduced to £8.0 million (2003: £10.1 million).
- Core specialist filtration businesses are performing well. Dollar turnover at Porvair Selee was up 8% and operating profit growth was significant. Turnover at Porvair Filtration Group was up 4%.
- Operating losses were significantly reduced in Advanced Materials. Porous metal sales were up 64% as commercial applications are introduced. Fuel cell bi-polar plate technology is meeting all key milestones.

Chairman's statement

John Morgan, Chairman
24 January 2005

It is a pleasure to report good results for Porvair in 2004. This is the first full set of results for the Group after several years of transition, and it is exciting to see the expected benefits now coming through.

Following the disposals of two subsidiaries in 2003, Porvair has shown improved return on assets, cash generation and commercial focus. The significant spend on research and development ('R&D') of recent years has opened up a range of promising opportunities, and as some of these products move towards commercialisation, their sales income is already starting to offset R&D expenditure.

The Board remains confident that Porvair's strategy and structure will deliver long term value to shareholders. Our core specialist filtration businesses are growing, profitable, cash generative and address market segments where technology and know-how are critical. This is a solid base from which to develop a range of larger opportunities, some nearer term and incremental in nature, some longer term and potentially transformational.

Profits before tax, exceptional items and goodwill amortisation for 2004 were £2.6 million (2003: continuing operations £1.6 million), a 60% improvement. Profit before taxation was £0.3 million (2003: continuing operations £2.2 million loss). Porvair is cash generative, and net borrowings, at £8.0 million, were significantly lower than the prior year (2003: £10.1 million). Interest cover before goodwill amortisation was 6.5 times (2003: 5.2 times).

The weakness of the dollar has held back reported sales and profits. Reported sales of £44.6 million are lower than those reported for 2003 (2003: continuing operations £46.2 million) but had dollar rates remained constant growth would have been 2%. Operating profits were also held back by about £0.2 million as margins associated with dollar sales out of the UK came under pressure. The net effect was somewhat mitigated however as we worked hard to grow US export sales. It is also worth noting that turnover at the US Metals Filtration division was 8% higher than 2003 before translation into Sterling. As most of our borrowings are in US dollars, the weaker dollar reduced reported borrowings.

Our US Metals Filtration and Advanced Materials businesses have had a good year. Selee, our Metals Filtration business, continued its recovery, growing its operating profit significantly. Losses in our Advanced Materials division, where the Group spends a large percentage of its R&D expenditure, were cut by 31% before translation into Sterling. The Board was particularly pleased to note that sales of our proprietary porous metals increased by 64% with several more opportunities still in development, and that all the key milestones in our fuel cell bi-polar plate development were met.

On the whole our UK Microfiltration businesses performed well, and although Porvair Sciences did not do as well as expected, the Porvair Filtration Group ('PFG') posted sales growth of 4%. Reported profits before tax at PFG were flat but were held back by lower margins on dollar denominated sales. Progress in key developmental markets has been promising, and we are delighted, early in 2005, to have won a long term supply agreement with one of the leading commercial US coal gasification operators.

Several issues relating to the disposal of our chemical businesses in late 2003 were dealt with during 2004. Our Canadian membrane outlet was closed and we disposed of our minority equity position in Sympatex. As noted last year, the first of three scheduled payments into the Porvair pension plan was made in order to improve the plan's funding.

Earnings per share and dividend

Earnings per share before goodwill amortisation and exceptional items were 3.4 pence (2003: continuing operations 4.4 pence). Although profit before tax, exceptional items and goodwill amortisation increased by 60%, the effect of a tax charge this year compared with a tax credit last year resulted in the adjusted earnings per share falling. The loss per share was 2.0 pence (2003: 67.4 pence loss per share). A final dividend of 1.0 pence (2003: 1.0 pence) is recommended for 2004.

Board and employees

Our staff have worked tirelessly in 2004, and on behalf of the Board, I would like to thank them for their efforts. The year has also seen a number of Board changes. Our Group Chief Executive, Ben Stocks, is now based in our US operations. Our new Group Finance Director, Christopher Tyler, is based in the UK and the Board is delighted that he has settled into the role immediately and is already making a significant contribution. Two new Non-Executive Directors have been appointed: Charles Matthews and Andrew Walker. Both have had distinguished and broad ranging careers and will bring a wealth of experience to Porvair. Michael Ost, who was a Director of the Group for six years, retired on 24 January 2005. Michael has made a considerable contribution to Porvair and has been a very valuable member of the Board. We wish him a long and happy retirement.

Outlook

In 2004 Porvair started to show the benefits of the changes undergone in previous years. The Group is profitable and cash generative. After several years of very high R&D investment, a range of highly promising new products are in the process of being commercialised. 2005 has started well, and the Board is optimistic about new product potential and the prospects for growth.

Operating and financial review

Ben Stocks
Group Chief Executive

Christopher Tyler
Group Finance Director

Chris Tyler

Porvair is a specialist filtration business whose proprietary porous and microporous materials offer both competitive strength and exciting commercial potential.

Our strategy is to specialise in a range of filtration markets that are growing, specification led, have long product cycles and where our advanced materials expertise can bring competitive advantage. Porvair brings expertise in porous and microporous materials, principally in ceramics, metals, carbons and polymers, to these markets. We seek to supply a diverse range of filtration products and limit our exposure to any one market segment. We supply, amongst others, the aluminium, foundry, aerospace, life science, nuclear clean-up, print systems, high purity liquid and fuel cell industries. No single segment makes up more than 17% of our sales.

Furthermore, we seek to develop a range of significant growth opportunities by capitalising on our market knowledge and technical expertise. We have invested heavily in R&D in recent years in developing new materials and products that we believe have the potential to transform Porvair. The opportunities we are pursuing range in scale, risk and timeframe and are described in later paragraphs.

Operations 2004

Metals Filtration

Porvair Selee ('Selee'), our US Metals Filtration business, continued its recovery with dollar sales growing by 8% before translation into Sterling. The benefits of plant investments made in prior years showed through with sales per employee up 13% when compared with 2003. Plant efficiencies contributed both to improved gross margins and lower working capital, which finished the year at record low levels. Export sales grew 25%, helped by several key account gains and a weaker dollar. As a result of these initiatives, operating profit before goodwill amortisation grew to £0.9 million (2003: £0.2 million). In the second half of the year Selee started to make demonstrable progress in its commercial strategy of extending its market leadership in aluminium filtration and expanding its specialist metals filtration scope. Sales of Selee's new proprietary metal conditioning filter increased by 55% and new customer trial programmes continue.

Microfiltration

As reported at the half year, 2004 started slowly at *Porvair Sciences* ('PSL'), and although trading improved as expected in the second half, it was not enough to make up the early shortfall. After three record years for sales and profits, sales declined in 2004 with a fall in cell culture media sales being the single biggest contributor. Whilst this fully accounts for the £0.4 million reduction in the operating profits of the Microfiltration division in the year, the Board were nonetheless encouraged that the core microplate business at PSL continued to grow, new overseas distributors were appointed during the year and new products are ready to be introduced early in 2005.

The *Porvair Filtration Group* ('PFG') posted a respectable result for the year with sales growing by 4%. Given that over 20% of its sales are dollar denominated this was a very creditable performance. Operating profit was flat but would have grown by 8% had the dollar exchange rate remained the same as in the prior year. Sales into the aerospace, bioscience, high purity liquid and engineering segments were robust. Promisingly, enquiry levels are high and project pipelines full. Management is focusing its development resources into key segments including gasification, specialist aerospace, nuclear clean-up and bioscience filtration devices. Progress in each of these areas has been satisfactory in 2004. As noted at the half year, the Board sees gasification as a particularly promising longer term prospect for the Group. This is a market that is growing and in which Porvair has a good track record. We started to market our expertise in this area more actively in 2004 and were particularly pleased to secure a long term, multi-million dollar supply agreement with one of the leading US coal gasification operators early in 2005.

Advanced Materials

Much of our R&D investment is undertaken at *Porvair Advanced Materials* ('PAM'), formerly *Porvair Fuel Cell Technology*, which we have re-named this year to reflect better the activities of this business. As some of the products under development at PAM have moved towards commercialisation in 2004, operating losses were cut by 31% before translation into Sterling.

PAM is involved in developing two new materials, one is microporous carbons which is specific to fuel cells; the other is porous metals which has a wider range of potential applications. Sales of porous metals increased 64% during 2004 as commercial orders increased steadily and key projects moved ahead. Our materials are now used commercially in both pressure vessel lining and gas combustion applications. Gas combustion technology is having to adapt to tighter emission control standards, and we believe our material is particularly well suited to meet this significant emerging market need. We have made substantial progress in electronic cooling applications and customer prototype tests are well advanced. Diesel exhaust testing also continues positively. The general level of enquiries for porous metal applications remains very high.

PAM's carbon materials are used to manufacture bi-polar plates, a critical component in proton exchange membrane fuel cell design. As we noted at the half-year, the many thousands of plates made in 2003,

Specialist filtration

Our core specialist filtration businesses are growing, profitable, cash generative and address market segments where technology and know-how are critical. Our markets include the aluminium, foundry, aerospace, life sciences and nuclear clean-up industries.

PRODUCT FACT FILE

AEROSPACE FILTRATION SYSTEMS

Product Innovations & Applications:

Porvair designs and manufactures specialist filtration components and assemblies for contamination control in hydraulic, fuel, lubrication and air systems to the exacting technological and quality specifications set by the aerospace and defence industries. Porvair's filters protect vital sub-systems such as flight controls, fuel management, thrust reversers, braking and steering, power generation and air intakes in aircraft, helicopters, military vehicles and spacecraft.

NUCLEAR FILTRATION SYSTEMS

Product Innovations & Applications:

Porvair provides solutions for the filtration challenges in the nuclear industry, which demands special standards of performance and quality. Porvair's filters are fitted into power generation and waste management systems, including spent fuel treatment and storage, fuel conversion, decommissioning and decontamination systems throughout the UK, Europe and the US. These filters provide a vital barrier between the environment and hazardous radiological or toxic processes.

MOLTEN METALS FILTRATION SYSTEMS

Product Innovations & Applications:

Porvair's ceramic filters offer a cost effective way to remove small inclusions from molten metal and so produce high purity metals. Porvair Selee pioneered the development of ceramic foam filters for this use and is the world leader in the filtration of cast house aluminium. Metal filtered through Selee filter systems is used in applications ranging from automotive parts to beverage cans and aerospace turbine blades.

LIQUID MICROFILTRATION SYSTEMS

Product Innovations & Applications:

Porvair supplies the food and beverage, pharmaceuticals, healthcare and biotechnology industries with a comprehensive range of cartridge filters with pore sizes ranging from 0.04 microns to 90 microns. These filter systems enable customers to remove a range of contaminants including, bacteria such as cryptosporidium and yeast from their products and so make beverages and medicines safe to consume.

New opportunities

Porvair seeks to develop a range of growth opportunities by capitalising on our market knowledge and technical expertise. We are developing new porous and microporous materials and products that we believe have the potential to transform Porvair.

PRODUCT FACT FILE

METAL FOAM TECHNOLOGY

Product Innovations & Applications:

Porvair is developing unique porous metals for a range of applications. Porvair's porous metal burner plates enable gas burners to operate more efficiently and with lower emissions. Porous metals are engineered to optimise the entrainment of gas and air and so generate maximum heat and minimum gaseous emissions. Applications include industrial dryers, infrared burners and boilers.

CLEAN COAL TECHNOLOGY

Product Innovations & Applications:

Porvair is a leading provider of high temperature filters to the coal gasification industry. Coal gasification plants convert coal or petroleum coke into synthetic gas, which is then used to fuel gas fired power stations. Porvair specialist filters are an integral part of the gas production process operating at high temperatures to remove particulate from the gas stream. Coal gasification plants enable coal to be used as a fuel with minimal environmental impact compared with traditional coal fired power plants.

PHARMACEUTICAL PROCESSES

Product Innovations & Applications:

Porvair's specialist laboratory filter systems are approved for use in the pharmaceutical and drug industries. Porvair's treated porous plastic products are used in a diverse range of applications including diagnostic and testing kits, medical devices, laboratory processes and pharmaceutical production.

FUEL CELL TECHNOLOGY

Product Innovations & Applications:

Porvair produces high performance low cost bi-polar plates for the fuel cell industry. The Porvair plate material is unique in the industry and offers fuel cell manufacturers outstanding electrical properties, low density and a compact design for static and vehicle fuel cells. A typical Porvair plate has in-plane conductivity exceeding 500S/cm and through plane contact resistance of less than 10mohms-cm^2, is 30% lighter than competitive materials and can be manufactured with a web thickness of less than 0.4mm.

which boosted our sales last year, have provided extensive test data and our materials have been proven to work well. In 2004 our goal was to develop a second generation of plates, refine material composition and demonstrate low cost manufacture. All of this was achieved during the year, and was confirmed in a series of successful laboratory fuel cell tests. This opens the way to much lower unit costs and significantly higher manufacturing efficiencies, the effects of both of these can be seen in PAM's results where, even though sales are lower, operating losses were significantly reduced compared with last year. As a result of these technical steps forward the number of interested customers has recently increased markedly. Our goal for 2005 is to get our low cost moulded plates into several customer prototypes.

Cash flow
The Group generated good cash flow in 2004. Net cash inflow from operating activities before exceptional cash items was £4.9 million (2003: continuing operations £3.3 million). Net cash inflow from operating activities was £2.8 million (2003: £2.1 million). Capital expenditure was £1.2 million (2003: £1.8 million). Net interest paid was £0.5 million (2003: £0.6 million) and interest cover was 6.5 times (2003: 5.2 times). Net cash inflow before financing, disposal proceeds of £0.5 million (2003: £2.3 million) and exceptional cash payments of £2.1 million (2003: £0.3 million), was £2.6 million (2003: cash outflow £1.4 million). Exceptional cash items relate to the settlement of a number of items associated with business disposals undertaken in 2003. The Group's reduction in net debt before exchange differences was £1.1 million (2003: £0.6 million). Currency translation effects of our dollar denominated borrowings further reduced net debt by £1.0 million (2003: £1.1 million), resulting in an overall reduction in net debt of £2.1 million (2003: £1.7 million).

Shareholders' funds
Shareholders' funds of £30.5 million were £1.7 million lower than at 1 December 2003. Profit after tax before goodwill amortisation was £1.7 million. Goodwill amortisation reduced shareholders' funds by £2.2 million, the minority's interest was £0.2 million, currency exchange translation losses were £0.2 million and dividends paid and proposed were £0.7 million.

Tax
The Group tax charge of £0.8 million represents an effective tax rate of 33% on profits before goodwill amortisation. The tax charge comprises current tax of £0.4 million and deferred tax of £0.4 million. The Group carries a deferred tax asset in relation to the losses in its US operations. A portion of the tax credits associated with this year's losses have not been recognised.

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 borrowings of US$19.0 million which hedged underlying US assets on the balance sheet of US$19.4 million. In addition, the Group has a €1.6 million interest bearing debtor that was fully hedged by borrowings in Euros.

The Group finances its operations by a combination of retained profits and short and long term loans. Borrowings are principally at floating rate and appropriate hedges are used to manage fluctuations in interest rates.

At the year end the Group had net borrowings of £8.0 million (2003: £10.1 million) comprising gross borrowings of £11.1 million offset by cash balances of £3.1 million.

Pension schemes
The Group continues to support its closed defined benefit pension scheme in the UK and provide access to defined contribution schemes for its US employees and more recent and new UK employees.

In the exceptional charges arising in 2003 the Group provided for additional cash payments to the defined benefit pension scheme. During the year the Group made a £400,000 payment and expects to make two further payments of £550,000 each in March 2005 and March 2006.

Accounting changes
The Company will be required to adopt International Financial Reporting Standards ('IFRS') with effect from 1 December 2005. An initial assessment of the impact on the Group's financial statements and underlying processes has been made. An implementation plan is being prepared to enable the Group to report under IFRS from 1 December 2005.

Directors' report

The Directors are pleased to present their Annual Report and the audited accounts of the Group for the year ended 30 November 2004.

Review of business, principal activities and results

The business is reviewed in the Chairman's statement on page 1, and the Operating and financial review on pages 2 to 5. Likely future developments in the business are also to be found in those sections.

The Group's principal activities are in the areas of specialist filtration and advanced materials development in the UK and US.

The loss attributable to shareholders for the year was £749,000 (2003: loss of £24,790,000).

Dividends

An interim dividend of 1.0 pence per share was paid on 17 September 2004. The Directors recommend the payment of a final dividend of 1.0 pence per share (2003: 1.0 pence per share) on 19 April 2005 to shareholders on the register on 29 March 2005. This makes a total dividend for the year of 2.0 pence per share (2003: 3.4 pence).

Directors and their interests

The names and biographical details of the Directors are set out on page 15. Christopher Tyler was appointed to the Board on 6 September 2004 and offers himself for election. Michael Ost retired on 24 January 2005 and Charles Matthews and Andrew Walker were appointed on the same date and offer themselves for election. Mark Moran resigned on 31 January 2004.

In accordance with the Articles of Association Ben Stocks and Michael Gatenby retire by rotation and being eligible, offer themselves for re-election.

During the year the Group maintained insurance providing liability cover for its Directors.

Details of all the beneficial and non-beneficial interests of the Directors in the shares of the Company, share options and service contracts are set out in the Directors' remuneration report on pages 9 to 11. None of the Directors had a material interest in any contract of significance in relation to the Company or its subsidiaries during the year.

Research and development

The Group continues to undertake a research and development programme with the object of increasing profitability and evaluating new business opportunities. The cost to the Group in the year under review was £3.2 million (2003: continuing operations £4.7 million). The expenditure is of a development nature and is largely undertaken in-house rather than by third parties. Development expenditure is incurred by all Group companies.

Substantial shareholders

As at 24 January 2005 the Company has been notified of the following substantial shareholdings comprising 3% or more of the issued share capital of the Company.

	Ordinary shares	Percentage
Schroder Investment Management	8,253,999	22.4
Isis Asset Management	4,198,142	11.4
M&G Investment Managers	4,155,987	11.3
Insight Investment	2,227,679	6.1
Legal & General Fund Managers	1,932,093	5.3
Henderson Global Investors	1,547,310	4.2
Deutsche Asset Management	1,259,905	3.4

Employment policies

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

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

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

Health, safety and the environment

The Group recognises its clear responsibilities for the health and safety of its employees and to the communities in which the Group operates. A health and safety committee, comprising representatives from management and employees regularly reviews and inspects the conditions in which our employees work. The Group consistently considers methods of improving safety and its environmental responsibilities. The Group Environmental, Health & Safety Policy is published at **www.porvair.com.** We are proud of the fact that many of the products sold and under development by Porvair are used to the benefit of the environment.

Donations
The Group made a number of charitable donations totalling £15,000 during the year (2003: £12,000). There were no political donations.

Annual General Meeting
The Annual General Meeting of the Company, is to be held on Tuesday 5 April 2005. The notice for this meeting is set out at the end of this document.

Resolution 10 & 11 – Directors authority to allot shares (Ordinary resolution) and disapply pre-emption rights (Special resolution)
If the Directors wish to allot unissued shares or other equity securities for cash or sell any shares which the Company holds in treasury following a purchase of its own shares pursuant to the authority in Resolution 10, the Companies Act 1985 requires that such shares or other equity securities are offered first to existing shareholders in proportion to their existing holding. Resolution 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 £36,803.01 (being 5% of the Company's issued ordinary share capital as at 24 January 2005) 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 authority will expire at the end of five years from the date of the passing of the resolution.

In addition, there are three items of special business:

Resolution 12 – Purchases of own shares by the Company (Special resolution)
Resolution 12 to be proposed at the Annual General Meeting seeks authority from holders of ordinary shares of 2p each in the capital of the Company ('ordinary shares') for the Company to make market purchases of its own ordinary shares, such authority being limited to the purchase of 10% of the ordinary shares in issue as at 24 January 2005. The maximum price payable for the purchase by the Company of its own ordinary shares will be limited to 5% above the average of the middle market quotations of the Company's ordinary shares, as derived from the Daily Official List of the London Stock Exchange, for the five business days prior to the purchase. The minimum price payable by the Company for the purchase of its own ordinary shares will be 2p per share (being the amount equal to 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 30 March 2004. Company law has been changed recently to allow the Company to hold in treasury any shares purchased by it using its distributable profits. Such shares will remain in issue and capable of being re-sold by the Company or used in connection with certain of its share schemes. The Company intends to take advantage of these developments to the extent that it exercises the authority to buy back its shares, so as to hold the purchased shares in treasury.

Options to subscribe for up to 1,605,264 ordinary shares have been granted and are outstanding as at 24 January 2005 (being the latest practicable date prior to publication of this document) representing 4.4% of the issued ordinary share capital at that date (excluding shares held in treasury). If the Directors were to exercise in full the power for which they are seeking authority under Resolution 12, the options outstanding as at 24 January 2005 would represent 4.9% of the ordinary share capital (excluding shares held in treasury) in issue following such exercise.

Resolution 13 – Authority to utilise treasury shares with certain share schemes (Ordinary resolution)
Resolution 13 is being proposed to seek the authority required by the UK Listing Authority for a listed company to utilise any shares that it holds in treasury, resulting from a purchase of own shares, as described above, in connection with its employee share option schemes. For example, the Company will be able to use treasury shares to satisfy awards of share options under these schemes. The Company considers that the ability to use treasury shares in this manner (which in any event is expressly envisaged by the new treasury share legislation) will be in the best interests of the Company and its shareholders as a whole.

Resolution 14 – Amendment to the Articles of Association (Special resolution)
Article 213 of the current Articles of Association provides that every director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses and liabilities incurred in the execution of the duties of his office provided that the indemnity shall only have effect in so far as its provisions are not void under section 310 of the Companies Act 1985 (the 'Act'). With effect from 6 April 2005 section 310 is repealed and a change is therefore required to this Article.

The proposed new Article 213 will, if approved, enable the Company to make use of the changes to be introduced by the Companies (Audit, Investigations and Community Enterprises) Act 2004 that will, amongst other things, relax the existing prohibition against companies indemnifying their directors against liability and permit companies to pay directors' defence costs as they are incurred.

The proposed new Article 213 contains a mandatory indemnity for directors equivalent to the indemnity currently in place and a general indemnity allowing the Company, if it considers it appropriate, to indemnify directors subject to the provisions of the Act (as amended). Any indemnity to be granted pursuant to the new sections 309A to 309C of the Act will be subject to Board approval and will be disclosed in the annual Directors' remuneration report.

Full details of all the Resolutions to be proposed are set out on pages 41 to 43.

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 underlying trade creditor days of the Company at 30 November 2004 were 47 days (2003: 46 days).

Directors' responsibilities
Directors are required by the Companies Act 1985 to ensure that financial statements for each financial year are prepared which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period. In preparing the financial statements, the Directors confirm that suitable accounting policies have been used and applied consistently; reasonable and prudent judgements and estimates have been made; the financial statements have been drawn up on a going concern basis unless it is inappropriate to presume that the Group will continue in business; and applicable accounting standards have been followed.

It is also the Directors' responsibility to ensure that adequate accounting records are maintained that 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 comply with the Companies Act 1985. It is also their responsibility to safeguard the assets of the Company and the Group; to maintain a system of internal financial control; and hence to take reasonable steps to prevent and detect fraud and other irregularities.

Going concern
After having made appropriate enquiries, including a review of the Group's budget for 2005 and its medium term plans, the Directors of Porvair plc have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these accounts.

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

By order of the Board

Chris Tyler C. Tyler

Christopher Tyler, 24 January 2005

The Remuneration Committee has given full consideration, when implementing remuneration policy, to the provisions in section 1.B of the best practice provisions annexed to the Listing Rules prepared by the Financial Services Authority as the competent authority for listing in the United Kingdom.

The Committee

During the year the Committee comprised Michael Ost (Chairman) and Michael Gatenby. The Committee determines the pay and benefits of the Executive Directors, whilst the remuneration of the Non-Executive Directors is determined by the Executive Directors. Following the retirement of Michael Ost, Charles Matthews has been appointed as Chairman in his place.

Remuneration policy

The remit of the Committee is to ensure that the remuneration packages of the Executive Directors are competitive and designed to attract, retain and motivate managers of high quality. These consist of a base salary, a discretionary annual cash bonus, the grant of share options and the provision of other benefits including pension arrangements, health insurance and company car.

Service contracts

The Executive Directors have contracts with the Company which can be terminated on giving 12 months' notice. This is considered to be an appropriate balance between flexibility and commitment on both parties. The Non-Executive Directors receive letters of appointment, and are subject to periodic re-election in accordance with the Articles of Association at the Annual General Meeting in common with the Executive Directors. They do not participate in any share option scheme, bonus or pension arrangements.

Annual bonus

Bonus payments to Executive Directors are made at the discretion of the Committee with reference to individual performance, and the achievement of Group profit targets and total shareholder returns. When triggered they are cash payments made annually in arrears and are not pensionable. Awards are capped at 50% of base salary. There will be bonuses paid in 2005 relating to the achievement of Group profit targets in 2004 (2003: £nil).

Pension entitlements

Pension and life assurance benefits were provided in the period for Mark Moran and Ben Stocks by the Porvair plc Pension and Death Benefit Plan, a contributory scheme which is now closed to new employees. Directors receive the same benefits from the Plan as all other members, including a pension payable at retirement, dependants' benefits and a lump sum of four times salary on death in service. Only basic salary is pensionable. Pension and life assurance benefits are provided for Christopher Tyler by a defined contribution scheme funded by the Company.

The Executive Directors' pension benefits are subject to the Inland Revenue earnings cap. Ben Stocks was granted a Funded Unapproved Retirement Benefit scheme (FURB) at an after tax rate of 8% on the excess over the earnings cap. This amounted to £15,454 (2003: £20,100).

The accumulated total accrued pension figures shown in the table below represent the annual amount of accrued pension payable on retirement at normal retirement age, based on the Director's service to, and pensionable earnings at, the relevant year end. Given recent movements on investment values the transfer values on this basis have moved negligibly from the prior year. The increase in accrued pension and movement on transfer value excludes any increase in inflation. The increase in transfer value of the pensions is calculated on the basis of actuarial advice and is net of Directors' contributions in the year.

Pension entitlements continued

	Transfer value of accrued pension at 30 November 2004 £'000	Transfer value of accrued pension at 2 December 2003 £'000	Increase in transfer value of accrued pension £'000	**Accumulated total accrued pension p.a. 2004 £'000**	Transfer value of increase in accrued pension p.a. £'000	Increase in accrued pension p.a. £'000
Executive Directors						
M Moran	**49**	39	10	**9**	3	1
B D W Stocks	**38**	30	8	**9**	3	1
C P Tyler	**–**	–	–	**–**	–	–
	87	69	18	**18**	6	2

The Company made a £4,817 payment into a defined contribution pension scheme for Christopher Tyler.

Directors' remuneration

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

	Basic salary and fees £'000	Other £'000	Bonus £'000	Benefits £'000	FURB's £'000	**Total 2004 £'000**
Executive Directors						
M Moran*	26	173	–	2	–	**201**
B D W Stocks	214	–	61	6	15	**296**
C P Tyler**	38	–	–	–	–	**38**
Non-Executive Directors						
M R B Gatenby	22	–	–	–	–	**22**
J M Morgan	74	–	–	–	–	**74**
M S Ost	22	–	–	–	–	**22**
	396	173	61	8	15	**653**

Other relates to Mark Moran's severance entitlement under his employment contract.

* resigned on 31 January 2004
** appointed on 6 September 2004

	Basic salary and fees £'000	Other £'000	Bonus £'000	Benefits £'000	FURB's £'000	Total 2003 £'000
Executive Directors						
M Moran	154	–	–	12	7	173
B D W Stocks	195	–	–	12	13	220
Non-Executive Directors						
M R B Gatenby	21	–	–	–	–	21
J M Morgan	67	–	–	–	–	67
M S Ost	21	–	–	–	–	21
	458	–	–	24	20	502

Share options

Share options are awarded to Executive Directors at the discretion of the Committee.

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 1 December 2003	**Granted on 16 September 2004**	**At 30 November 2004**	Exercise price	Date from which exercisable	Expiry date
B D W Stocks	106,299		**106,299**	345.72p	20/02/2001	20/02/2005
B D W Stocks	31,890		**31,890**	116.18p	25/02/2002	25/02/2006
B D W Stocks	21,259		**21,259**	148.17p	16/08/2002	16/08/2006
B D W Stocks	85,000		**85,000**	259.00p	12/07/2004	12/07/2008
B D W Stocks	70,000		**70,000**	111.00p	28/01/2006	28/01/2010
C P Tyler		**60,000**	**60,000**	101.50p	16/09/2007	16/09/2011

At 1 December 2003 and 31 January 2004 Mark Moran had share options totalling 215,668.

Options can only be exercised if the Committee is satisfied that over a period of not less than three years, commencing on the date of grant, there has been an increase in the Group's earnings per share of at least 2% per annum above the growth in the Retail Prices Index over the same period.

No Directors' options lapsed or were exercised in the year.

The market price of the Company's ordinary shares at 30 November 2004 was 103p (2003: 166p).

The range of market price during the year was 96p to 175p.

Total shareholder return
The following graph charts total shareholder return against the FTSE All Share Index for the last 5 years to 30 November 2004, with both rebased to 100 at 1 December 1999. Given the changing nature of the Group and different sectors it operates in, the FTSE All Share Index is the logical comparator index.

Directors' interests
The beneficial interests at 30 November 2004 and 1 December 2003 of the Directors at the year end 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.

	2004		2003	
	Ordinary shares	**Share options**	Ordinary shares	Share options
Executive Directors				
B D W Stocks	**81,050**	**314,448**	71,050	314,448
C P Tyler	**5,000**	**60,000**	–	–
Non-Executive Directors				
M R B Gatenby	**14,000**	–	14,000	–
J M Morgan (Chairman)	**755,816**	–	755,816	–
M S Ost	**12,857**	–	12,857	–

At the 1 December 2003 and 31 January 2004 Mark Moran had beneficial interests in 81,420 ordinary shares.

The sections on 'Directors' remuneration' and 'share options' contain the auditable information. All the other sections contain non-auditable information.

Michael Ost, Chairman, Remuneration Committee
24 January 2005

Corporate governance

Compliance

The Directors are of the opinion that the Company has complied with the provisions of the revised Combined Code on Corporate Governance, issued in July 2003, throughout the year except where explicitly set out below.

Board of Directors

The Board is chaired by John Morgan. Ben Stocks is the Group Chief Executive and Christopher Tyler is the Group Finance Director. Michael Ost, Michael Gatenby, Charles Matthews and Andrew Walker are independent Non-Executive Directors. Michael Ost was the Senior Non-Executive Director until his retirement on 24 January 2005. Michael Gatenby has been appointed in his place.

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.

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

Procedural compliance is monitored by the Company Secretary and the Directors' appointment and removal is a matter for the Board as a whole. Independent professional advice and training are available to all the Directors. The Senior Non-Executive Director is available for consultation with shareholders, through the Company Secretary, by written submission. None of the Company's major shareholders has asked for a meeting with the Non-Executive Directors in the period under review, however the Executive Directors have met with the Company's major shareholders and other potential investors on a regular basis and have reported to the Board on those meetings.

The Non-Executive Directors' terms of appointments do not specify a specific period for their appointment and therefore the terms are not in compliance with provision B.1.6 of the Code, however in accordance with the Articles of Association, one third of the Directors who have served throughout the year retire by rotation each year and, if eligible, may offer themselves for re-election at the Annual General Meeting. All newly appointed Directors offer themselves for election at the first Annual General Meeting following their appointment.

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

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

The Company maintains directors' and officers' liability insurance.

The Company has not complied with provision A.6.1 as the Board have not put in place a formal process to consider its performance either as a Group or individually, nor have the Chairman and Non-Executive Directors met together to specifically assess the performance of the Chairman. The Board intends to consider appropriate measures, which may include external support, to ensure that an evaluation of its performance is put in place in the next financial year.

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 by all Board members at all pre-arranged Board meetings.

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. John Morgan, the Chairman of the Company, served on the Audit Committee until 3 November 2004, when the new terms of reference for the Committee were adopted by the Board. Therefore until this date the Company did not comply with provision C.3.1 of the Code. The previous terms of reference required all Non-Executive Directors to be members of the Audit Committee, the new terms allow only the independent Non-Executive Directors to be members of the Committee.

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 the membership of the Committee as a whole has sufficient recent and relevant financial experience 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 reviewed by the Group's management and external auditors.

- reviewed the scope of the work done by Group management in reviewing the operating companies' internal controls and procedures.
- made recommendations to the Board in relation to the appointment of the external auditor and approved the remuneration and terms of engagement of the external auditor.
- monitored the external auditor's independence and objectivity.
- reviewed arrangements by which staff of the company may raise concerns about possible improprieties in matters of financial reporting or other matters.

The Committee's full terms of reference are available from the Company Secretary on request.

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

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

The Audit Committee met three times during the year with full attendance by its members.

Remuneration Committee
The Remuneration Committee determines and recommends to the Board the framework or broad policy for the remuneration and long term incentive arrangements of the Company's Executive Directors. The Committee's full terms of reference are available from the Company Secretary on request. The Committee comprised all of the independent Non-Executive Directors of the Company. Michael Ost was the Chairman until his resignation on 24 January 2005. Charles Matthews assumed the Chairmanship from that date. The Chairman of the Company and Group Chief Executive may be invited to attend and speak at meetings of the Committee, but do not participate in any matter which impacts upon their own remuneration arrangements. The remuneration of the Non-Executive Directors including the Chairman is set by the Executive Directors.

The Directors' remuneration report on pages 9 to 11 includes details on remuneration policy, practices and the remuneration of the Directors.

The Remuneration Committee met five times in the year and was fully attended by its members.

Nomination Committee
The Company has established a Nominations Committee, which provides a transparent process and procedure for the appointment of new Directors to the Board. The Committee comprises all of the Non-Executive Directors. The Committee is chaired by John Morgan. The Committee's terms of reference, which are available from the Company Secretary on request, include:

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

Any Director appointed since the last AGM is required, under the Company's Articles of Association, to retire and seek election by the shareholders at the next AGM.

During the period the Committee recommended to the Board the appointment of a new Group Finance Director and Company Secretary and two new Non-Executive Directors. The new Group Finance Director was recruited to replace the previous incumbent, who resigned in January 2004, and the two new Non-Executive Directors were recruited to strengthen the Board and allow for orderly succession. In each case the Committee developed a set of terms of reference for the role and retained the services of external search consultants to produce a short list of potential candidates.

Initial interviews of the shortlisted candidates for the Group Finance Director role were conducted by the Group Chief Executive. The candidates were subjected to a professional assessment and references were taken up. Further interviews were then undertaken with all members of the Board. Initial interviews for the Non-Executive Directors were conducted by the Chairman and one of the Non-Executive Directors. References were taken up for each candidate and each shortlisted candidate was subsequently interviewed by the Executive Directors.

The terms of reference for the appointment of the Non-Executive Directors are available for inspection from the Company Secretary.

The Nomination Committee met four times in the year and was fully attended by its members.

Pension Committee
The Company continues to operate the defined benefit pension plan ('Plan') which was closed to new members in October 2001. This Plan is financed through a separate trust fund administered by trustees with an independent Chairman. In addition the Group also provides defined contribution schemes for employees in the UK and the US.

The Pension Committee is chaired by John Morgan. Michael Gatenby, Christopher Tyler and Andrew Walker are the other members. The objectives of this Committee are to keep under review the present and future pension requirements within the Group and to monitor the status of the Plan with regard to those employees, pensioners and deferred pensioners who remain participants.

Internal control
The Turnbull Report issued in September 1999 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.

Corporate governance continued

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

Control environment – each operating business has its own management group which meets regularly to monitor operational matters. The Managing Director of each operating business reports to the Group Chief Executive, and clearly defined lines of responsibility have been established within this organisational structure. The Executive Directors visit all operations regularly to perform detailed reviews.

Risk management – operating business management have a clear responsibility for the identification of risks facing each operation, and for establishing procedures to investigate and monitor such risks. The Board also commissions independent reviews of the key risks facing the Group as appropriate.

Information and control systems – each operating business maintains its own internal systems and controls designed to provide management with regular and reliable management information. The Group has a comprehensive process of annual budgets and detailed monthly reporting. The annual budget of each operating business and the consolidated Group budget are approved by the Board as part of its normal responsibilities.

Monitoring system – the Board has established a framework of controls encompassing procedures applicable to all businesses that are subject to executive review. The Group operates a self assessment process so that the operating businesses can quantify the extent of their compliance with control objectives. This process is monitored by the Group Chief Executive and central Finance Department. It is also reviewed by the external auditors.

The Audit Committee and the Board have reviewed the effectiveness of the Group's internal controls for the year 2 December 2003 to 30 November 2004.

Christopher Tyler, Company Secretary
24 January 2005

Board of Directors

1 Ben Stocks (42), Group Chief Executive
Joined the Group in February 1998. He was previously UK Managing Director of the Speciality Packaging Division of Carnauld Metal Box.

2 Christopher Tyler (42), Group Finance Director
Appointed to the Board in September 2004. He had previously held a number of senior financial positions at Cable & Wireless, most recently as Chief Financial Officer of Cable & Wireless in the Caribbean. He is a chartered accountant.

Non-Executive Directors

3 John Morgan (65), Chairman
Joined Porvair in 1979 and led the management buy-out in 1982. He was Chairman and Chief Executive from 1990 until 1998 when the new Chief Executive joined the Board. He became Non-Executive Chairman in June 1999.

4 Michael Gatenby* (60)
Appointed to the Board in June 2002. He is Chairman of Alliance Pharma plc and is a Non-Executive Director of SRS plc, Johnson Service Group PLC and Cobra Biomanufacturing plc. He is a chartered accountant.

5 Charles Matthews* (51)
Appointed to the Board in January 2005. He is the Founder and Chairman of Sigma QC Limited. He is a Non-Executive Director of FKI Plc and Chairman of Axeon Ltd and Creative Learning Media Ltd. He was previously Chief Executive of Cosworth Engineering and was a member of the Vickers Group plc Executive Board.

6 Andrew Walker* (53)
Appointed to the Board in January 2005. He is a Non-Executive Director of API Group Plc, Manganese Bronze Holdings Limited, Halma plc and Ultra Holding PLC. He was previously Chief Executive of McKechnie plc and South Wales Electricity plc.

7 Michael Ost* (60) not pictured
Joined the Board in July 1999. He retired from the Board on 24 January 2005.

* denotes independent Director

Board committees, secretary and advisers

Directors
Michael Gatenby* (Senior Non-Executive Director from 24 January 2005)
Charles Matthews* – appointed on 24 January 2005
John Morgan* (Chairman)
Michael Ost* (Deputy Chairman and Senior Non-Executive Director) – retired on 24 January 2005
Ben Stocks
Christopher Tyler – appointed on 6 September 2004
Andrew Walker* – appointed on 24 January 2005

* Non-Executive Director

Members of the Audit Committee
Michael Gatenby (Chairman)
Charles Matthews – appointed on 24 January 2005
John Morgan – until 3 November 2004
Michael Ost – retired on 24 January 2005
Andrew Walker – appointed on 24 January 2005

Members of the Remuneration Committee
Michael Ost (Chairman) – retired on 24 January 2005
Charles Matthews (Chairman) – appointed on 24 January 2005
Michael Gatenby
Andrew Walker – appointed on 24 January 2005

Members of the Nomination Committee
John Morgan (Chairman)
Michael Gatenby
Charles Matthews – appointed on 24 January 2005
Michael Ost – retired on 24 January 2005
Andrew Walker – appointed on 24 January 2005

Members of the Pension Committee
John Morgan (Chairman)
Michael Gatenby
Christopher Tyler – appointed 24 January 2005
Andrew Walker – appointed 24 January 2005

Secretary and registered office
Christopher Tyler
Brampton House
50 Bergen Way
King's Lynn
PE30 2JG

Company registration number
1661935

Auditors
PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
Leeds LS1 4JP

Principal bankers
Barclays Bank plc
Corporate Banking Centre
PO Box 729
1 Capability Green
Luton
Bedfordshire LU1 3US

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

Solicitors
Travers Smith
10 Snow Hill
London EC1A 2AL

Stockbrokers
Evolution Securities Ltd
100 Wood Street
London EC3N 4EY

Independent auditors' report to the members of Porvair plc

We have audited the financial statements which comprise the Consolidated profit and loss account, the Balance sheets, the Cash flow statement, the Statement of total recognised gains and losses and the related notes and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' remuneration report ('the auditable part').

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of directors' responsibilities. The Directors are also responsible for preparing the Directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's statement, the Operating and financial review, the Director's report, the unaudited part of the Directors' remuneration report and the Corporate governance statement.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the Directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 November 2004 and of the loss and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP, Leeds
Chartered Accountants and Registered Auditors
24 January 2005

Consolidated profit and loss account

For the year ended 30 November 2004	Note	2004 Group £'000	2003 Continuing operations £'000	2003 Discontinued operations £'000	2003 Group £'000
Turnover	1	**44,632**	46,167	18,042	64,209
Cost of sales		**(30,466)**	(30,000)	(16,493)	(46,493)
Gross profit		**14,166**	16,167	1,549	17,716
Distribution costs		**(485)**	(795)	(695)	(1,490)
Research & development expense		**(3,181)**	(4,661)	(1,174)	(5,835)
Exceptional item	4	**–**	(1,525)	–	(1,525)
Administrative – other		**(10,161)**	(11,125)	(2,979)	(14,104)
Total administrative expenses		**(13,342)**	(17,311)	(4,153)	(21,464)
Group operating profit/(loss) before share of profit in associated undertaking		**339**	(1,939)	(3,299)	(5,238)
Share of operating profit in associated undertaking – discontinued		**454**	159	–	159
Total Group operating profit/(loss)	1	**793**	(1,780)	(3,299)	(5,079)
Exceptional items	4	**–**	–	(23,033)	(23,033)
Interest payable (net)		**(460)**	(379)	–	(379)
Profit/(loss) on ordinary activities before taxation	2	**333**	(2,159)	(26,332)	(28,491)
Profit/(loss) on ordinary activities before taxation		**333**	(2,159)	(26,332)	(28,491)
Add back goodwill amortisation		**2,224**	2,237	53	2,290
Add back exceptional items		**–**	1,525	23,033	24,558
Adjusted profit/(loss) on ordinary activities before exceptional items, goodwill amortisation and taxation		**2,557**	1,603	(3,246)	(1,643)
Tax on profit/(loss) on ordinary activities	3	**(833)**			4,095
Loss on ordinary activities after taxation		**(500)**			(24,396)
Equity minority interests		**(249)**			*(394)*
Loss attributable to shareholders		**(749)**			(24,790)
Dividends	6	**(736)**			(1,251)
Deficit for the financial period		**(1,485)**			(26,041)
Loss per share					
- basic and diluted	5	**(2.0)p**			(67.4)p
Dividend per share	6	**2.0p**			3.4p

There is no significant difference between the results disclosed in the profit and loss account and the results disclosed on an unmodified historical cost basis.

Reconciliation of movements in equity shareholders' funds

	Group		Company	
For the year ended 30 November 2004	**2004 £'000**	2003 £'000	**2004 £'000**	2003 £'000
Loss attributable to shareholders	**(749)**	(24,790)	**(1,343)**	(21,374)
Dividends	**(736)**	(1,251)	**(736)**	(1,251)
Retained loss for the financial period	**(1,485)**	(26,041)	**(2,079)**	(22,625)
Exchange differences	**(239)**	(137)	**-**	(1)
Net reduction in equity shareholders' funds	**(1,724)**	(26,178)	**(2,079)**	(22,626)
Opening equity shareholders' funds	**32,196**	58,374	**38,460**	61,086
Closing equity shareholders' funds	**30,472**	32,196	**36,381**	38,460

Statement of total recognised gains and losses

	Group	
For the year ended 30 November 2004	**2004 £'000**	2003 £'000
Loss attributable to shareholders	**(749)**	(24,790)
Exchange differences	**(239)**	(137)
Total losses recognised in the period	**(988)**	(24,927)

Balance sheets

	Note	Group As at 30 November 2004 £'000	Group As at 1 December 2003 £'000	Company As at 30 November 2004 £'000	Company As at 1 December 2003 £'000
Fixed assets					
Intangible assets	10	**27,785**	30,204	**-**	–
Tangible assets	11	**8,241**	9,277	**51**	31
Investments					
Investment in subsidiary undertakings	12	**-**	–	**46,900**	56,499
Investment in associated undertaking	12	**-**	2,453	**-**	–
		36,026	41,934	**46,951**	56,530
Current assets					
Stocks	13	**5,897**	7,088	**-**	–
Debtors falling due within one year	14	**8,263**	9,039	**439**	152
Debtors falling due after more than one year	14	**3,071**	2,624	**17**	17
		11,334	11,663	**456**	169
Cash at bank and in hand		**3,047**	3,980	**965**	501
		20,278	22,731	**1,421**	670
Creditors					
Amounts falling due within one year	15	**(6,753)**	(9,001)	**(939)**	(4,659)
Net current assets		**13,525**	13,730	**482**	(3,989)
Total assets less current liabilities		**49,551**	55,664	**47,433**	52,541
Creditors					
Amounts falling due after more than one year	15,16	**(11,052)**	(14,081)	**(11,052)**	(14,081)
Provisions for liabilities and charges	18	**(2,508)**	(4,117)	**-**	–
Net assets		**35,991**	37,466	**36,381**	38,460
Capital and reserves					
Called up share capital	19	**736**	736	**736**	736
Share premium account	20	**28,679**	28,679	**28,679**	28,679
Exchange reserves	20	**(1,100)**	(861)	**(1,169)**	(1,169)
Profit and loss account	20	**2,157**	3,642	**8,135**	10,214
Total equity shareholders' funds		**30,472**	32,196	**36,381**	38,460
Equity minority interests		**5,519**	5,270	**-**	–
		35,991	37,466	**36,381**	38,460

Approved by the Board on 24 January 2005.

B D W Stocks, Director
C P Tyler, Director

Consolidated cash flow statement

	Note	Group 2004 £'000	Group 2003 £'000
Net cash inflow from operating activities	21	**2,811**	2,054
Dividend from associated undertaking		**161**	129
Returns on investments and servicing of finance			
Interest received		**112**	65
Interest paid		**(635)**	(642)
		(523)	(577)
Taxation			
UK corporation tax refunded/(paid)		**18**	(194)
Overseas tax refunded/(paid)		**(18)**	1,107
		-	913
Capital expenditure			
Purchase of tangible fixed assets		**(1,228)**	(1,806)
Sale of tangible fixed assets		**57**	8
		(1,171)	(1,798)
Acquisitions and disposals			
Disposal of subsidiaries assets and liabilities		**–**	2,304
Disposal of equity investment in associated undertaking	25	**526**	–
		526	2,304
Equity dividends paid		**(736)**	(2,467)
Net cash inflow before financing		**1,068**	558
Financing			
Loans repaid		**(7)**	(41)
Increase/(decrease) in borrowings		**(1,820)**	339
		(1,827)	298
(Decrease)/increase in cash in the year	22	**(759)**	856
Reconciliation of net cash flow to movement in net debt			
(Decrease)/Increase in cash in year		**(759)**	856
(Increase)/decrease in borrowings		**1,827**	(298)
Change in net borrowings from cash flows		**1,068**	558
Exchange differences		**1,035**	1,122
Movement in net borrowings in year		**2,103**	1,680
Opening net borrowings		**(10,108)**	(11,788)
Closing net borrowings	22	**(8,005)**	(10,108)

Accounting policies

Convention
The financial information has been prepared under the historical cost convention, complies with all applicable accounting standards in the UK, The Companies Act (1985) and the requirements of the Financial Services Authority and has been applied consistently with the prior year.

Basis of consolidation
The consolidated accounts include the Group's share of the profits or losses of joint ventures and associated undertakings. Associated undertakings are those companies in which the Group has a beneficial interest of between 20% and 50% in the equity capital and where the Group exercises significant influence over commercial and financial policy. The consolidated balance sheet includes the Group's share of the underlying net tangible assets of associated undertakings and joint ventures. The results of subsidiary undertakings acquired or sold during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of sale, as appropriate.

The current consolidated accounts incorporate the accounts of Porvair plc and its subsidiary undertakings from 2 December 2003, being one day later than the customary period start date. As detailed in the financial statements for the year ended 1 December 2003, the financial year end date was extended by one day to 1 December 2003 to incorporate the transactions relating to the sale of businesses as detailed in note 25.

Intangible assets – goodwill
Purchased goodwill, representing the excess of the fair value of the purchase consideration over the fair value of the net tangible assets acquired, is capitalised as an intangible asset and amortised through the profit and loss account over its useful economic life. Capitalised goodwill is amortised over periods between 5 and 20 years on a straight line basis.

The gain or loss on the disposal of a subsidiary or associated undertaking is calculated by comparing the carrying value of the net assets sold, including any unamortised goodwill, with the proceeds received.

Tangible fixed assets
Tangible fixed assets, including items leased under finance leases, are capitalised at cost. Freehold land and assets under construction are not depreciated. Other tangible fixed assets are depreciated by equal annual amounts over their estimated useful lives. Annual depreciation rates are 2.5% for freehold buildings, 10% to 33.33% for plant, machinery and equipment and 25% for motor vehicles.

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

Government grants
Grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful life of the assets they relate to. Revenue grants are credited to the profit and loss account in the period in which the related expenditure is incurred.

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

Stocks and work in progress
Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes direct materials, labour and an appropriate proportion of manufacturing overheads.

Leased assets
Finance leases, which transfer substantially all the risks and rewards of ownership of the asset to the lessee, are capitalised and depreciated over the term of the related lease. The related finance cost is charged to interest cost. Operating lease rentals are charged to the profit and loss account as incurred.

Turnover
Turnover represents amounts invoiced to external customers in the ordinary course of business. Non refundable licence fees are recognised immediately, other licence fees are recognised when earned on an accruals basis. Long term contracts are recognised on a progressive basis with profit taken in proportion to the stage of completion of the work.

Patents and trade marks
All expenditure on the registration, renewal and maintenance of patents and trade marks is expensed.

Research and development
Technical research and development expenditure is written off as incurred.

Foreign exchange
Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial year. The results of foreign subsidiary undertakings are translated at the average rate for the year.

Differences on exchange arising from the retranslation of the opening net investment in subsidiary undertakings and borrowings used to finance these equity investments are taken to reserves.

All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Financial instruments
The Group uses derivative financial instruments to hedge its exposures to fluctuations in foreign exchange rates. Instruments accounted for as hedges are designated as a hedge at the inception of contracts.

Gains and losses on forward foreign exchange contracts entered into as hedges of future purchases and sales denominated in foreign currency are carried forward and taken to the profit and loss account on maturity to match the underlying transactions.

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

Pensions
Pension costs for the Group's defined benefit pension scheme are accounted for in accordance with SSAP 24 and are charged to the profit and loss account in order to spread the cost of pensions over the service lives of employees in the scheme. Pension costs for defined contribution schemes are charged to profit as incurred.

Notes to the accounts

1 Turnover and segmental analyses

The geographical analyses of the Group's turnover and the segmental analyses of turnover, operating profit/(loss) and net assets are set out below:

	2004 By destination £'000	2004 By origin £'000	2003 By destination £'000	2003 By origin £'000
Turnover				
United Kingdom	**12,707**	**24,121**	15,277	24,157
Continental Europe	**5,735**	**-**	5,286	–
Americas	**21,036**	**20,511**	22,513	22,010
Asia	**3,526**	**-**	1,801	–
Australasia	**665**	**-**	553	–
Africa	**963**	**-**	737	–
Continuing operations	**44,632**	**44,632**	46,167	46,167
Discontinued operations	**-**	**-**	18,042	18,042
	44,632	**44,632**	64,209	64,209

Segmental analyses

Turnover	2004 £'000	2003 £'000
Metals Filtration	**19,387**	20,020
Microfiltration	**24,121**	24,157
Advanced Materials	**1,124**	1,990
Continuing operations	**44,632**	46,167
Discontinued operations	**-**	18,042
	44,632	64,209

Operating profit/(loss)

	2004 Operating profit/(loss) before goodwill amortisation £'000	2004 Goodwill amortisation £'000	2004 Operating profit/(loss) after goodwill amortisation £'000	2003 Operating profit/(loss) before goodwill amortisation £'000	2003 Goodwill amortisation £'000	2003 Operating profit/(loss) after goodwill amortisation £'000
Metals Filtration	**855**	**(1,213)**	**(358)**	242	(1,226)	(984)
Microfiltration	**3,487**	**(1,011)**	**2,476**	3,900	(1,011)	2,889
Advanced Materials	**(1,325)**	**-**	**(1,325)**	(2,160)	–	(2,160)
Exceptional item	**-**	**-**	**-**	(1,525)	–	(1,525)
Operating profit/(loss) of continuing group	**3,017**	**(2,224)**	**793**	457	(2,237)	(1,780)
Discontinued operations	**-**	**-**	**-**	(3,246)	(53)	(3,299)
	3,017	**(2,224)**	**793**	(2,789)	(2,290)	(5,079)

The businesses in Metals Filtration and Advanced Materials are based in the US.

The analysis of operating profit/(loss) is provided as it gives a clearer presentation of the businesses performance.

The exceptional item in 2003 related principally to the Metals Filtration business.

1 Turnover and segmental analyses (continued)

Net assets

	As at 30 November 2004			As at 1 December 2003		
	Before goodwill £'000	**Goodwill £'000**	**Net assets including goodwill £'000**	Before goodwill £'000	Goodwill £'000	Net assets includng goodwill £'000
Metals Filtration	**6,252**	**12,733**	**18,985**	7,488	14,141	21,629
Microfiltration	**8,686**	**15,052**	**23,738**	9,268	16,063	25,331
Advanced Materials	**809**	**-**	**809**	1,154	–	1,154
	15,747	**27,785**	**43,532**	17,910	30,204	48,114
Long term related party loan			**1,112**			1,110
Equity investment in associated undertaking			**-**			1,343
Deferred consideration			**1,988**			1,000
Discontinued operations			**(2,348)**			(4,586)
Taxation			**81**			961
Dividend payable			**(368)**			(368)
Net borrowings			**(8,005)**			(10,108)
			35,992			37,466

2 Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):	Note	**Group 2004 £'000**	Group 2003 £'000
Staff costs			
Wages and salaries		**13,014**	19,543
Social security costs		**1,859**	2,719
Other pension costs	24	**569**	1,107
		15,442	23,369
Operating lease costs			
Land and buildings		**655**	844
Plant, machinery and vehicles		**190**	378
		845	1,222
Net interest payable on bank and other borrowings			
Interest payable on bank loans and overdrafts		**572**	444
Interest receivable		**(112)**	(65)
		460	379
Depreciation: owned assets	11	**1,654**	3,309
Goodwill amortisation	10	**2,224**	2,290
Loss on sale of tangible fixed assets		**4**	53
Income from government grants		**(393)**	*(369)*
Research and development		**3,181**	5,835
Fees paid to auditors			
Total audit fee		**88**	120
Non-audit work		**74**	323
Total fees to auditors		**162**	443
Including:			
Audit fees for company		**11**	11
Tax compliance fees		**67**	38
Corporate finance advisory		**-**	237

Notes to the accounts continued

3 Tax on loss on ordinary activities

	Group 2004 £'000	Group 2003 £'000
a) Taxation on the loss for the year		
UK corporation tax at 30% (2003: 30%):		
Current period tax (charge)/credit	**(760)**	81
Adjustments in respect of previous periods	**455**	618
Total UK current tax	**(305)**	699
Overseas tax receivable	**-**	(101)
Tax on share of profits of associated company	**(141)**	(14)
Total current tax (see (b))	**(446)**	584
UK deferred tax:		
current period	**(72)**	104
adjustments in respect of previous periods	**(421)**	2,384
Overseas deferred tax	**106**	1,023
Tax (charge)/credit on loss on ordinary activities	**(833)**	4,095
b) Reconciliation of current tax credit to result for the period		
Profit/(loss) on ordinary activities before tax	**333**	(28,491)
Expected corporation tax (charge)/credit at the standard UK rate (30%)	**(100)**	8,547
Differences arising explained by:		
Amortisation of goodwill	**(667)**	(687)
Tax losses written off	**-**	(4,030)
Tax losses not utilised	**(206)**	–
Other permanent differences	**21**	(792)
Accelerated capital allowances and other timing differences	**17**	(3,484)
Adjustments to tax charge in respect of previous period	**455**	618
Other items, including rate differences relating to overseas tax jurisdictions	**34**	412
Total current tax on loss on ordinary activities (see (a))	**(446)**	584

4 Exceptional items

During the period the Group's 25% equity investment in Sympatex, an associated undertaking, was disposed of to the majority shareholder at book value. Further details relating to this transaction are disclosed in note 25.

During 2003, plans were completed for the reorganisation of the Hendersonville plant in preparation for the next phase of fuel cell development, as a result various assets were earmarked for disposal. Total costs of the reorganisation amounted to £1,525,000, these were shown as operational exceptional charges against the continuing businesses in 2003.

Exceptional costs arising from the disposal of the Porvair International and Porvair Ceramics businesses together with the closure of the related membranes business in Canada were shown as non-operational exceptional charges in 2003 against the discontinued operations and were as follows:

	Note	2003 £'000
Disposal of Porvair International and Porvair Ceramics	25	15,888
Related transaction costs		414
Unamortised goodwill in relation to Porvair Ceramics		639
Net loss on disposal of subsidiary undertakings		16,941
Provision for pension and property liabilities		4,700
Closure costs of Canadian operation		1,070
Other transaction costs		322
Exceptional item		23,033

5 Earnings/(loss) per share

	2004		2003	
	Losses £'000	**Per share**	Losses £'000	Per share
Loss per share – basic and diluted				
On shares in issue of 36,803,011 (2003: 36,803,011)	**(749)**	**(2.0)p**	(24,790)	(67.4)p
Add back:				
Goodwill amortisation (excluding minority interests' share)	**2,016**	**5.4p**	2,082	5.7p
Add back:				
Discontinued operations (including exceptional items)	**–**	**–**	23,277	63.2p
Add back:				
Exceptional items (continuing group) (including related tax credit)	**–**	**–**	1,061	2.9p
Adjusted earnings per share before *goodwill amortisation, exceptional items* and discontinued operations	**1,267**	**3.4p**	1,630	4.4p

There is no dilution of the (loss)/earnings per share as the impact of dilutive share options in the period is not significant.

6 Dividends

	2004		2003	
	Per share	**£'000**	*Per share*	£'000
Interim dividend	**1.0p**	**368**	2.4p	883
Final dividend	**1.0p**	**368**	1.0p	368
Total dividend	**2.0p**	**736**	3.4p	1,251

The final dividend of 1.0 pence per share for the year to 30 November 2004, if approved, will be paid on 19 April 2005 to members on the register on 29 March 2005.

7 Company loss for the financial year

As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the holding company. The loss attributable to the Company which has been dealt with in the accounts is £1,343,000 (2003: loss of £21,374,000).

8 Directors' emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the Directors' remuneration report on pages 9 to 11.

9 Employees

	2004		2003	
	Average	**Year end**	Average	Year end
Metals Filtration	***186***	***190***	*194*	*185*
Microfiltration	**289**	**283**	297	296
Advanced Materials	**34**	**27**	54	54
Head office	**7**	**7**	7	7
Continuing group	**516**	**507**	552	542
Discontinued operations	**–**	**–**	253	241
Total employees	**516**	**507**	805	783
US employees included above in continuing group	**220**	**217**	248	239

Notes to the accounts continued

10 Goodwill

Goodwill	Group 2004 £'000	Group 2003 £'000
Cost		
At 2 December 2003	**48,606**	49,893
Additions	–	–
Disposals	–	(1,065)
Exchange differences	**(233)**	(222)
At 30 November 2004	**48,373**	48,606
Amortisation		
At 2 December 2003	**(18,402)**	(16,544)
Amortisation	**(2,224)**	(2,290)
Disposals	–	426
Exchange differences	**38**	6
At 30 November 2004	**(20,588)**	(18,402)
Net book value		
At 30 November 2004	**27,785**	30,204

11 Tangible fixed assets

Group	Freehold land and buildings £'000	Assets in the course of construction £'000	Plant, machinery & equipment £'000	Total £'000
Cost				
At 2 December 2003	3,006	377	17,150	20,533
Reclassification	396	(618)	222	–
Additions	116	592	520	1,228
Disposals	–	–	(711)	(711)
Exchange differences	(212)	(18)	(810)	(1,040)
At 30 November 2004	**3,306**	**333**	**16,371**	**20,010**
Depreciation				
At 2 December 2003	(537)	–	(10,719)	(11,256)
Charge for year	(91)	–	(1,563)	(1,654)
Disposals	–	–	650	650
Exchange differences	53	–	438	491
At 30 November 2004	**(575)**	**–**	**(11,194)**	**(11,769)**
Net book value				
At 30 November 2004	**2,731**	**333**	**5,177**	**8,241**
At 2 December 2003	2,469	377	6,431	9,277
Company				
Cost				
At 2 December 2003			331	331
Additions			42	42
Exchange differences			–	–
At 30 November 2004			**373**	**373**
Depreciation				
At 2 December 2003			(300)	(300)
Charge for year			(22)	(22)
Exchange differences			–	–
At 30 November 2004			**(322)**	**(322)**
Net book value				
At 30 November 2004			**51**	**51**
At 2 December 2003			31	31

Capital commitments, authorised and contracted for, in the Group at 30 November 2004 were £137,000 (2003: £122,000). There were no such commitments in the Company (2003: £nil).

Notes to the accounts continued

12 Fixed asset investments

Group	Note	2004 Investment in associated undertaking £'000
At 2 December 2003		2,453
Share of associated undertaking profit after tax during year		313
Additions		–
Dividend received		(161)
Reclassification	14	(1,112)
Disposal	25	(1,514)
Exchange differences		21
At 30 November 2004		**–**

The associated undertaking is a 25% interest in Sympatex (incorporated in Germany). On the 19 November 2004 the Group agreed the sale of the equity investment in Sympatex (Note 25). The Group continues to provide a loan of €1.6 million to the undertaking which is repayable in 2010 and on which interest is receivable at 6% pa. This amount has been reclassified to debtors falling due after one year. During the year the Group has received £0.07 million of interest on the loan (2003: £0.06 million).

Company	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	2004 Total £'000
At 2 December 2003	36,489	20,010	56,499
Advances	–	523	523
Repayments	–	(9,108)	(9,108)
Exchange differences	–	(1,014)	(1,014)
At 30 November 2004	**36,489**	**10,411**	**46,900**

Details of the Group's subsidiary undertakings are given in note 27.

13 Stocks

	Group		Company	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Raw materials and consumables	**2,200**	2,947	**–**	–
Work in progress	**2,045**	1,377	**–**	–
Finished goods and goods for resale	**1,652**	2,764	**–**	–
	5,897	7,088	**–**	–

14 Debtors

		Group		Company	
	Note	**2004 £'000**	2003 £'000	**2004 £'000**	2003 £'000
Amounts falling due within one year					
Trade debtors		**6,476**	7,832	**–**	–
VAT recoverable		**15**	134	**18**	40
Corporation tax recoverable		**26**	155	**420**	–
Deferred consideration		**1,288**	–		
Other debtors		**173**	370	**1**	36
Prepayments		**285**	548	**–**	76
		8,263	9,039	**439**	152
Amounts falling due after more than one year					
Deferred taxation	18	**587**	1,017	**17**	17
Deferred consideration		**700**	1,000	**–**	–
Term debt due from related party	12	**1,112**	–	**–**	–
Pension prepayment		**672**	607	**–**	–
		3,071	2,624	**17**	17

Included in deferred consideration is an amount of £988,000 (2003: £nil) relating to the disposal of the Group's equity investment in its associated undertaking. Details of the payment terms are disclosed in note 25.

The deferred consideration relating to the disposal of the Porvair International and Porvair Ceramics businesses of £1,000,000 (2003: £1,000,000) is receivable in three instalments; £300,000 on 1 December 2004, £500,000 on 1 December 2005 and £200,000 on 1 December 2006.

15 Creditors

		Group		Company	
	Note	**2004 £'000**	2003 £'000	**2004 £'000**	2003 £'000
Amounts falling due within one year					
Bank overdraft		**–**	–	**–**	3,676
Bank and other loans	16	**–**	7	**–**	–
Trade creditors		**4,114**	5,049	**71**	179
Corporation tax		**532**	212	**–**	72
Taxation and social security		**357**	496	**66**	34
Accruals and deferred income		**1,382**	2,869	**434**	330
Proposed dividend		**368**	368	**368**	368
		6,753	9,001	**939**	4,659
Amounts falling due after more than one year					
Bank loans	16	**11,052**	14,081	**11,052**	14,081

Notes to the accounts continued

16 Bank and other loans

	Group		Company	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Hire purchase finance loans	**-**	7	**-**	-
Secured multicurrency revolving credit facility of £7 million (2003: £15 million) maturing September 2006 with interest at 2.25% above LIBOR	**5,802**	14,081	**5,802**	14,081
Secured six year multicurrency amortising debt facility of £5.25 million expiring February 2010 with interest at 2.35% above LIBOR	**5,250**	–	**5,250**	–
	11,052	14,088	**11,052**	14,081

The multicurrency revolving credit facility and amortising debt facility are secured by fixed and floating charges against certain subsidiaries' assets.

	Group		Company	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Bank and other loans of the Group *are repayable as follows:*				
Within one year	**-**	7	**-**	–
One to two years	**7,802**	–	**7,802**	–
Two to five years	**3,250**	14,081	**3,250**	14,081
	11,052	14,088	**11,052**	14,081

At 30 November 2004 the Group had £1,198,000 (2003: £919,000) of undrawn credit facilities under the existing bank facility and a £3 million overdraft facility. The facilities are due to expire in September 2006 and February 2010, and include a long term loan element with amortising debt.

17 Financial Instruments

(1) Interest rate risk: the interest rate profile of the financial liabilities of the Group comprising gross borrowings at 30 November 2004 is detailed below.

	2004			2003		
	Fixed borrowings £'000	**Floating borrowings £'000**	**Total borrowings £'000**	Fixed borrowings £'000	Floating borrowings £'000	Total borrowings £'000
Currency						
Sterling	**–**	**–**	**–**	7	–	7
Euros	**–**	**1,112**	**1,112**	–	1,115	1,115
US Dollars	**–**	**9,940**	**9,940**	–	12,966	12,966
	–	**11,052**	**11,052**	7	14,081	14,088

The floating interest rate exposure relates to the Group's secured revolving multicurrency and amortising debt facility (Note 16).

Short term debtors and creditors have been excluded from the interest rate risk disclosures as their effect is not considered to be significant.

The interest rate profile of the financial assets of the Group comprising cash and long term debt at 30 November 2004 is detailed below.

	2004 Long term debt £'000	**2004 Cash (floating rate) £'000**	2003 Long term debt £'000	2003 Cash (floating rate) £'000
Currency				
Sterling	**700**	**(914)**	1,000	2,196
Canadian Dollars	**–**	**–**	–	13
Euros	**1,112**	**1,633**	1,110	329
US Dollars	**–**	**2,328**	–	1,442
	1,812	**3,047**	2,110	3,980

The Group provides a long term loan to Sympatex, a related party by virtue of its status as an associated undertaking of the Group during the year until its disposal on 19 November 2004 (Note 12). All of the Group's net cash assets are at floating rates of interest predominantly based on LIBOR or its overseas equivalents.

(2) Currency risk: the currency exposure (i.e. those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account) of the Group's net monetary assets/liabilities is shown below. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the operating currency of the operating unit involved.

	2004			
	Sterling £'000	**US Dollar £'000**	**Euro £'000**	**Total £'000**
Functional currency of Group operation				
Sterling	**–**	**894**	**1,743**	**2,637**
US Dollar	**18**	**–**	**118**	**136**
	18	**894**	**1,861**	**2,773**

Notes to the accounts continued

17 Financial Instruments continued

	2003			
	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Functional currency of Group operation				
Sterling	–	1,305	279	1,584
Canadian Dollar	–	216	–	216
US Dollar	8	–	115	123
	8	1,521	394	1,923

The Group uses its foreign borrowings to provide a hedge against its foreign net investments.

(3) Fair values of financial instruments: the difference between the fair values and book values of the Group's financial assets and liabilities is not material.

(4) Hedging of future contracts: at 30 November 2004 there were forward exchange contracts to sell US$2,200,000 at rates no worse than US$1.8903/£1 and US$4,400,000 options at US$1.89 entered into as cover for known future currency receipts (2003: zero cost options to sell US$600,000 at rates no worse than US$1.5803/£1).

(5) Further details of the Group's financing and treasury policy are given in the Operating and financial review on pages 2 to 5.

18 Provisions for liabilities and charges

	2004		2003		
	Pension, disposal & closure costs £'000	**Total £'000**	Deferred taxation £'000	Pension, disposal & closure costs £'000	Total £'000
Balance at 2 December 2003	**4,117**	**4,117**	2,455	–	2,455
Profit and loss (credit)/charge	**(95)**	**(95)**	(3,511)	4,117	606
Utilised	**(1,488)**	**(1,488)**	–	–	–
Reclassification	**–**	**–**	1,017	–	1,017
Exchange differences	**(26)**	**(26)**	39	–	39
At 30 November 2004	**2,508**	**2,508**	–	4,117	4,117

Under FRS 19 the Group provides for deferred tax on a full provision basis. Deferred tax liabilities/(assets) in the accounts have been provided for as follows:

		Amount provided *Group*		Amount provided *Company*	
	Note	**2004 £'000**	2003 £'000	**2004 £'000**	2003 £'000
Deferred taxation					
Accelerated capital allowances		**509**	599	**(17)**	(17)
Pension prepayment		**201**	182	**–**	–
Other short term timing differences		**(1,297)**	(1,798)	**–**	–
	14	**(587)**	(1,017)	**(17)**	(17)

The deferred tax asset at 30 November 2004 of £587,000 (2003: £1,017,000) is included in debtors falling due after more than one year. The movement in the deferred tax asset in the year arises from £387,000 charged to the profit and loss account and £43,000 charged to exchange differences.

There were £774,000 (2003: £607,000) of unrecognised deferred tax assets at 30 November 2004 relating to unutilised tax losses, primarily in the US. Tax losses in relation to losses incurred in the US have been recognised to the extent that they are expected to be relieved against future profits.

There were no other unprovided deferred tax amounts at 30 November 2004 (2003: £nil).

The provision for pension, disposal and closure costs is expected to be substantially utilised in the next two years.

19 Called up share capital

	Group		Company	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Authorised				
75.0 million ordinary shares of 2 pence each (2003: 75.0 million)	**1,500**	1,500	**1,500**	1,500
Allotted and fully paid				
36,803,011 ordinary shares of 2 pence each (2003: 36,803,011)	**736**	736	**736**	736

Shares issued as fully paid

At 2 December 2003 and 30 November 2004	**36,803,011**

There were no share options exercised in the period and therefore no consideration received (2003: £nil).

Share options

Exercise period	Subscription price	Number of shares
1999 - 2006	388.53p	147,736
2000 - 2007	281.28p	10,629
2001 - 2005	331.61p	53,149
2001 - 2005	345.72p	106,299
2002 - 2009	116.18p	21,259
2002 - 2006	116.18p	58,465
2002 - 2006	148.17p	37,203
2003 - 2007	214.49p	58,460
2004 - 2008	259.00p	210,000
2005 - 2012	231.00p	6,000
2005 - 2009	231.00p	14,000
2005 - 2012	126.50p	20,000
2005 - 2009	126.50p	130,000
2006 - 2013	111.00p	26,000
2006 - 2010	111.00p	155,000
2006 - 2010	160.00p	100,000
2006 - 2007	123.75p	291,064*
2007 - 2014	114.00p	45,000
2007 - 2011	114.00p	25,000
2007 - 2011	101.50p	60,000
2007 - 2011	103.50p	30,000
		1,605,264

* SAYE Sharesave

Movements in share options during the year were:

	Number of shares
At 2 December 2003	1,221,032
Options granted	451,064
Options lapsed	(66,832)
Options exercised	–
At 30 November 2004	***1,605,264***

	Subscription price	Number of shares
Options lapsed during the year were:		
	253.18p	16,885
	388.53p	39,317
	194.26p	10,630

Notes to the accounts continued

66,832

20 Reserves

	Exchange reserve £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
Group				
At 2 December 2003	(861)	28,679	3,642	31,460
Deficit for the year	–	–	(1,485)	(1,485)
Exchange differences	(239)	–	–	(239)
At 30 November 2004	**(1,100)**	**28,679**	**2,157**	**29,736**

The amount of exchange gains and losses on foreign currency borrowings which have been offset against reserves in the year is £984,000.

	Exchange reserve £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
Company				
At 2 December 2003	(1,169)	28,679	10,214	37,724
Deficit for the year	–	–	(2,079)	(2,079)
Exchange differences	–	–	–	–
At 30 November 2004	**(1,169)**	**28,679**	**8,135**	**35,645**

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

21 Reconciliation of operating loss to net cash flow from operating activities

	2004 £'000	Continuing operations £'000	Discontinued operations £'000	2003 £'000
Total Group operating profit/(loss) before share of associated undertaking and exceptional items	**339**	(414)	(3,299)	(3,713)
Goodwill amortisation	**2,224**	2,237	53	2,290
Depreciation	**1,654**	1,700	1,609	3,309
Loss on sale of fixed assets	**4**	53	–	53
(Increase)/decrease in stocks	**359**	(533)	483	(50)
(Increase)/decrease in debtors	**963**	144	2,036	2,180
Increase/(decrease) in creditors	**(629)**	91	(1,771)	(1,680)
Net cash inflow/(outflow) from operating activities before exceptional items	**4,914**	3,278	(889)	2,389
Cash outflow relating to exceptional items	**(2,103)**	–	(335)	(335)
Net cash inflow/(outflow) from operating activities	**2,811**	3,278	(1,224)	2,054

Cash outflow relating to exceptional items paid in 2004 relates to the disposal of the Porvair International and Porvair Ceramics businesses. The amount includes payments relating to the Group pension scheme, redundancies, outstanding completion settlements and onerous lease commitments.

22 Analysis of net borrowings

	2 December 2003 £'000	*Cash flow* £'000	Exchange *differences* £'000	**30 November 2004 £'000**
Cash at bank and in hand	3,980	(759)	(174)	**3,047**
Borrowings due after 1 year	*(14,081)*	*1,820*	*1,209*	**(11,052)**
Borrowings due within 1 year	(7)	7	–	**–**
Total	(10,108)	1,068	1,035	**(8,005)**

23 Operating lease commitments

The Group is committed to the following rentals during next year on operating leases expiring:

	Group 2004		Group 2003	
	Land & buildings £'000	**Other £'000**	Land & buildings £'000	Other £'000
Within one year	**74**	**90**	7	88
Within two to five years	**336**	**119**	447	296
Over five years	**406**	**–**	442	–
	816	**209**	896	384

24 Pension costs

a) Defined benefit plan - SSAP 24 basis

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

Formal valuations of the Plan by a professionally qualified actuary are carried out at least every three years using the projected unit method. Under this method the current service cost will increase in relation to the salaries of the members in future years as those members approach retirement. The latest full actuarial valuation was at 1 April 2003.

The principal actuarial assumptions adopted in the 2003 valuation were that over the long term the return on the investments would be 8% per annum, that salary increases would average 5% per annum plus a promotional scale and that future pensions would be limited to those provided on a statutory basis. The actuarial value of the assets on the funding basis was sufficient to cover 83% (previous valuation in 2000: 96%) of the benefits that had accrued to members after allowing for expected increases in pensionable remuneration, and the current funding deficiency amounted to £3,010,000.

The UK pension charge for the year was £232,000 (2003: £693,000); the funding via employer contributions was £697,000 (2003: £893,000). The reduction in the charge for the year reflects the impact of the disposal of the Porvair International and Porvair Ceramics businesses. The market value of the scheme's assets (including AVC assets) at 31 March 2004 was £16.4 million (2003: £13.7 million).

b) 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 compensation each year to the Pension Plan. In 2004 this amounted to £150,000 (2003: £211,000). In 2004 the Group also made payments of £108,000 (2003: £99,000) to designated US 401K schemes on behalf of its employees.

In the UK, after the closure of the Plan to new members, the Group introduced a stakeholder plan to be offered to all new employees. Total employer contributions in the UK to defined contribution schemes was £79,000 (2003: £104,000).

Notes to the accounts continued

24 Pension costs continued

c) Defined benefit plan - FRS 17 disclosures

The aim of FRS 17 is to move from a long term approach under SSAP 24 to a market-based approach in valuing the assets and liabilities arising from an employer's defined benefit obligations and any related funding. As a result of market-based valuations there may be significant variations in the Plan funding from period to period under this basis.

The valuation used for FRS 17 disclosures is based on the most recent actuarial valuation of the Plan as updated by the Plan actuaries to take account of the market value of the assets and the present value of the liabilities of the Plan at 30 November 2004.

Balance sheet

The financial assumptions used to calculate Plan liabilities under FRS 17 are:

	2004	2003	2002
Valuation method	**Projected unit**	Projected unit	Projected unit
Discount rate	**5.3%**	5.6%	5.5%
Inflation rate	**2.6%**	2.5%	2.4%
General salary increases	**4.1%**	4.5%	4.4%
Increases to pensions in payment	**2.6%**	2.5%	2.5%

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

	Long term expected rate of return at 30 November 2004	**Value at 30 November 2004 £'m**	Long term expected rate of return at 1 December 2003	Value at 1 December 2003 £'m	Long term expected rate of return at 30 November 2002	Value at 30 November 2002 £'m
Equities	**8.3%**	**9.9**	8.6%	9.5	8.5%	8.7
Bonds	**4.6%**	**5.2**	5.1%	4.7	4.8%	4.2
Other	**4.1%**	**0.0**	4.0%	0.0	3.9%	0.1
Market value of assets		**15.1**		14.2		13.0
Present value of Plan liabilities		**(22.4)**		(22.8)		(22.1)
FRS 17 deficit in the Plan (excluding deferred tax)		**(7.3)**		(8.6)		(9.1)
Related deferred tax credit		**2.2**		2.6		2.7
Net pension liability		**(5.1)**		(6.0)		(6.4)

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

	2004	2003
Deficit at 2 December 2003	**(8.6)**	(9.1)
Contributions paid	**0.7**	0.9
Current service cost	**(0.3)**	(1.0)
Curtailment cost	**1.4**	–
Other finance charges	**(0.2)**	(0.2)
Actuarial gains/(losses)	**(0.3)**	0.8
Deficit at 30 November 2004	**(7.3)**	(8.6)

24 Pension costs continued

If the pension liability was reflected in the consolidated balance sheet the adjustments would be as follows:

	2004 £'m	2003 £'m	2002 £'m
Shareholders' funds			
Shareholders' funds including SSAP 24 prepayment	**30.5**	32.2	58.4
less: SSAP 24 prepayment (including related deferred tax liability)	**(0.5)**	(0.4)	(1.5)
	30.0	31.8	56.9
less: FRS 17 deficit (including related deferred tax asset)	**(5.1)**	(6.0)	(6.4)
Shareholders' funds including FRS 17 pension deficit	**24.9**	25.8	50.5

Profit and loss account

The components of defined benefit cost for the year 2003 under FRS 17 would be as shown below.

	2004 £'m	2003 £'m	2002 £'m
Analysis of amounts chargeable to operating profit			
Current service cost	**(0.3)**	(1.0)	(1.0)
Past service cost	**-**	–	–
	(0.3)	(1.0)	(1.0)
Analysis of other amounts chargeable to operating profit			
Gain on curtailment	**1.4**	–	–
Net gain charged to operating profit	**1.4**	–	–
Analysis of amounts chargeable to other finance income			
Interest on Plan liabilities	**(1.2)**	(1.2)	(1.2)
Expected return on assets in the Plan	**1.0**	1.0	1.0
Net amount chargeable to other finance income	**(0.2)**	(0.2)	(0.2)
Total chargeable to profit and loss account before deduction of tax	**0.9**	(1.2)	(1.2)

Other items

	2004 £'m	2003 £'m	2002 £'m
Analysis of amounts recognisable in the statement of recognised gains and losses			
Gains and (losses) on assets	**0.6**	(0.3)	(3.3)
Experience gains on liabilities	**0.9**	1.0	0.9
(Losses)/gains on change in financial and demographic assumptions	**(1.8)**	0.1	–
Total actuarial gain/(loss) recogniseable in the statement of recognised gains and losses	**(0.3)**	0.8	(2.4)

	2004	2003	2002
History of experience gains and losses			
Gains and (losses) on Plan assets (£m)	**0.6**	(0.3)	(3.3)
% of Plan assets at end of year	**4.0%**	2.1%	25.4%
Experience gain/(loss) on Plan liabilities (£m)	**0.9**	*1.0*	*0.9*
% of Plan liabilities at end of year	**(4.0)%**	(4.4)%	(4.1)%
Total actuarial gain/(loss) recogniseable in the statement of recognised gains and losses (£m)	**(0.3)**	0.8	(2.4)
% of Plan liabilities at end of year	**1.3%**	3.5%	10.9%

Notes to the accounts continued

25 Disposals

(a) The Group agreed the sale of the equity portion of the investment in Sympatex on 19 November 2004 for €2.1million being the net book value of the investment at that date.

	Note	2004 Total £'000
Investment disposal		
Net book value disposed	12	**1,514**
Consideration received		**(1,514)**
Profit/(loss) on disposal of equity investment		**–**
Consideration		
Total proceeds		**1,514**
Consideration received (€750,000)		**(526)**
Deferred consideration		**988**

The remaining debt on the sale is receivable in two instalments; €0.75 million is receivable on 31 December 2004 and a final payment of €0.6 million is receivable on 30 June 2005. The loan granted to the related party remains in place at the year end (Notes *12* & *14*).

(b) As a result of a shareholder resolution passed at the Extraordinary General Meeting on 1 December 2003, the trade and majority of the assets and liabilities of Porvair International and Porvair Ceramics were sold to management.

	Note	Porvair International £'000	Porvair Ceramics £'000	2003 Total £'000
Net assets disposed				
Fixed assets		7,521	979	8,500
Stock		6,147	862	7,009
Debtors		2,824	2,758	5,582
Creditors		(1,932)	(230)	(2,162)
Total book value		14,560	4,369	18,929
Sale proceeds				
Cash				(2,518)
Deferred consideration				(1,750)
Provision against deferred consideration				750
				(3,518)
Outstanding completion settlement				477
Total proceeds				(3,041)
Net loss on sale of businesses	4			15,888

On the sale of the assets of Porvair Ceramics certain rights were retained over monies receivable in relation to certain of the debtors that were disposed of. £750,000 of the total deferred consideration amount of £1,750,000 is contingent on the receipt of these monies. A provision for the full £750,000 was included in the accounts for this balance.

In 2003 £400,000 of fixed asset additions related to the disposed businesses. UK taxable profits elsewhere in the Group were offset in the year by the disposed businesses, as a result of the disposals UK tax payable should increase in the future.

26 Contingencies

The rights of the owners of the minority interests in Porvair Filtration Group Limited include a 'put' option on their holding. This option is exercisable on 1 August 2006, and could require the Group to purchase all of the minority interests' shares. Currently this cost would not be expected to exceed £6.8 million.

27 Principal subsidiary undertakings

The principal operating companies are as follows:

Name	Country of incorporation and operation	% holding
Selee Corporation	US	100%
Porvair Advanced Materials	US	100%
Porvair Filtration Group Limited	*England*	*79%*
Porvair Sciences Limited	England	100%

28. Exchange rates

Exchange rates for the major currencies during the period were:

	Average rate to 30/11/04	Average rate to 1/12/03	**Closing rate at 30/11/04**	Closing rate at 1/12/03	Closing rate at 30/11/02
US Dollar	**1.8134**	1.6225	**1.9115**	1.7199	1.5560
Canadian Dollar	**2.3725**	2.3089	**2.2729**	2.2357	2.4376
Euro	**1.4697**	1.4607	**1.4382**	1.4348	1.5642

Ten year summary

	2004 £'000	2003* £'000	2002 £'000	2001* £'000	2000 £'000	1999 £'000	1998* £'000	1997 £'000	1996 £'000	1995 £'000
Profit and loss account										
Metals Filtration	**19,387**	20,020	21,489	23,292	23,890	20,256	18,953	22,506	19,739	8,559
Microfiltration	**24,121**	24,156	23,209	17,196	7,440	8,447	7,852	8,698	8,198	6,813
Fuel Cells	**1,124**	1,991	786	416	–	–	–	–	–	–
Discontinued operations	**–**	18,042	22,848	30,555	33,222	32,868	35,160	39,562	27,490	24,552
Turnover	**44,632**	64,209	68,332	71,459	64,552	61,571	61,965	70,766	55,427	39,924
Profit before goodwill amortisation and taxation	**2,557**	(3,168)	169	3,769	6,021	4,225	2,061	6,857	4,151	5,120
Goodwill amortisation	**(2,224)**	(2,290)	(2,299)	(2,515)	(2,113)	(2,113)	(2,029)	(2,027)	(1,707)	(1,261)
Taxation	**(833)**	4,095	352	(1,186)	(2,438)	(987)	(5)	(2,263)	(1,385)	(1,568)
Profit after taxation **	**(500)**	(1,363)	(1,778)	68	1,470	1,125	27	2,567	1,059	2,291
Equity minority interests	**(249)**	(394)	(101)	(150)	9	6	10	(9)	(8)	(10)
Profit for the financial year	**(749)**	(1,757)	(1,879)	(82)	1,479	1,131	37	2,558	1,051	2,281
Dividends	**(736)**	(1,251)	(2,467)	(2,467)	(1,723)	(1,644)	(1,623)	(1,607)	(1,428)	(1,191)
Retained profits	**(1,485)**	(3,008)	(4,346)	(2,549)	(244)	(513)	(1,586)	951	(377)	1,090

* exceptional charges excluded
** deferred taxation under FRS 19 only restated to 2000

	2004	2003*	2002	2001*	2000	1999	1998*	1997	1996	1995
Earnings and dividends per share										
Earnings per share before goodwill amortisation and exceptional items †	**3.4p**	4.4p	0.6p	7.8p	13.2p	11.8p	7.6p	16.9p	10.3p	16.9p
Earnings per share after goodwill amortisation and exceptional items	**(2.0)p**	(67.4)p	(5.1)p	(8.7)p	5.4p	4.1p	0.1p	9.5p	4.0p	10.9p
Dividends per share	**2.0p**	3.4p	6.7p	6.7p	6.3p	6.0p	6.0p	5.8p	5.3p	5.1p

† 2003 indicative earnings per share for continuing businesses

	2004 £'000	2003* £'000	2002 £'000	2001* £'000	2000 £'000	1999 £'000	1998* £'000	1997 £'000	1996 £'000	1995 £'000
Balance sheet										
Fixed assets	**8,241**	11,730	23,082	24,306	20,598	19,388	17,966	17,442	15,411	16,189
Goodwill	**27,785**	30,204	33,349	35,940	18,599	20,712	22,407	24,436	24,513	24,797
Current assets	**20,278**	22,731	37,716	36,246	28,763	24,934	27,195	32,134	26,539	25,709
	56,304	64,665	94,147	96,492	67,960	65,034	67,568	74,012	66,463	66,695
Current liabilities	**(6,753)**	(9,001)	(28,442)	(15,713)	(13,179)	(12,029)	(14,976)	(22,950)	(14,636)	(15,048)
	49,551	55,664	65,705	80,779	54,781	53,005	52,592	51,062	51,827	51,647
Long term liabilities	**(11,052)**	(14,081)	–	(10,346)	(10,668)	(9,787)	(9,098)	(3,216)	(5,320)	(3,903)
Provisions for liabilities and charges **	**(2,508)**	(4,117)	(2,455)	(2,201)	(2,742)	(320)	(261)	(228)	–	–
Net assets	**35,991**	37,466	63,250	68,232	41,371	42,898	43,233	47,618	46,507	47,744
Equity minority interests	**(5,519)**	(5,270)	(4,876)	(4,899)	(36)	(32)	(38)	(50)	–	12
Shareholders' Funds	**30,472**	32,196	58,374	63,333	41,335	42,866	43,195	47,568	46,507	47,756
Cash flow										
Cash flow from operating activities (before exceptional items)	**4,914**	2,389	2,980	6,287	6,758	6,287	9,251	5,438	5,317	3,094

Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of Porvair plc (the '*Company*') will be held at Brampton House, 50 Bergen Way, King's Lynn, PE30 2JG on 5 April 2005 at 9.30 a.m. for the transaction of the following business:

Ordinary business

As ordinary business to consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 10 will be proposed as ordinary resolutions and number 11 will be proposed as a special resolution:

1. To receive the Company's annual accounts for the year ended 30 November 2004 together with the Directors' report and the auditors' report on those accounts and on the auditable part of the Directors' remuneration report.
2. To approve the Directors' remuneration report for the year ended 30 November 2004, which is set out in the Annual Report of the Company for the year ended 30 November 2004.
3. To declare and approve the payment of a final dividend of 1p per ordinary share.
4. To re-elect Ben Stocks as a Director.
5. To re-elect Michael Gatenby as a Director.
6. To elect Christopher Tyler as a Director, who has been appointed as a Director since the last Annual General Meeting of the Company.
7. To elect Charles Matthews as a Director, who has been appointed as a Director since the last Annual General Meeting of the Company.
8. To elect Andrew Walker as a Director, who has been appointed as a Director since the last Annual General Meeting of the Company.
9. To re-appoint PricewaterhouseCoopers LLP as auditors to the Company until the conclusion of the next Annual General Meeting of the Company and authorise the Directors to fix the auditors' remuneration.
10. THAT for the purposes of section 80 Companies Act 1985 (and so that expressions used in this resolution shall bear the same meanings as in the said section 80):

    10.1 the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities up to a maximum nominal amount of £277,458 to such persons and at such times and on such terms as they think proper during the period expiring at the end of five years from the date of the passing of this resolution (unless previously revoked or varied by the Company in general meeting); and

    10.2 the Company be and is hereby authorised to make prior to the expiry of such period any offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution;

    so that all previous authorities of the Directors pursuant to the said section 80 be and are hereby revoked.
11. THAT, the Directors be and are empowered in accordance with section 95 Companies Act 1985 (the 'Act') to sell treasury shares (as defined in section 162 of the Act) and, subject to the passing of Resolution 10 set out in the Notice convening this Meeting, make other allotments of equity securities (and the expression 'allotment of equity securities' and like expressions used in this resolution shall have the meaning given to them by virtue of section 94 of the Act) for cash, pursuant to the authority conferred on them to allot relevant securities (as defined in section 80 of the Act) by that resolution, in each case as if section 89(1) and sub-sections (1) - (6) of section 90 of the Act did not apply to any such sale or allotment, provided that the power conferred by this resolution shall be limited to:

    11.1 the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities and any other persons entitled to participate in such issue or offering (other than the Company itself in respect of any shares held by it as treasury shares) where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or stock exchange in any territory; and

    11.2 the allotment (otherwise than pursuant to paragraph 11.1 above) of equity securities and the sale of treasury shares *up to an aggregate nominal value not exceeding £36,803.01;*

    and this power, unless renewed, shall expire at the end of five years from the date of the passing of this resolution but shall extend to the making, before such expiry, of an offer or agreement which would or might require an allotment of equity securities to be made after such expiry and the Directors may make an allotment of equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

Special business

As special business to consider and, if thought fit, to pass the following resolutions, of which numbers 12 and 14 will be proposed as special resolutions and number 13 will be proposed as an ordinary resolution.

12. THAT, the Company be and is hereby generally and unconditionally authorised for the purpose of section 166 Companies Act 1985 to make market purchases (as defined in section 163 of the said Act) of ordinary shares of 2p each in the capital of the Company ('ordinary shares') provided that:

    12.1 the maximum number of ordinary shares hereby authorised to be purchased is 3,680,301;

Notice of Annual General Meeting continued

12.2 the minimum price (exclusive of expenses) which may be paid for such ordinary shares is 2p per share, being the nominal amount thereof;

12.3 the maximum price (exclusive of expenses) which may be paid for such ordinary shares shall be an amount equal to 5% above the average of the middle market quotations for such shares taken from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made;

12.4 the authority hereby conferred shall (unless previously renewed or revoked) expire on the earlier of the end of the next Annual General Meeting of the Company and the date which is 18 months after the date on which this resolution is passed; and

12.5 the Company may make a contract to purchase its own ordinary shares under the authority conferred by this resolution prior to the expiry of such authority, and such contract will or may be executed wholly or partly after the expiry of such authority, and the Company may make a purchase of its own ordinary shares in pursuance of any such contract.

13. THAT, where the Company holds shares in treasury in accordance with section 162A Companies Act 1985, the Company be and is hereby authorised to transfer such shares or sell such shares for cash (or any of them) for the purposes of or pursuant to an employees' share scheme provided that this resolution shall be without prejudice to the generality of section 162D Companies Act 1985.

14. THAT, pursuant to section 9 of the Companies Act 1985, the Articles of Association of the Company be altered by deleting the present Article 213 and substituting the following Article 213 therefore:

213.1 Every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all liabilities incurred by him:

213.1.1 in defending any proceedings (whether civil or criminal) in which judgement is given in his favour or he is acquitted; or

213.1.2 in connection with any application under section 144(3) or (4) of the Act (acquisition of shares by innocent nominee) or section 727 of the Act (general power to grant relief in case of honest and reasonable conduct) in which relief is granted to him by the court.

213.2 The Company may indemnify, out of the assets of the Company, any Director of the Company or of any associated company against all losses and liabilities which he may sustain or incur in the execution of the duties of his office or otherwise in relation thereto, provided that no such indemnity shall extend to any liability incurred by such Director:

213.2.1 to the Company, or as the case may be, to the associated company of which he is a Director;

213.2.2 to pay a fine imposed in criminal proceedings or any sum payable to a regulatory authority by way of a penalty in respect of non-compliance with any requirement of a regulatory nature (howsoever arising); or

213.2.3 in defending any criminal proceedings in which he is convicted;

213.2.4 in defending any civil proceedings brought by the Company or an associated company in which judgment is given against him; or

213.2.5 in connection with any application to the court for relief from liability under section 144(3) or (4) of the Act or for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company, or, as the case may be, the associated company of which he is a Director, which application is refused, where such conviction, judgment or refusal of relief has become final (within the meaning of the Act).

213.3 The Company may provide any Director of the Company with funds to meet expenditure incurred or to be incurred by him:

213.3.1 in defending any civil or criminal proceedings brought against him in connection with any alleged negligence, default, breach of duty or breach of trust by him in relation to the Company; or

213.3.2 in connection with any application to the court for relief from liability under section 144(3) or (4) of the Act or for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company, and the Company shall be permitted to do anything which would otherwise be prohibited under section 330 of the Act to enable a Director to avoid incurring such expenditure, provided that if the Director is convicted or judgment is given against him or if the court refused to grant relief, and upon such conviction or judgment or refusal becoming final (within the meaning of the Act), the Director shall become liable to repay to the Company the full amount of any such funds provided to him and any liability incurred by the Company to avoid a Director incurring any such expenditure shall fall to be discharged.

213.4 For the purpose of Articles 213.2 above, the expression 'associated company' shall mean a company which is either a subsidiary or a holding company of the Company or a subsidiary of such holding company as such terms are defined in the Act.

By order of the Board

Christopher Tyler, Company Secretary
24 January 2005

Notes

(1) A member entitled to attend and vote at the Meeting convened by the above Notice is entitled to appoint one or more proxies to attend and, on a poll, to vote in his place. A proxy need not be a member of the Company.

(2) To appoint a proxy you may use the Form of proxy enclosed with this Notice of Annual General Meeting. To be valid, the Form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, must be deposited by 9.30 a.m. on 3 April 2005 at the offices of Capita Registrars, The Registry, 34 Beckenham Road, Kent BR3 4TU. Completion of the Form of proxy will not prevent you from attending and voting in person.

(3) Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered in the register of members of the Company as at 9.30 a.m. on 3 April 2005 shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at such time. If the Meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned Meeting is 9.30 a.m. on the day preceding the date fixed for the adjourned Meeting. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

(4) In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

(5) The following documents are available for inspection at the registered office of the Company, Brampton House, 50 Bergen Way, Kings Lynn, PE30 2JG, during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this Notice until the conclusion of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the Meeting:

(a) the register of interests of the Directors and their families in the share capital of the Company;

(b) copies of service contracts between the Directors and the Company or its subsidiary undertakings; and

(c) the Articles of Association of the Company.

Financial calendar

25 January 2005
Preliminary announcement of 2004 results

23 March 2005
Ex-dividend date for final dividend on ordinary shares

29 March 2005
Closure of share register for final dividend on ordinary shares

5 April 2005
Annual General Meeting

19 April 2005
Payment of final dividend on ordinary shares

31 May 2005
2005 financial half year end

28 June 2005
Announcement of interim results

September 2005
Payment of interim dividend on ordinary shares

30 November 2005
2005 financial year end

Designed and produced by Bexon Woodhouse Creative
Board photography by Martyn Woodhouse
Illustrations by Arthur Phillips
Printed by Royle Corporate Print

Porvair plc
Brampton House
50 Bergen Way
King's Lynn
Norfolk PE30 2JG

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

www.porvair.com

porvair