1661935

Porvair plc Annual Report & Accounts 2007

Deploying our expertise
Delivering solutions
Driving growth

About Porvair

Porvair is a specialist filtration and environmental technology group, with operations in both the UK and US

The Group develops, designs and manufactures specialist filtration and separation equipment We serve a range of market segments of which aviation, molten metal, clean energy and life science filtration are the most important

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

Porvair aims to develop and exploit its expertise in specialist filtration and environmental technologies for the sustainable benefit of its shareholders, staff and other stakeholders.

ifc About Porvair
01 Key highlights in 2007
02 Porvair's strategy
04 Chairman and Chief Executive's statement
10 Finance Director's review
13 Board of Directors
13 Board committees, Secretary and advisers
14 Directors' report
18 Report of the Remuneration Committee
21 Corporate governance

Group

Group Accounts
24 Independent auditors' report to the members of Porvair plc (Group)
25 Consolidated income statement
25 Consolidated statement of recognised income and expense
26 Consolidated balance sheet
27 Consolidated cash flow statement
27 Reconciliation of net cash flow to movements in net debt
28 Notes to the consolidated financial statements

Company

Company Accounts
51 Independent auditors' report to the members of Porvair plc (Company)
52 Porvair plc – parent company balance sheet (under UK GAAP)
52 Statement of total recognised gains and losses
53 Company profit for the financial year
53 Reconciliation of movements in shareholders' funds
54 Notes to the financial statements

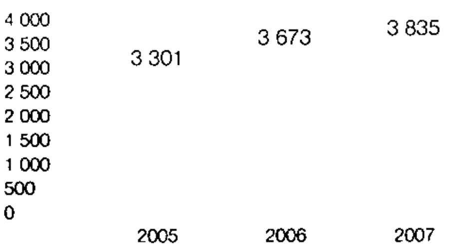
Annual General Meeting
59 Notice of the Annual General Meeting
62 Appendix to the Notice of the Annual General Meeting
67 Form of Proxy

ibc Financial calendar

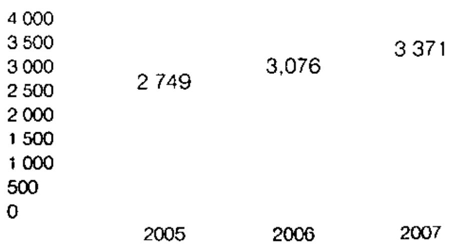
Key highlights in 2007

- Profit before tax up 10% to £3 4 million (2006 £3 1 million)
- Earnings per share up 12% to 5 8 pence (2006 5 2 pence)
- Strong cash generation reducing net borrowings to £7 0 million (2006 £8 4 million) Interest cover was 8 times (2006 6 times)
- Recovery at Metals Filtration after restructuring – record sales of US$38 6 million (2006 US$36 1 million)
  - New Nickel-Cobalt filters launched in April Production equipment capable of US$5 million in annual sales being commissioned
  - Customer trials of the first new aluminium filter to be introduced in 25 years are under way – offers superior performance at a premium price
  - Manufacturing and sales of our proprietary carbon bipolar plates and metallic combustion plates continued throughout 2007
- A year of consolidation at the Microfiltration division with sales of £26 2 million (2006 £26 4 million) affected by US dollar weakness
  - Aviation filtration delivered another strong year with 13% sales growth Contract wins during the year underpin growth projections
  - Larger manufacturing facilities will be ready by mid 2008
  - Omnifilter acquired and traded well in its first 10 months with the Group
  - Orders received for gasification filters for delivery early in 2008
  - Strong order book augurs well for 2008
- Exchange rate movements held reported profits back by £0 4 million The weaker US dollar, however, is supporting export sales from Metals filtration
- The Directors recommend a final dividend of 1 2 pence (2006 1 1 pence)

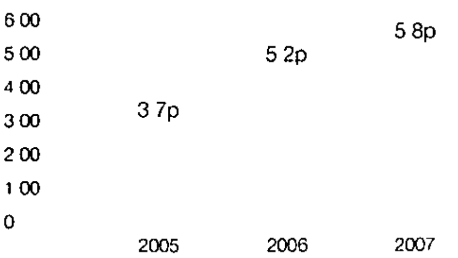
Operating profit (£ 000)



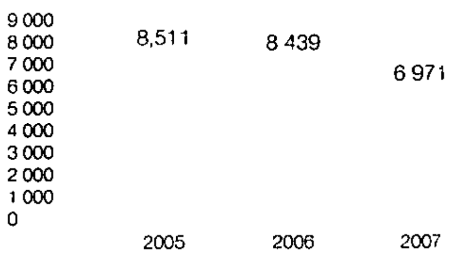
Profit before tax (£'000)



Earnings per share (pence)



Net debt (£'000)



Porvair's strategy

Porvair is a specialist filtration and environmental technology company with manufacturing operations in the UK and US

Porvair addresses niche markets with promising long term growth characteristics Our primary markets are

- molten aluminium and other molten metals
- general aviation, particularly fuel, lubricant and hydraulic filtration
- life sciences
- clean energy

Specialist filtration products have attractive characteristics because

- filters require specialist design and engineering for bespoke applications
- applications are often protected by quality accreditation or regulation
- filters are generally consumable used once or replaced as part of a maintenance cycle
- once specified, filters are likely to be used for many years

Porvair's objective is to build shareholder value through

- organic growth
  - by the normal expansion of our target markets and by market share growth, particularly in molten aluminium and aviation
  - by investment in specific growth opportunities, often environmental technologies (see opposite)
- acquired growth
  - by bolt-on acquisition in our existing niche markets
  - from acquisitions in related environmental technologies

Growth opportunity

Key developments

Metals Filtration

Molten aluminium filtration
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 cast house aluminium filtration

- Porvair has developed the first major improvement in aluminium filtration in 25 years
- The new filter has improved strength and performance and a better health and safety profile
- Production and customer trial results are very positive

Nickel-Cobalt filter
Porvair provides specialist ceramic filters to turbine blade manufacturers for the filtration of nickel-cobalt alloys These filters form part of a highly controlled process designed to ensure that turbine blades are made to the highest possible standards

- After a five year development programme Porvair has signed a licence agreement with the Sandia National Laboratory for the production of an improved filter
- Porvair has signed a multi-year supply agreement with its core customer
- Sales of this filter have started and production scale up is underway

Energy storage component
Porvair has used a combination of its ceramic foam technology and its carbon bipolar plate technology to provide a novel component for the energy storage market

- The technology development process is approaching completion
- Successful completion of the technology development could result in revenue from the second quarter of 2008

Fuel cell technology
Porvair produces high performance low cost carbon bipolar plates for the fuel cell industry Porvair's material is unique in the industry and offers fuel cell manufacturers outstanding electrical properties low density and compact design for static and vehicle fuel cells

- Orders for plates have been delivered throughout 2007 and into 2008
- Tight manufacturing and process control has been demonstrated and the cost has been reduced to one tenth of the previous generation of plates
- The next stage of development is on hold pending the redesign of the plate flow channels by the principal customer

Diesel emission technology
Porvair is developing a unique range of porous metals Metpore™ can be made in many alloys, in many shapes and with a variety of densities and porosities It is being tested by a number of diesel emission technology manufacturers because it is robust, it carries a catalyst well and exhibits excellent deep bed filtration characteristics

- The Group's main development project is in association with a major manufacturer of exhaust systems for light diesel cars
- Material testing is underway and will continue throughout 2008

Microfiltration

Aviation filtration
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 industry Porvair filters protect vital sub-systems such as flight controls fuel management systems, thrust reversers, braking steering power generation and air intakes in aircraft and helicopters

- A new fuel tank inerting system developed in association with Parker Hannifin for Boeing passenger jets has entered production
- A contract for a similar fuel tank inerting filter for Airbus jets was won in the year
- Aviation growth has been boosted by specialist assembly work won in the buoyant aerospace market

Gasification filtration
Porvair is a leading provider of high temperature filters to the gasification industry Gasification plants convert coal or petroleum coke into synthetic gas, which is then converted into chemicals or liquid fuels or 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

- A further set of filters ordered for delivery in spring 2008 as part of the SG Solutions US$20 million supply agreement
- Eleven requests for pilot plant development filters received in 2007
- A collaboration agreement was signed with the Energy & Environmental Research Center at University of North Dakota for work sponsored by the U S Department of Energy (DOE) for the gasification of lignite coal

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

- Point of care diagnostic device launched and awaiting customer trials
- Solid phase extraction devices under development

Charles Matthews, Chairman

Ben Stocks, Group Chief Executive

Performance summary
Porvair has delivered a solid step forward in the year ended 30 November 2007 profit before tax increased by 10% to £3 4 million (2006 £3 1 million), and earnings per share was up 12% to 5 8 pence (2006 5 2 pence) Porvair achieved strong cash generation reducing net borrowings to £7 0 million (2006 £8 4 million) and increased interest cover to 8 times (2006 6 times)

Metals Filtration was restructured early in the year and recovered to produce record sales of US$38 6 million (2006 US$36 1 million) Metals Filtration's key growth projects made good technical progress and began to contribute sales

- A new Nickel-Cobalt filter was launched in April
- Customer trials of the first new aluminum filter to be introduced in 25 years are under way
- Manufacturing and sales of our proprietary carbon bipolar plates and metallic combustion plates continued throughout 2007

Microfiltration had a year of consolidation and delivered sales of £26 2 million (2006 £26 4 million) Performance was held back by the weak US dollar but good progress was made in a number of areas

- Aviation filtration delivered another strong year with 13% sales growth
- Larger manufacturing facilities will be ready by mid 2008
- Omnifilter was acquired and traded well in its first 10 months with the Group
- Orders were received for gasification filters for delivery early in 2008
- A strong order book augurs well for 2008

Business overview and strategy
Porvair's strategy is to develop and exploit its expertise in specialist filtration and environmental technologies for the sustainable benefit of its shareholders, staff and other stakeholders

Porvair manufactures in the UK and the US Its sales are global The UK based Microfiltration division primarily serves aviation, life science clean energy and industrial markets The US based Metals Filtration division uses ceramic technology to serve the molten metal handling market worldwide Metals Filtration has particular expertise in the filtration of aluminium, but also serves the iron foundry market and has niche positions in steel, copper and high value alloys

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

- Develop in filtration and environmental technology markets where superior returns can be achieved because products
  - require specialist design and engineering skills
  - are protected either by regulation, quality accreditation or technical know-how
  - are consumable and replaced as part of a maintenance routine
  - have long product lives
- Broaden the range of products Porvair delivers to key market segments, particularly in aviation and molten aluminium
- Acquire specialist filtration and environmental technology businesses that meet strict financial and commercial criteria
- Maintain an appropriately funded balance sheet and generate sufficient cash to sustain a progressive dividend policy

The Board believes that this strategy will enable Porvair to grow its revenues and operating profits For several years the Group has funded key development projects from its own cash flows This has had a considerable impact on Group profits, which the Board has considered a prudent investment in the Group's future One feature of the 2007 results is that these investments have started to generate sales

Deploying our expertise – Porvair deploys its filtration expertise across a broad range of markets Filters are used to protect systems and to improve their safety and longevity and in production processes to improve the purity and quality of the product

The same filtration engineering principles are used to design filters for fuel lines hydraulic lines and lubrication systems in aircraft as are used in the design of our ceramic filters for molten metal Metal filtered through our filtration systems is used to produce a wide variety of rolled forged and cast components including applications in the transport, construction and power generation sectors

From safer aviation to improving metal purification

Divisional performance – Metals Filtration
The Group's Metals Filtration division performed well in 2007 following its restructuring early in the year The restructuring was carried out to adjust Selee's cost base and to move Porvair Advanced Materials' ('PAM') focus away from product development and towards product commercialisation As a result PAM has been integrated within Selee and came under Selee's management The two businesses are now reported as one segment The table below splits out the Special Projects, mainly the former PAM research and development projects, from the Selee core business

Year ended 30 November 2007	Selee US$'000	Special Projects US$ 000	Metals Filtration US$ 000
Revenue	37,431	1 211	**38,642**
Operating profit/(loss) before restructuring	2 773	(1 689)	**1,084**
Restructuring costs	(464)	–	**(464)**
Operating profit/(loss)	2 309	(1 689)	**620**

Year ended 30 November 2006	Selee US$ 000	Special Projects US$ 000	Metals Filtration US$ 000
Revenue	34,840	1,247	36 087
Operating profit/(loss)	646	(2,341)	(1,695)

Sales at Selee rose to US$37 4 million (2006 US$34 8 million), a record for the business with all product lines performing well Domestic sales of foundry filters continued their steady growth Aluminium cast shop filters – in which Selee has a leading market share – grew through export sales Engineered Ceramics, the operation that makes specialist metals handling products, had another year of record sales Operating profits, after charging restructuring costs of US$0 5 million, increased substantially to US$2 3 million (2006 US$0 6 million)

Selected customer trials began of the first new aluminium cast shop filter for 25 years Using proprietary technology, this product offers superior performance to the current industry standard and is expected to command a premium price It will also better conform to up-to-date materials handling requirements Customer trials and qualifications are underway and will continue throughout the year We expect commercial sales to begin in 2008 and are excited by the opportunities this new product offers

It was a good year for Special Projects

- Customer deliveries of new specialist molten Nickel-Cobalt filters began in April These are based on patents licenced from Sandia National Laboratories A multi-year supply contract was signed with one of Selee's core customers and sales increased through 2007 as production capacity was commissioned We expect to reach full production capacity during 2008 with this product line contributing up to US$5 million in annual sales revenue once fully commissioned and qualified

- Bipolar plates were manufactured throughout 2007 and will continue in 2008 for the current product We have a good product that is working well in what remains a very small market for vehicular fuel cells We have agreed with our principal customer, UTC Power, that we will wait for the market to develop before committing further investment to the next generation product

- A product that uses very similar technology to bipolar plates has been under development throughout 2007 for a very interesting energy storage application This offers good prospects for near term commercialisation We are evaluating final product specifications along with production and supply options

- Sales of combustion plates continued through the year Demand for diesel emission substrates remains strong, albeit still for product development samples, which we supply on a fully costed basis

Divisional performance – Microfiltration
After its excellent year in 2006, the Microfiltration division, which comprises the Porvair Filtration Group, Omnifilter and Porvair Sciences, was expected to perform less well in 2007 as major gasification contracts were in place for deliveries in 2006 and 2008 but not in 2007 Sales for the year were £26 2 million (2006 £26 4 million) After taking into account the weakness in the US dollar holding back profits by an estimated £0 4 million, operating profits were in line with management expectations at £4 4 million (2006 £5 5 million)

Aviation filtration sales grew 13%, offsetting declines in ink jet filter sales where a key customer moved production to China Aviation filtration continues to be a prominent feature of this business having grown

Delivering solutions – Porvair products are generally bespoke for specific applications Porvair uses its design skills to solve the filtration challenges of its customers Once customers have specified Porvair's designs into their products or systems they often have long life cycles

In the power generation industry Porvair's filters are used in a wide range of applications In the gasification market where a range of new technologies are being developed for the environmentally friendly use of coal petcoke and other carbon based materials, Porvair is at the forefront of the development of filtration systems and applications In the nuclear industry, many of the filters we designed years ago for fuel manufacture power generation and waste containment are still specified into existing systems

From innovative solutions to long life applications

consistently since 2002 The Group previously announced that it will be supplying new filters for fuel tank inerting systems to Boeing and Airbus This project was subject to repeated customer delays but production did finally start towards the end of 2007 and sales are now being generated This, along with several other sizeable contract wins during the year, persuaded the Board to invest in larger premises for our aviation manufacturing operation, which is expected to commission during the first half of 2008

Early in the year we completed the acquisition of Omnifilter, in the US, which was immediately earnings accretive and traded well throughout 2007 This business offers the Microfiltration division a base from which to accelerate its growth in the US

The Microfiltration division also manages some of the Group's key growth projects, which have developed further in 2007

- The latest large commercial order for gasification filters was received in 2007 and will be delivered in the first half of 2008 Demand for engineering and design work in this segment has been robust throughout the year and dedicated resources have been recruited Eleven separate requests for product trials of R&D and demonstration scale plants were received during the year, covering clean coal opportunities, carbon dioxide sequestration and gas-to-liquid applications This continues to be a highly promising long term development field for Porvair

- The division has a number of bioscience projects based on the chemical treatment of filtration media A second product was launched during the year in conjunction with a point-of-care diagnostic device company Third party customer trials are under discussion

Earnings per share and dividend
Earnings per share increased 12% to 5 8 pence (2006 5 2 pence) The Directors recommend a final dividend of 1 2 pence (2006 1 1 pence) per share for 2007, making a full year dividend of 2 2 pence (2006 2 1 pence)

Porvair staff
On the Board's behalf we would like to thank all our staff for their hard work and dedication in 2007 We have made great progress during the year, with changes undergone at Selee, planning for changes in premises to come at the Fareham plant of Microfiltration, and a raft of product development projects coming to fruition The prospects for 2008 are encouraging and we are grateful to all Porvair's employees for their efforts

Outlook
Following progress made in recent years, Porvair is well positioned for continued growth operating margins continue to improve, cash generation has been sufficient to pay down borrowings, support a full capital investment programme and pay a progressive dividend, and we have embarked on a programme of bolt-on acquisitions

Several of Porvair's key growth projects reached early commercial stages and the associated R&D investment should now begin to decrease rapidly Growth prospects from these projects are evident and are starting to show positive results Long term customer contracts for new products are in place both in Microfiltration and Metals Filtration With order books robust both in the UK and the US, 2008 has started well

Charles Matthews, Chairman
Ben Stocks, Group Chief Executive

28 January 2008

Driving growth – For several years Porvair has funded development projects from its own cash flow Many of these developments have been in environmental technologies The growth prospects from this investment are evident and starting to show positive results

Projects in the current development portfolio that have a direct benefit to the environment include energy storage components that will reduce the engine idle time of heavy duty vehicles substrates that reduce emissions from diesel vehicles and bipolar plates that form an integral part of vehicular fuel cells

From environmental technologies to driving growth opportunities

Christopher Tyler, Group Finance Director

Group operating performance

Group sales were £45 5 million (2006 £46 2 million) and operating profits were £3 8 million (2006 £3 7 million) The operating performance of the Microfiltration and Metals Filtration Divisions are described in detail in the Chairman and Chief Executive's statement The operating loss associated with the Other unallocated segment was £0 9 million (2006 £0 9 million) The Other unallocated segment mainly comprises Group corporate costs, some research and development costs, new business development costs and general financial services The unallocated loss before tax in 2007 includes provisions written back of £0 4 million (2006 £0 3 million) related to reduced expenses arising on the businesses disposed of in 2003 and to the elimination of an onerous lease cost arising on a building that was refurbished and sublet in 2006 and disposed of in January 2008

The Microfiltration segment's operating profit includes the effects of the transactions in connection with the imminent move of part of the business to new premises, comprising a contribution towards remedial works received from the outgoing tenant of the Group's new premises, a provision for future dilapidation costs on the property to be vacated, and duplicate rent and other operating costs The net credit to the income statement from these transactions is less than £0 1 million

Impact of exchange rate movements on performance

Due to its international nature, relative movements in exchange rates have an impact on the Group's reported performance The US dollar weakness in 2007 adversely affects the retranslation of the results of the US operations and reduces the value of the UK operations' US dollar sales We estimate that had the US dollar/sterling exchange rate remained constant throughout 2006 and 2007, Group operating profits would have been £0 4 million higher

General trading in our US operations benefits from a weaker US dollar however, with export sales at Metals Filtration growing quickly throughout the year

Key performance indicators

The Group considers its key performance indicators to be the sales growth and operating margins of its principal operations, the profit before tax growth, earnings per share growth, interest cover, gearing, and return on capital employed ('ROCE') The table above summarises these indicators

Key performance indicators

	2007	2006
Sales growth – Selee (in US dollars)	**7%**	1%
Sales growth – Microfiltration	**(1)%**	4%
Operating margin – Group	**8%**	8%
Operating margin – Selee (before restructuring)	**7%**	2%
Operating margin – Microfiltration	**17%**	21%
Profit before tax growth	**10%**	12%
Earnings per share growth	**12%**	40%
Interest cover	**8 times**	6 times
Gearing	**20%**	27%
ROCE	**9%**	9%

The Group also considers progress towards commercialisation of its key growth projects to be a key indicator of performance These indicators are discussed in detail throughout the Chairman and Chief Executive's statement and the Finance Director's review

Finance costs

Net interest payable reduced by 22% to £0 5 million (2006 £0 6 million) The Group holds a significant amount of its borrowings in US dollars (US$14 8 million at 30 November 2007), the weaker US dollar has reduced the interest cost There was a finance credit in relation to the closed defined benefit pension scheme of £0 1 million (2006 £nil) Interest cover was 8 times (2006 6 times)

Tax

The Group tax charge of £1 0 million (2006 £1 0 million) represents an effective tax rate of 30% on profits before tax The tax charge comprises current tax of £0 5 million (2006 £0 9 million) and a deferred tax charge of £0 5 million (2006 £0 1 million) The Group carries a deferred tax asset in relation to the past losses in its US operations This tax asset is limited to the amount expected to be recovered in the foreseeable future

Shareholders' funds

Shareholders' funds at 30 November 2007 were £34 4 million (2006 £31 5 million), an increase of 9% over the prior year Shareholders' funds increased by the profit after tax of £2 4 million plus £0 1 million in relation to the reversal of the share based payments charge in the income statement, actuarial gains net of deferred tax added £1 6 million, and new shares issued on the exercise of options in relation to an SAYE scheme generated £0 2 million Shareholders funds were reduced by exchange losses on retranslation of foreign currencies of £0 5 million and dividends paid of £0 9 million

Cash flow
Net cash generated from operations was £5 7 million (2006 £2 3 million) Profits before depreciation and amortisation were substantially all turned into cash with working capital reducing by £0 4 million (2006 £3 0 million increase) Net interest paid was £0 6 million (2006 £0 7 million) The lower interest charge reflects the lower average borrowings for the year and the impact of the weaker US dollar on the US dollar borrowings Lower tax paid of £0 6 million (2006 £1 3 million) arises as a result of a tax repayment in the year relating to prior periods

Capital expenditure increased to £2 0 million (2006 £1 0 million) principally as a result of the fit out costs of the new Microfiltration facility and additional manufacturing capacity installed in Metals Filtration Omnifilter was acquired for £1 0 million

At the year end, the Group had net borrowings of £7 0 million (2006 £8 4 million) comprising gross borrowings of £9 9 million (2006 £10 2 million) offset by cash balances of £2 9 million (2006 £1 8 million) The Group had unutilised borrowing facilities of £1 4 million (2006 £2 0 million) and an unutilised overdraft facility of £3 0 million (2006 £3 0 million)

The Group's gearing (net debt as a percentage of shareholders' funds) reduced to 20% (2006 27%)

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

At the year end, the Group had US$14 8 million (2006 US$14 0 million) of US dollar borrowings exposure which hedged underlying US net tangible assets on the balance sheet of US$22 7 million (2006 US$18 6 million) In addition, the Group has a Euro 1 6 million interest bearing debtor that was fully hedged by borrowings in Euros

The Group finances its operations by a combination of share capital and retained profits, and short and long term loans Borrowings are principally at floating rate

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

During the year, a valuation of the assets and liabilities of the closed defined benefit scheme was completed As a result of this review the Group and the Trustees agreed to reduce the employer s contributions from 15% of salary to 8% of salary The Group also committed to make additional annual contributions, to cover the past service deficit, of £250,000 per annum increasing by 5% per annum for the next eight years The first payment was made in December 2007

The Group recorded a retirement benefit obligation of £1 8 million (2006 £4 3 million) The reduction arose from an actuarial gain in the year of £2 4 million and a return on assets in excess of the service charge of £0 1 million

Risks and uncertainties
There are a number of risks and uncertainties, described below, which could have a material impact on the Group s long term performance and prospects

Existing market risk
The Group s strategy is to serve the needs of a range of specialist filtration markets, such that it is not dependent upon any one market No single market represents more than 20% of sales However, three key markets aluminium filtration, aviation filtration, and foundry products contribute more than 10% of the Group's revenue The Group would be exposed to a significant decline in any of these markets

Aluminium is currently in a high demand phase The production of aluminium is gradually moving to larger smelters in regions of low cost energy The Group is actively engaged in developing its overseas markets for its molten aluminium filtration business to reduce its reliance on the US market and has significantly increased its proportion of export business in the course of the last year

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

The foundry filter business is being enhanced by product developments and improved overseas distribution Both these actions will reduce the business's reliance on existing products in the US market

New markets risk
The Group invests significant amounts into the development of new products for new markets Many of these new markets are at an early stage of development and are driven either by environmental influences or legislation There is a risk that the products that the Group is developing will either not be adopted as part of the potential solutions or that the legislation or regulation will not develop in the way that the Group anticipates

The Group maintains a portfolio of potential products addressing different market segments and recognises that not all of its potential products will become significant revenue generators The Group maintains a close review of each of its major developments and is not significantly exposed if the market for any one product does not develop

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

Treasury and exchange rate risk
The Group has operations in the UK and US and sells its products throughout the world and as a result, the Group is exposed to fluctuations in exchange rates The Group maintains certain borrowings in US dollars to hedge its investments in the US and enters into forward sales of its principal foreign currency revenues to reduce the impact of exchange rate movements

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

Technological risk
Porvair has a broad portfolio of products delivered to a diverse range of markets The Group's business could be affected if it does not

- continue to develop new designs for its customers that provide technical or cost advantages over its competitors, and
- develop new technologies and materials that are adopted by its customers to provide improved performance

The Group recognises that certain competitors are larger and have greater financial resources This may enable them to deliver products on more attractive terms than the Group or to invest more resources, including research and development, than the Group

The Group carefully selects its development prospects and monitors their progress carefully to maintain a range of potential opportunities The nature of the Group's development projects means that their potential commercial or technical success cannot be assessed with certainty throughout the development process The ultimate commercial success of a project can often only be judged when the development cycle is close to completion

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

The Group operates from a number of production facilities the largest facility generating approximately one third of the Group's revenue A disaster, such as a fire or flood, at any of the Group's facilities could have a material impact on the Group's performance The Group maintains insurance of its equipment and facilities and carries business interruption insurance to cover loss of profits In addition, the Group has ISO 9001 and other industry specific quality control systems which reduce the risk that a disaster will occur

Liability risk
The Group manufactures products that are potentially vital to the safe operation of its customers' products or processes A failure of the Group's products could expose the Group to loss as a result of claims made by the Group's customers or users of their products The Group seeks to minimise this risk through limitations of liability in its contracts and carries insurance cover in the event that claims are made

Global and regional economic, political risk and environmental risk
The Group sells its products throughout the world and derives a substantial portion of its revenue and earnings from outside the UK The Group's ability to achieve its financial objectives could be impacted by risks and uncertainties associated with local legal requirements, the enforceability of laws and contracts, changes in the tax laws and economic conditions, political instability, war, terrorist activity, natural disasters or health epidemics

Christopher Tyler
Group Finance Director

28 January 2008

Board of Directors

Executive Directors

1 Ben Stocks (45) Group Chief Executive
Joined the Group as Chief Executive in February 1998 He was previously UK Managing Director of the Speciality Packaging Division of Carnauld Metal Box He holds an MBA from INSEAD

2 Christopher Tyler (45), Group Finance Director
Appointed to the Board in September 2004 He had previously held a number of senior financial positions at Cable & Wireless latterly as Chief Financial Officer of Cable & Wireless in the Caribbean He is a chartered accountant

Non-Executive Directors

3 Michael Gatenby* (63) Senior Non-Executive Director
Appointed to the Board in June 2002 He is Chairman of Alliance Pharma PLC and is a Non-Executive Director of Johnson Service Group PLC and Cobra Biomanufacturing plc He is a chartered accountant

4 Charles Matthews* (54), Chairman
Appointed to the Board in January 2005 and became Chairman on 12 April 2006 He is the Founder and Chairman of Sigma QC Limited a Non-Executive Director of FKI plc Chairman of Axeon plc and Chairman of PBLsat Ltd He was previously Chief Executive of Cosworth Managing Director of Rolls Royce Motor Cars and a member of the Vickers Group plc Executive Board

5 Andrew Walker* (56)
Appointed to the Board in January 2005 He is a Non-Executive Director of API Group plc, Manganese Bronze Holdings plc, Ultra Electronic Holdings plc Delta plc Fountains Plc, Plastics Capital plc and Brintons Limited He is Chairman of Bioganix Limited He was previously Chief Executive of McKechnie plc and South Wales Electricity plc

* denotes independent Non Executive Director

Board committees, Secretary and advisers

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

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

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

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

Company registration number
1661935

Auditors
PricewaterhouseCoopers LLP
Abacus House
Castle Park
Cambridge CB3 0AN

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

Investment bankers
Close Brothers
10 Crown Place
London EC2A 4FT

Registrars and transfer office
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Solicitors
Travers Smith
10 Snow Hill
London EC1A 2AL

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

The Directors are pleased to present their Annual Report and the audited accounts of the Group for the year ended 30 November 2007

Principal activities and results
The Group's principal activities are specialist filtration and environmental technologies in the UK and US The profit for the financial year was £2 4 million (2006 profit of £2 1 million)

Business review
The business is reviewed in the Chairman and Chief Executive's statement on pages 4 to 8 and the Finance Director's review on pages 10 to 12 The Group's strategy and objectives are discussed in detail in the Chairman and Chief Executive's statement The key performance indicators are defined in the Finance Director's review and discussed throughout the Chairman and Chief Executive's statement and Finance Director's review Likely future developments in the business are also to be found in those sections The risks and uncertainties facing the business are described in the Finance Director's review on pages 11 and 12 and in the financial risk management section below

Acquisitions
On 19 January 2007, the Group acquired the business and assets of Omnifilter and Manufacturing Inc ('Omnifilter') for a cash consideration of US$2 06 million It is a profitable business and was immediately earnings enhancing The acquisition has been made for cash The gross assets acquired, excluding goodwill, are approximately US$0 6 million (see note 24)

Dividends
An interim dividend of 1 0 pence per share was paid on 14 September 2007 The Directors recommend the payment of a final dividend of 1 2 pence per share (2006 1 1 pence per share) on 8 May 2008 to shareholders on the register on 4 April 2008, the ex-dividend date is 2 April 2008 This makes a total dividend for the year of 2 2 pence per share (2006 2 1 pence per share)

Directors and their interests
The names and biographical details of the Directors are set out on page 13 Dr John Sexton joined the Board on 29 January 2007 and resigned from the Board on 2 October 2007

In accordance with the Articles of Association, Michael Gatenby and Ben Stocks retire by rotation and 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 Report of the Remuneration Committee on pages 18 to 20 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 objective of identifying and developing new materials and products which have the potential to transform the growth of the Group The cost to the Group in the year under review was £2 5 million (2006 £2 9 million), £2 2 million (2006 £2 7 million) was written off to the income statement and £0 3 million (2006 £0 2 million) was capitalised as an intangible fixed asset The expenditure is of a development nature and is largely undertaken in-house rather than by third parties In accordance with International Accounting Standard (IAS) 38, 'Intangible Assets', development expenditure is largely written off as incurred but where a product has been shown to be technically feasible and the Group can demonstrate, through customer acceptance or otherwise, that there is a market for the product, then further development expenditure is capitalised and written off over the expected life of the product

Substantial shareholders
As at 28 January 2008 the Company has been notified of the following substantial shareholdings comprising 3% or more of the issued share capital of the Company

	Ordinary shares number	Percentage
Schroder Investment Management Ltd	8 938 295	22 0%
M&G Group Limited	5 320 632	13 1%
F & C Asset Management plc	4 458,142	10 9%
Impax Environmental plc	3 256,750	8 0%
Morley Investment Management	2,717,040	6 7%
Insight Investment	1,977,679	4 9%
Cavendish Asset Management	1,641,888	4 0%
Gartmore Fund Managers Limited	1,300,000	3 2%

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 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 £13,000 (2006 £15,000) during the year Substantially all charitable donations were made to local charities operating in Hendersonville, North Carolina There were no political donations (2006 £nil)

Annual General Meeting
The Annual General Meeting of the Company is to be held on Wednesday 9 April 2008 The notice for this meeting is set out at the end of this document

Resolution 4 and 5 – Re-election of Michael Gatenby and Ben Stocks as Directors
The Articles of Association of the Company require certain of the Directors to retire by rotation at each Annual General Meeting At the Meeting, Michael Gatenby and Ben Stocks will retire and offer themselves for re-election Resolutions 4 and 5 propose their re-election Brief biographies of the Directors are set out on page 13 of the Annual Report

Resolution 7 and 8 – Directors' authority to allot shares (ordinary resolution) and disapply pre-emption rights (special resolution)
Resolution 7 gives the Directors authority to allot ordinary shares up to an aggregate nominal amount of £307,823, being approximately 38% of the nominal value of the issued ordinary share capital of the Company as at 28 January 2008 The authority will expire at the end of five years from the date of the passing of the 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 9, 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 8 asks shareholders to grant the Directors authority to allot equity securities or sell treasury shares for cash up to an aggregate nominal value of £40,699 (being 5% of the Company's issued ordinary share capital as at 28 January 2008) 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 9 – Purchases of own shares by the Company (special resolution)
Resolution 9 to be proposed at the Annual General Meeting seeks authority from shareholders for the Company to make market purchases of its own ordinary shares, such authority being limited to the purchase of up to 10% of the ordinary shares in issue as at 28 January 2008 The maximum price payable for the purchase by the Company of its own ordinary shares will be limited to the higher of 5% above the average of the middle market quotations of the Company's ordinary shares, as derived from the Daily Official List of the London Stock Exchange, for the five business days prior to the purchase and the price of the last independent trade of an ordinary share as derived from The London Stock Exchange Trading System ('SETS') The minimum price payable by the Company for the purchase of its own ordinary shares will be 2 pence per share (being the nominal value of an ordinary share) The authority to purchase the Company's own ordinary shares will only be exercised if the Directors consider that there is likely to be a beneficial impact on earnings per ordinary share and that it is in the best interests of the Company at the time The resolution renews a similar resolution passed at the Annual General Meeting of the Company held on 17 April 2007 Any ordinary shares so purchased by the Company will be held in treasury by the Company and will remain in issue and be capable of being re-sold by the Company or used in connection with certain of its share schemes

Options to subscribe for up to 1,824,975 ordinary shares have been granted and are outstanding as at 28 January 2008 (being the latest practicable date prior to publication of this document) representing 4 5% 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 9 the options outstanding as at 28 January 2008 would represent 4 9% of the ordinary share capital (excluding shares held in treasury) in issue following such exercise

Resolution 10 – Adoption of new Articles of Association (special resolution)
Resolution 10 to be proposed at the Annual General Meeting seeks to adopt new Articles of Association of the Company in substitution for the existing Articles of Association A summary of the principal differences between the new Articles and the existing Articles (which principally comprise changes required to reflect amendments to legislation applicable to the Company) is set out in the Appendix on pages 62 and 63

Resolution 11 – To establish The Porvair Long Term Share Plan 2008
Resolution 11 to be proposed at the Annual General Meeting seeks shareholder approval to establish The Porvair Long Term Share Plan 2008 (the "Plan"), a summary of the proposed rules of which is set out in the Appendix on pages 64 to 66 of this document The Plan will enable selected employees to be granted awards in respect of ordinary shares of the Company The Remuneration Committee intend to make initial awards to Executive Directors equivalent to 200% of base salary In making these awards the Company will have more than 5% but less than 10% of its issued share capital under option at the date of grant However these awards will be made in conjunction with demanding performance conditions

Full details of all the Resolutions to be proposed are set out on pages 59 to 66 of this document

Creditor payment policy
The individual operating companies are responsible for agreeing the terms and conditions under which they conduct transactions with their suppliers It is Group policy that payments to suppliers should be made in accordance with these terms provided that the supplier is also complying with all relevant terms and conditions The trade creditor days of the Company at 30 November 2007 were 44 days (2006 44 days)

Statement of Directors' responsibilities in respect of the Annual Report, the Report of the Remuneration Committee and the financial statements
The Directors are responsible for preparing the Annual Report, the Report of the Remuneration Committee and the Group and the parent company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements and the Report of the Remuneration Committee in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period

In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the Group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements and the Report of the Remuneration Committee comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

Directors' responsibility for provision of information to the Auditors
So far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information

Financial risk management
The Group's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risk, liquidity risk and interest rate risk The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs

The Group maintains all of its borrowings at floating rates of interest and is therefore exposed to movements in the interest rates of both the US dollar and sterling The Group seeks to minimise its exposure to the impact of exchange rate movements on its net investments and seeks to maintain borrowings in US dollars equivalent to at least 70% of the carrying value of its US dollar net tangible assets in its US operations.

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

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

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

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

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

Interest rate cash flow risk
The Group has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only a commercial loan, which earns interest at fixed rate. The Group has a policy of maintaining its debt at a floating rate as it considers the cost of switching into fixed rates to outweigh the advantages. The Directors will revisit the appropriateness of this policy should the Group's operations change in size or nature.

Going concern
After having made appropriate enquiries, including a review of the Group's budget for 2008 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

Christopher Tyler
28 January 2008

C. P. Tyler

This part of the Report of the Remuneration Committee is unaudited

The 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 Gatenby, Charles Matthews and Andrew Walker (Chairman) The Committee determines the pay and benefits of the Executive Directors, whilst the remuneration of the Non-Executive Directors is determined by the Executive Directors The Committee uses external published data as part of its assessment of the pay and benefits awarded to the Executive Directors

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

Service contracts
The Executive Directors have rolling contracts with the Company which can be terminated on giving twelve months' notice This is considered to be an appropriate balance between flexibility and commitment on both parties The Non-Executive Directors receive letters of appointment, 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, 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 2008 relating to the achievements of the Group's profit targets in 2007, which are disclosed in the table of Directors' remuneration

This part of the Report of the Remuneration Committee is audited

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

Ben Stocks also receives a 15% contribution to a Self Invested Pension Plan ("SIPP") on the difference between his full salary and the capped limit covered by The Porvair plc Pension and Death Benefit Plan Pension benefits are provided for Christopher Tyler by a contribution of 15% of full salary to a stakeholder scheme funded by the Company

Life assurance benefits covering a lump sum of four times salary on death in service and a 20% spouse's pension are provided for Ben Stocks and Christopher Tyler by the Porvair plc Pension and Death Benefit Plan Ben Stocks and Christopher Tyler are covered by the Group's permanent health insurance scheme

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

	Accrued pension at 30 November 2007 £ per annum	Increase in accrued pension during the year £ per annum	Increase in accrued pension during the year net of inflation £ per annum	**Transfer value of accrued pension at 30 November 2007 £**	Transfer value of accrued pension at 30 November 2006 £	Increase in transfer value over the year net of Director's contributions £
B D W Stocks	**14,769**	2 034	1 576	**79,904**	63,356	1 843

The Company paid £18 337 (2006 £16 936) to a SIPP for Ben Stocks and £24,450 (2006 £22,790) to a stakeholder pension plan for Christopher Tyler in respect of the financial year 2007

During the period when he was an Executive Director, £10,573 was paid into a Self Administered Pension Scheme for Dr John Sexton The Self Administered Pension Scheme leases certain facilities to the Group and received £38,160 in rent from the Group during the period Dr John Sexton was an Executive Director

Directors' remuneration

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

2007	Basic salary and fees £'000	Bonus £'000	Benefits £'000	Relocation £'000	Total 2007 £'000
Executive Directors					
Dr J Sexton (appointed 29 January 2007 resigned 2 October 2007)	71	10	9		**90**
B D W Stocks	234	54	40	35	**363**
C P Tyler	163	38	19		**220**
Non-Executive Directors					
M R B Gatenby	25				**25**
C L Matthews	63				**63**
A J Walker	25				**25**
	581	102	68	35	**786**

Dr John Sexton was employed by the Group throughout the financial year ended 30 November 2007, the amounts shown in the table above relate only to the period he was an Executive Director

2006	Basic salary and fees £'000	Bonus £'000	Benefits £'000	Total 2006 £'000
Executive Directors				
B D W Stocks	225	50	53	**328**
C P Tyler	157	40	20	**217**
Non-Executive Directors				
M R B Gatenby	24			**24**
C L Matthews (Chairman from 12 April 2006)	47			**47**
J M Morgan (Retired 12 April 2006)	25		12	**37**
A J Walker	24			**24**
	502	90	85	**677**

Benefits include company cars medical insurance, life insurance permanent health insurance and in the case of Ben Stocks a housing allowance and certain travel costs relating to his secondment to the US The relocation cost for Ben Stocks relates to the costs of relocating him to the UK following the completion of his secondment to the US

Share options

Share options are awarded to Executive Directors at the discretion of the Committee, usually immediately after the announcement of the Group's results

Details of the share options held by the Executive Directors at the end of the year, which have been granted under Porvair Share Option Schemes, are as follows

	At 30 November 2006 Number	Granted/ (Exercised) in the year Number	At 30 November 2007 Number	Exercise price	Scheme	Grant/ exercise date	Date from which exercisable	Expiry date
B D W Stocks	85 000		**85,000**	259 00p	1997		12/07/2004	12/07/2008
B D W Stocks	7,616	**(7,616)**	**–**	123 75p	SAYE	20/07/2007		
B D W Stocks	70,000		**70,000**	111 00p	1997		28/01/2006	28/01/2010
B D W Stocks	150,000		**150,000**	98 00p	1997		25/01/2008	25/01/2012
B D W Stocks	76 330		**76,330**	131 00p	2005 EMI		27/01/2009	27/01/2016
B D W Stocks	123,670		**123,670**	131 00p	2005		27/01/2009	27/01/2016
B D W Stocks		**100,000**	**100,000**	138 00p	2005	02/02/2007	02/02/2010	02/02/2017
B D W Stocks		**8,750**	**8,750**	108 00p	SAYE	17/08/2007	01/10/2010	01/04/2011
C P Tyler	60 000		**60,000**	101 50p	1997		16/09/2007	28/01/2011
C P Tyler	100 000		**100,000**	98 00p	1997		25/01/2008	25/01/2012
C P Tyler	76,330		**76,330**	131 00p	2005 EMI		27/01/2009	27/01/2016
C P Tyler	23,670		**23,670**	131 00p	2005		27/01/2009	27/01/2016
C P Tyler		**50,000**	**50,000**	138 00p	2005	02/02/2007	02/02/2010	02/02/2017
C P Tyler		**8,750**	**8,750**	108 00p	SAYE	17/08/2007	01/10/2010	01/04/2011

Report of the Remuneration Committee continued

Options granted under the 1997 scheme can only be exercised if the Committee is satisfied that over a period of not less than three years, commencing on the date of grant, there has been an increase in the Group's earnings per share of at least 2% per annum above the growth in the Retail Prices Index over the same period Only HMRC approved options can now be issued under this scheme Under the 1997 scheme no Director may accumulate an issued value of more than four years' salary in unexpired options

Options granted under the 2005 scheme can only be exercised in full if the Committee is satisfied that over a period of either three or four years from the date of grant there has been an increase in the Group's earnings per share of at least 10% per annum above the growth in the Retail Prices Index over the same period 25% of the options awarded can be exercised if the Committee is satisfied that over a period of either three or four years from the date of grant there has been an increase in the Group's earnings per share of at least 5% per annum above the growth in the Retail Prices Index over the same period A sliding scale operates between the two limits If the vesting conditions are not met after four years then the options lapse Under the 2005 scheme, except under exceptional circumstances, no Director may be granted options to the value of more than one year's salary per annum

Options were granted in the year under a new Save As You Earn (SAYE) scheme The options were issued at a 20% discount to the market price at the date of grant The options have no performance conditions

Ben Stocks exercised 7,616 SAYE options in the year at an exercise price of 123 75 pence The gain on exercise was £819

The market price of the Company's ordinary shares at 30 November 2007 was 114 pence (2006 122 pence)

The range of market prices during the year was 114 pence to 150 pence

This part of the Report of the Remuneration Committee is unaudited

Total shareholder return
The following graphs chart total shareholder return against the FTSE All share Index for the last three and five years to 30 November 2007, with both rebased to 100 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 2007 and 30 November 2006 of the Directors in the ordinary shares of the Company are shown below There have been no changes in those interests up to the date of this report

	2007		2006	
	Ordinary shares	Share options	Ordinary shares	Share options
Executive Directors				
B D W Stocks	**96,666**	**613,750**	89,050	512,616
C P Tyler	**9,500**	**318,750**	9 500	260 000
Non-Executive Directors				
M R B Gatenby	**14,000**	-	14,000	–
C L Matthews	**10,000**	-	10,000	–
A J Walker	**4,040**	-	4 011	–

Andrew Walker, Chairman Remuneration Committee
28 January 2008

Compliance
The Directors are of the opinion that the Company has complied with the provisions of the 2006 Combined Code on Corporate Governance throughout the year except where explicitly set out below

Board of Directors
The Board consists of five Directors two Executive Directors and three Non-Executive Directors The Board is chaired by Charles Matthews Ben Stocks is the Group Chief Executive and Christopher Tyler is the Group Finance Director Michael Gatenby, Charles Matthews and Andrew Walker are independent Non-Executive Directors Michael Gatenby is the Senior Non-Executive Director The Board considers that Charles Matthews continues to be an independent Non-Executive Director after his appointment as Chairman

The Board has a fixed schedule for reviewing the Group s operating performance and has other specific responsibilities reserved to it, which include

- Approval of the published financial results and dividends,
- Appointments to the Board and other Board committees,
- Approval of the strategic direction of the business,
- Approval of expenditure over certain limits,
- Approval for acquisitions and disposals,
- Approval of treasury policy and significant new financing,
- Approval of the funding policies of the defined benefit pension scheme

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

Procedural compliance is monitored by the Company Secretary and the Directors' appointment and removal is a matter for the Board as a whole Independent professional advice and training are available to all the Directors The Senior Non-Executive Director, Michael Gatenby, 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 appointment do not specify a specific period for their appointment and therefore the terms are not in compliance with provision B 1 6 of the Code, however in accordance with the Articles of Association, one third of the Directors who have served throughout the year retire by rotation each year and, if eligible, may offer themselves for re-election at the Annual General Meeting All newly appointed Directors offer themselves for election at the first Annual General Meeting following their appointment

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

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

The Company maintains Directors' and Officers' liability insurance

The Board has a schedule of seven pre-arranged meetings during the year In addition such other meetings as are required are arranged to deal with specific issues or transactions During the year there was full attendance at all pre-arranged Board meetings, with the exception of Dr John Sexton, who missed one of the five Board meetings that took place during his period as a Director of the Company

The Board undertook a rigorous self assessment review during the year to consider its own performance The Senior Non-Executive Director maintains regular contact with the other Independent Non-Executive Directors and the Executive Directors, sufficient to monitor the performance of the Chairman

Audit Committee
The Audit Committee currently comprises all of the Independent Non-Executive Directors of the Company The Chairman of the Audit Committee is Michael Gatenby The Committee includes Charles Matthews, the Chairman of the Company The Board takes the view that Charles Matthews is an Independent Non-Executive Director and considers that it is appropriate for the Audit Committee to comprise all three Independent Non-Executive Directors rather than reduce the Committee to only two members

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

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

- reviewed the financial statements of the Company and any formal announcements relating to the Company's financial performance prior to announcement
- monitored the Company's internal financial controls and the Company's internal control and risk management systems and ensured that these are properly reviewed by the Group's management
- set up an internal audit function and reviewed the scope of the work done by the Group Internal auditor in reviewing the operating companies' internal controls and procedures
- made recommendations to the Board in relation to the appointment of the external auditor and approved the remuneration and terms of engagement of the external auditor
- monitored the external auditor's independence and objectivity
- 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 There was 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 comprises all of the independent Non-Executive Directors of the Company Andrew Walker is the Chairman of the Committee The Group Chief Executive may be invited to attend and speak at meetings of the Committee but does not participate in any matter which impacts upon his own remuneration arrangements The remuneration of the Non-Executive Directors, including the Chairman, is set by the Executive Directors

The Report of the Remuneration Committee on pages 18 to 20 includes details on remuneration policy, practices and the remuneration of the Directors

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

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 the Chairman of the Company 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 Dr John Sexton Dr Sexton had, since 2001, been the Managing Director of the Porvair Filtration Group He was appointed to the Board to provide the Board with direct access to his experience of the Porvair Filtration Group and its operations

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

The Nominations Committee met once during the year It was fully attended

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

The Board has overall responsibility for ensuring that the Group maintains a system of internal control 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 Board has reviewed the effectiveness of the process regularly throughout the year The Group's key procedures are as follows

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

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

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

Monitoring system – the Board has established a framework of controls encompassing procedures applicable to all businesses that are subject to executive review The Group operates a self-assessment process so that the operating businesses can quantify the extent of their compliance with control objectives This process is monitored by the Group Finance Director and central finance department The Group has a formal whistle blowing procedure which gives employees the opportunity to escalate their concerns, ultimately to the Senior Non-Executive Director

The Audit Committee and the Board have reviewed the effectiveness of the Group's internal controls for the year 1 December 2006 to 30 November 2007

Christopher Tyler, Company Secretary
28 January 2008

Independent auditors' report to the members of Porvair plc

We have audited the Group financial statements of Porvair plc for the year ended 30 November 2007 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes These Group financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent company financial statements of Porvair plc for the year ended 30 November 2007 and on the information in the Report of the Remuneration Committee that is described as having been audited

Respective responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) 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 Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements The information given in the Directors' report includes that specific information presented in the Chairman and the Chief Executive's statement and the Finance Director's review that is cross referred from the Business review section of the Directors' report

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) 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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements The other information comprises About Porvair Key highlights in 2007, Porvair's strategy, the Chairman and the Chief Executive's statement, the Finance Director's review the Board of Directors, the Board committees Secretary and advisers, the Directors' report, the unaudited part of the Report of the Remuneration Committee and the Corporate governance statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements Our responsibilities do not extend to any other information

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group financial statements 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 Group financial statements

Opinion
In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 November 2007 and of its profit and cash flows for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' report is consistent with the Group financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cambridge
28 January 2008

Consolidated income statement

For the year ended 30 November	Note	2007 £'000	2006 £'000
Continuing operations			
Revenue	2	**45,517**	46,204
Cost of sales		**(31,320)**	(31,436)
Gross profit		**14,197**	14,768
Distribution costs		**(679)**	(619)
Administrative expenses		**(9,683)**	(10,476)
Operating profit	2	**3,835**	3,673
Interest payable and similar charges	5	**(722)**	(716)
Interest receivable	5	**258**	119
Profit before income tax	3	**3,371**	3,076
Income tax expense	6	**(930)**	(970)
Overseas tax	6	**(65)**	(15)
Profit for the year attributable to shareholders	22	**2,376**	2,091
Earnings per share (basic)	7	**5.8p**	5.2p
Earnings per share (diluted)	7	**5.8p**	5.1p

Consolidated statement of recognised income and expense

For the year ended 30 November	Note	2007 £'000	2006 £'000
Exchange differences on translation of foreign subsidiaries	22	**(528)**	(1,598)
Actuarial gains on defined benefit pension scheme	19	**2,400**	2,300
Taxation charge on items taken directly to equity	18	**(756)**	(729)
Net income/(expense) recognised directly in equity		**1,116**	(27)
Profit for the year		**2,376**	2,091
Total recognised income for the year		**3,492**	2,064
Attributable to shareholders of Porvair plc		**3,492**	2,064

Consolidated balance sheet

As at 30 November	Note	2007 £ 000	2006 £ 000
Non-current assets			
Property, plant and equipment	9	**6,722**	6 596
Goodwill and other intangible assets	10	**27,138**	26,718
Deferred tax asset	18	**753**	1 976
Other receivable	11	**1,056**	968
		35,669	36,258
Current assets			
Inventories	13	**6,888**	6,499
Trade and other receivables	14	**7,888**	8,195
Derivative financial instruments	12	**44**	97
Cash and cash equivalents	15	**2,893**	1 756
		17,713	16 547
Current liabilities			
Trade and other payables	16	**(6,937)**	(5 939)
Current tax liabilities		**(224)**	(355)
Bank overdrafts and loans	17	**(500)**	(500)
Provisions for other liabilities and charges	20	**(78)**	(150)
		(7,739)	(6 944)
Net current assets		**9,974**	9,603
Non-current liabilities			
Bank loans	17	**(9,364)**	(9 695)
Retirement benefit obligations	19	**(1,804)**	(4,275)
Provisions for other liabilities and charges	20	**(55)**	(367)
		(11,223)	(14 337)
Net assets		**34,420**	31,524
Capital and reserves			
Share capital	21	**814**	811
Share premium account	21	**32,765**	32 615
Cumulative translation reserve	22	**(3,824)**	(3,296)
Retained earnings	22	**4,665**	1,394
Total shareholders' equity		**34,420**	31,524

The financial statements on pages 25 to 50 were approved by the Board of Directors on 28 January 2008 and were signed on its behalf by

B D W Stocks

C P Tyler

C. P. Tyler

Consolidated cash flow statement

For the year ended 30 November	Note	2007 £ 000	2006 £ 000
Cash flows from operating activities			
Cash generated from operations	23	**5,711**	2,303
Interest received		**130**	60
Interest paid		**(780)**	(744)
Tax paid		**(608)**	(1 266)
Net cash generated from operating activities		**4,453**	353
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)	24	**(1,046)**	–
Purchase of property plant and equipment	9	**(1,688)**	(573)
Purchase of intangible assets	10	**(284)**	(390)
Proceeds from sale of property, plant and equipment		**295**	–
Available for sale investments	14	**200**	500
Net cash used in investing activities		**(2,523)**	(463)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	21	**153**	103
(Repayment)/increase of borrowings		**(68)**	1,669
Dividends paid to shareholders	8	**(853)**	(832)
Net cash (used in)/generated from financing activities		**(768)**	940
Net increase in cash and cash equivalents		**1,162**	830
Effects of exchange rate changes		**(25)**	(75)
		1,137	755
Cash and cash equivalents at 1 December		**1,756**	1 001
Cash and cash equivalents at 30 November	15	**2,893**	1 756

Reconciliation of net cash flow to movement in net debt

	2007 £ 000	2006 £ 000
Net increase in cash and cash equivalents	**1,162**	830
Effects of exchange rate changes	**238**	911
Repayment/(increase) of borrowings	**68**	(1,669)
Net debt at 1 December	**(8,439)**	(8,511)
Net debt at 30 November	**(6,971)**	(8,439)

1 Summary of significant accounting policies

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

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union International Financial Reporting Interpretations Committee (IFRIC) interpretations and those parts of the Companies Act 1985 applicable to companies reporting under IFRS The Company has elected to prepare its entity accounts in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP") and these are presented on pages 52 to 58

The financial statements have been prepared under the historical cost convention except for certain items that have been measured at fair value as detailed in the individual accounting policies

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

Basis of consolidation

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

On acquisition the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i e discount on acquisition) is credited to the income statement in the period of acquisition

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

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

Use of assumptions and estimates

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

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

Material estimates and assumptions are made in particular with regard to establishing uniform depreciation and amortisation periods for the Group, impairment testing, parameters for measuring pension and other provisions, determination of the fair value of long term receivables and the likelihood that tax assets can be realised

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

Goodwill

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

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

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

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

Revenue recognition

Revenue comprises the invoiced value of goods and services supplied net of value added tax and other sales taxes Revenue is recognised when goods are despatched to the customer

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

1 Summary of significant accounting policies (continued)

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

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

Foreign currencies
The consolidated financial statements are presented in Pounds Sterling, which is the Company's functional and presentational currency The Group determines the functional currency of each entity and items included in the financial statements of each entity are measured using that functional currency

Transactions in currencies other than Pounds Sterling are recorded at the rates of exchange prevailing on the dates of the transactions At each balance sheet date monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity

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

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

Borrowing costs
All borrowing costs are recognised in profit or loss in the period in which they are incurred

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

Retirement benefit costs
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due Payments made to state managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group s obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme

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

Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise is amortised on a straight line basis over the average period until the benefits become vested

The retirement benefit obligation in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax

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

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

1 Summary of significant accounting policies (continued)

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

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

Properties in the course of construction for production rental or administrative purposes, or for purposes not yet determined are carried at cost, less any recognised impairment loss Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy Depreciation for these assets on the same basis as other property assets, commences when the assets are ready for their intended use

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss

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

Buildings	2 5 – 3%
Fixtures and equipment	10 – 30%
Motor vehicles	25%

Freehold land is not depreciated

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

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

Internally generated intangible assets – research and development expenditure
Expenditure on research activities is recognised as an expense in the period in which it is incurred

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

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

Internally generated intangible assets are amortised on a straight line basis over their useful lives Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred

Patents and trademarks
Patents and trademarks are measured initially at purchase cost and are amortised on a straight line basis over their estimated useful lives

Impairment of tangible and intangible assets excluding goodwill
The Group reviews annually the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired

1 Summary of significant accounting policies (continued)

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

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

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

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

Trade receivables
Trade receivables are recognised initially at fair value A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate The amount of the provision is recognised in the income statement within administrative expenses

Cash and cash equivalents
'Cash and cash equivalents includes cash in hand and deposits held with banks

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

Trade payables
Trade payables are not interest bearing and are stated at their nominal value

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs

Derivative financial instruments and hedge accounting
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates The Group uses foreign exchange forward contracts to hedge these exposures The Group does not use derivative financial instruments for speculative purposes

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

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

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

Provisions
Provisions for warranty costs are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's liability

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties

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

1 Summary of significant accounting policies (continued)

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

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

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

The Group has adopted the requirements of IFRIC 11 Group and treasury share transactions" in these financial statements This has no impact on the consolidated financial statements

Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments

Future accounting standards – New IFRS standards and interpretations not applied
During 2007 the IASB and IFRIC issued additional standards and interpretations which are effective for periods starting after the date of these financial statements The following standards and interpretations have yet to be adopted by the Group

International Financial Reporting Standards (IFRS / IAS)		Effective Date
IFRS 7	– Financial Instruments Disclosures	1 January 2007
IAS 1	– Amendment to IAS 1 – Presentation of Financial Statements Capital Disclosures	1 January 2007
IFRS 8	– Operating Segments	1 January 2009
Revised IAS 1	– Presentation of Financial Statements	1 January 2009
Revised IAS 23	– Borrowing Costs	1 January 2009
IFRS 3 (Revised)	– Business Combinations	1 July 2009
IAS 27 (Revised)	– Consolidated and Separate Financial Statements	1 July 2009

International Financial Reporting Interpretations Committee (IFRIC)		Effective Date
IFRIC 12	– Service concession arrangements	1 January 2008
IFRIC 13	– Customer loyalty programmes relating to IAS 18, Revenue	1 July 2008
IFRIC 14 IAS 19	– The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The Group does not anticipate that the adoption of these standards and interpretations will have a material effect on its financial statements on initial adoption Upon adoption of IFRS 7, the Group will be required to disclose additional information about its financial instruments their significance and the nature and extent of the risks to which they give rise, together with greater detail as to the fair value of its financial instruments and its risk exposure There will be no effect on reported income or net assets

2 Segment information

Primary reporting format - business segments

At 30 November 2007 the Group is organised on a worldwide basis into two main business segments

(1) Metals Filtration

(2) Microfiltration

The Metals Filtration segment operating profit for the year includes a restructuring charge of £232,000 (2006 £nil)

The Microfiltration segment s operating profit includes the effects of the transactions in connection with the imminent move of the business to new premises, comprising a contribution towards remedial works received from the outgoing tenant of the Group's new premises a provision for future dilapidation costs on the property to be vacated and duplicate rent and other operating costs The net credit to the income statement from these transactions is £55,000

Other Group operations are included in Other unallocated' and mainly comprise Group Corporate costs not directly allocatable some unallocatable research and development new business development and general financial services The unallocated loss before income tax of £1,322 000 includes provisions written back of £439,000 (2006 £292 000) relating to reduced expenses in connection with businesses disposed of in 2003 and the elimination of an onerous lease cost on a building sublet in 2006 and disposed of in January 2008 (note 20)

In the previous year the Group reported three main segments The Advanced Materials segment is now reported within Metals Filtration as operations are controlled by the same management team Further details are set out in the Chairman and Chief Executive's statement Comparatives have been restated to reflect this change

The segment results for the year ended 30 November 2007 are as follows

30 November 2007	Note	Metals Filtration £ 000	Microfiltration £ 000	Other unallocated £ 000	Group £ 000
Revenue		19 330	26 187	–	**45,517**
Operating profit/(loss) before share based payments		308	4 414	(783)	**3,939**
Share based payments	4	2	(31)	(75)	**(104)**
Operating profit/(loss)		310	4 383	(858)	**3,835**
Finance costs	5	–	–	(464)	**(464)**
Profit/(loss) before income tax		310	4 383	(1,322)	**3,371**
Income tax expense		–	–	(995)	**(995)**
Profit/(loss) for the year		310	4,383	(2,317)	**2,376**

The segment results for the year ended 30 November 2006 are as follows

30 November 2006	Note	Metals Filtration £ 000	Microfiltration £ 000	Other unallocated £ 000	Group £ 000
Revenue		19 759	26 445	–	46,204
Operating (loss)/profit before share based payments		(908)	5 506	(833)	3 765
Share based payments	4	(20)	(4)	(68)	(92)
Operating (loss)/profit		(928)	5 502	(901)	3,673
Finance costs	5	–	–	(597)	(597)
(Loss)/profit before income tax		(928)	5,502	(1 498)	3 076
Income tax expense		–	–	(985)	(985)
(Loss)/profit for the year		(928)	5 502	(2,483)	2 091

2 Segment information (continued)

Other segment items included in the income statement are as follows

30 November 2007	Note	Metals Filtration £ 000	Microfiltration £ 000	Other unallocated £ 000	Group £ 000
Depreciation and amortisation (tangible and intangible assets)	9 10	685	649	11	**1,345**

30 November 2006	Note	Metals Filtration £ 000	Microfiltration £ 000	Other unallocated £ 000	Group £ 000
Depreciation and amortisation (tangible and intangible assets)	9 10	750	701	15	1 466

The segment assets and liabilities at 30 November 2007 and capital expenditure for the year then ended are as follows

30 November 2007	Note	Metals Filtration £ 000	Microfiltration £ 000	Other unallocated £ 000	Group £ 000
Segmental assets		20,859	28 151	423	**49,433**
Long term receivable	11	–	–	1 056	**1,056**
Cash and cash equivalents	15	–	–	2,893	**2,893**
Total assets		20,859	28,151	4,372	**53,382**
Segmental liabilities		(1 847)	(4,587)	(860)	**(7,294)**
Retirement obligations	19	–	–	(1,804)	**(1,804)**
Borrowings	17	–	–	(9,864)	**(9,864)**
Total liabilities		(1,847)	(4,587)	(12,528)	**(18,962)**
Capital expenditure (tangible and intangible assets)	9 10	782	1 175	15	**1,972**

The segment assets and liabilities at 30 November 2006 and capital expenditure for the year then ended are as follows

30 November 2006	Note	Metals Filtration £ 000	Microfiltration £ 000	Other unallocated £ 000	Group £ 000
Segmental assets		20 018	27,759	2,104	49,881
Long term receivable	11	–	–	968	968
Deferred payment on investment sale	14	–	–	200	200
Cash and cash equivalents	15	–	–	1,756	1 756
Total assets		20,018	27,759	5,028	52,805
Segmental liabilities		(1,554)	(3,698)	(1,559)	(6 811)
Retirement obligations	19	–	–	(4,275)	(4 275)
Borrowings	17	–	–	(10,195)	(10 195)
Total liabilities		(1,554)	(3 698)	(16,029)	(21,281)
Capital expenditure (tangible and intangible assets)	9 10	460	503	–	963

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

Segment liabilities comprise operating liabilities and include items such as taxation and corporate borrowings

Capital expenditure comprises additions to property, plant and equipment and intangible assets

2 Segment information (continued)

Secondary reporting format – geographical segments

Revenue	2007 By destination £'000	2007 By origin £'000	2006 By destination £'000	2006 By origin £'000
United Kingdom	**14,657**	**25,166**	13 581	26 445
Continental Europe	**6,208**	**–**	6,012	–
Americas	**21,074**	**20,351**	22 030	19,759
Asia	**2,659**	–	3,385	–
Australasia	**457**	–	506	–
Africa	**462**	–	690	–
	45,517	**45,517**	46,204	46 204

Total assets	2007 £ 000	2006 £ 000
United Kingdom	**31,513**	32 787
Americas	**21,869**	20 018
	53,382	52,805

Capital expenditure	2007 £'000	2006 £ 000
United Kingdom	**1,183**	503
Americas	**789**	460
	1,972	963

3 Profit before income tax

Revenue comprises income from the sale of goods and services during the year

The following items have been included in arriving at operating profit

	2007 £'000	2006 £ 000
Staff costs	**15,037**	15 345
Inventories – Cost of inventories recognised as an expense (included in cost of sales)	**16,505**	16 372
Net realised foreign exchange gains	**(165)**	(220)
Depreciation on tangible fixed assets	**1,229**	1,454
Amortisation of intangible fixed assets	**116**	12
(Profit)/loss on sale of tangible fixed assets	**(41)**	4
Other operating lease rentals payable		
- Plant and machinery	**181**	200
- Property	**867**	804
Repairs and maintenance on property plant and equipment	**832**	981
Trade receivables impairment	**52**	26
Government grants contribution to development expenditure	**–**	(40)
Research and development expenditure	**2,209**	2,703
Services provided by the Group's auditors and network firms		
During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below		
Fees payable to Company's auditors for audit of parent company and consolidated accounts	**49**	53
Fees payable to the Company's auditors and its associates for other services	**–**	25
The audit of Companys subsidiaries pursuant to legislation	**53**	50
Other services pursuant to legislation	**16**	16
Tax services	**75**	59
	193	203

In addition to the above services, the Group's auditors acted as auditors to the Porvair plc Pension and Death Benefit Plan The appointment of auditors to the Group's pension plan and the fees paid in respect of those audits are agreed by the trustees who act independently from the management of the Group The aggregate fees paid to the Group's auditors for the audit services to the pension plan during the year was £11 000 (2006 £11,000)

Group

4 Employee benefit expense

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

	2007 Average	2006 Average
Number		
Metals Filtration	**173**	182
Microfiltration	**290**	279
Head office	**7**	7
	470	468
North American employees included above	**185**	182

	2007 £ 000	2006 £ 000
Staff costs		
Wages and salaries	**12,193**	12,321
Social security costs	**1,856**	2,018
Other pension costs	**884**	914
Share based payments	**104**	92
	15,037	15,345

Detailed disclosures of Directors' emoluments and interests in share options are shown in the Report of the Remuneration Committee on pages 18 to 20 The Executive Directors comprise the key management and their remuneration is in the Report of the Remuneration Committee

5 Finance income and costs

	2007 £ 000	2006 £ 000
Interest payable on bank loans and overdrafts	**722**	716
Pension scheme finance income	**(100)**	-
Interest receivable – long term receivable	**(92)**	(81)
Interest receivable – other	**(66)**	(38)
	464	597

6 Income tax expense

	Note	2007 £'000	2006 £'000
Current tax			
UK Corporation tax		**894**	1 157
Adjustment in respect of prior periods		**(427)**	(250)
Overseas tax		**65**	15
Deferred tax			
Origination – reversal of timing differences	18	**152**	(10)
Adjustment in respect of prior periods	18	**301**	73
Effect of change in deferred tax rates		**10**	–
		995	985

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the UK tax rate applicable to profits of the consolidated companies as follows

	2007 £'000	2006 £'000
Profit before tax	**3,371**	3 076
Tax at the UK Corporation Tax rate of 30% (2006 30%)	**1,011**	923
Tax adjustments in respect of previous periods	**(427)**	(250)
Deferred tax adjustments in respect of previous periods	**301**	73
Deferrred tax on share based payments within equity	**(31)**	–
Tax effect of expenses not deductible in determining taxable profit	**110**	35
Effect of change in deferred tax rates	**10**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**21**	204
Tax charge	**995**	985

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

	2007 £'000	2006 £'000
Deferred tax on share based payments	**36**	39
Deferred tax on actuarial gains on the pension fund	**720**	690
	756	729

During the year as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2008, deferred tax balances have been remeasured Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2008 is measured at 30% and deferred tax relating to temporary differences expected to reverse after 1 April 2008 is measured at the tax rate of 28% as these are the tax rates that will apply on reversal

Group

7 Earnings per share

	2007 Earnings £'000	2007 Weighted average number of shares	2007 Per share amount (pence)	2006 Earnings £'000	2006 Weighted average number of shares	2006 Per share amount (pence)
Basic EPS						
Earnings attributable to ordinary shareholders	**2,376**	**40,615,967**	**5 8**	2 091	40,553,373	5 2
Effect of dilutive securities						
Share options		**125,036**	**–**		158,889	(0 1)
Diluted EPS – adjusted earnings	**2,376**	**40,741,003**	**5 8**	2,091	40,712,262	5 1

8 Dividends per share

	2007 Per share	2007 £'000	2006 Per share	2006 £'000
Final dividend paid	**1 10p**	**446**	1 05p	426
Interim dividend paid	**1 00p**	**407**	1 00p	406
	2 10p	**853**	2 05p	832

The Directors recommend a final dividend of 1 2p for the financial year ended 30 November 2007 to be paid on 8 May 2008

9 Property, plant and equipment

	Freehold land and buildings £'000	Assets in course of construction £'000	Plant machinery and equipment £'000	Total £'000
Cost				
At 1 December 2005	3 560	380	17 010	20 950
Reclassification	84	382	(466)	–
Additions	–	334	239	573
Disposals	–	(4)	(198)	(202)
Exchange differences	(282)	(23)	(1,024)	(1,329)
At 30 November 2006	3,362	1 069	15,561	19 992
Depreciation				
At 1 December 2005	(761)	–	(12 144)	(12,905)
Charge for year	(134)	–	(1,320)	(1 454)
Disposals	–	–	198	198
Exchange differences	82	–	683	765
At 30 November 2006	(813)	–	(12 583)	(13,396)
Net book value at 30 November 2006	2 549	1,069	2 978	6,596
Cost				
At 1 December 2006	3,362	1 069	15,561	19,992
Reclassification	6	(1,449)	1,443	–
Additions	121	1 086	481	1,688
Acquisitions	–	–	62	62
Disposals	(257)	–	(462)	(719)
Exchange differences	(84)	(7)	(345)	(436)
At 30 November 2007	**3,148**	**699**	**16,740**	**20,587**
Depreciation				
At 1 December 2006	(813)	–	(12,583)	(13,396)
Charge for year	(87)	–	(1,142)	(1,229)
Disposals	13	–	452	465
Exchange differences	50	–	245	295
At 30 November 2007	**(837)**	**–**	**(13,028)**	**(13,865)**
Net book value at 30 November 2007	**2,311**	**699**	**3,712**	**6,722**

10 Goodwill and other intangible assets

	Goodwill £ 000	Development expenditure capitalised £ 000	Software capitalised £ 000	Total £ 000
At 1 December 2005				
Cost	46,111	102	217	46 430
Accumulated amortisation and impairment	(18 421)	–	(205)	(18 626)
Net book amount	27,690	102	12	27 804
Year ended 30 November 2006				
Opening net book amount	27 690	102	12	27 804
Exchange differences	(1 447)	(17)	–	(1 464)
Additions	–	227	163	390
Amortisation charge	–	–	(12)	(12)
Closing net book amount	26,243	312	163	26,718
At 30 November 2006				
Cost	44,664	312	380	45 356
Accumulated amortisation and impairment	(18,421)	–	(217)	(18 638)
Net book amount	26,243	312	163	26,718
Year ended 30 November 2007				
Opening net book amount	26,243	312	163	26,718
Exchange differences	(480)	(17)	–	(497)
Additions	–	266	18	284
Acquisitions	749	–	–	749
Amortisation charges	–	(68)	(48)	(116)
Closing net book amount	**26,512**	**493**	**133**	**27,138**
At 30 November 2007				
Cost	44,933	561	398	45 892
Accumulated amortisation and impairment	(18 421)	(68)	(265)	(18 754)
Net book amount	**26,512**	**493**	**133**	**27,138**

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

Amortisation of £116,000 (2006 £12 000) is included in 'cost of sales' in the income statement

Impairment tests for goodwill

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

A segment level summary of the goodwill allocation is presented below

	2007			2006		
	Metals Filtration £'000	**Microfiltration £ 000**	**Total £ 000**	Metals Filtration £ 000	Microfiltration £ 000	Total £ 000
	11,734	**14,778**	**26,512**	11,490	14,753	26,243

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

Key assumptions used for value in-use calculations	Metals Filtration		Microfiltration	
	US	**UK**	**US**	**UK**
Budgeted gross margin	50%	50%	50%	50%
Weighted average growth rate used to extrapolate cash flows beyond the budget period	3%	3%	3%	3%
Cost of capital	9%	9%	9%	9%

10 Goodwill and other intangible assets (continued)

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

If the revised estimated profit before tax was 10% lower than management s estimates as at 30 November 2007 and the pre-tax discount rate applied to the cash flows was 10% higher than management s estimate the Group would still not require any impairment against goodwill

11 Other receivable

	2007 £ 000	2006 £ 000
Long term receivable	**1,056**	968

	2007 £ 000	2006 £ 000
At 1 December	**968**	1,159
Reallocated to short term receivables	–	(200)
Exchange difference	**64**	(12)
Fair value restatement	**24**	21
At 30 November	**1,056**	968

The fair value of this long term receivable is based on cash flows discounted using a rate based on an unsecured borrowing rate of 9% (2006 9%)

The earliest contracted settlement date for the long term receivable is 31 December 2010

12 Derivative financial instruments

	2007 Assets £'000	2006 Assets £ 000
Forward foreign exchange contracts – cash flow hedges – current	**44**	97

Under IFRS the fair value of all forward foreign exchange contracts and currency options is recognised on the balance sheet IAS 39 places significant restrictions on the use of hedge accounting and changes the hedge accounting methodology As a result from 1 December 2005, the Group recognises all forward foreign exchange contracts and currency options on the balance sheet at fair value

Trading derivatives are classified as a current asset or liability The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability, if the maturity of the hedged item is less than 12 months

The notional principal amount of the outstanding forward foreign exchange contracts at 30 November 2007 is £0 7 million (2006 £1 4 million) and these relate to US dollar forward exchange contracts which mature in December 2007 January 2008 and February 2008

13 Inventories

	2007 £ 000	2006 £ 000
Raw materials	**1,739**	1,759
Work in progress	**2,582**	2,315
Finished goods	**2,567**	2,425
	6,888	6,499

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £16,505,000 (2006 £16,372,000)

14 Trade and other receivables

	2007 £ 000	2006 £ 000
Trade receivables	**7,293**	7 471
Less provision for impairment	**(59)**	(45)
Trade receivables – net	**7,234**	7,426
Deferred consideration	**–**	200
Other debtors	**154**	169
Prepayments	**500**	400
	7,888	8,195

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

The Group has recognised a provision of £52 000 (2006 £26 000) for the impairment of its trade receivables during the year ended 30 November 2007 The Group has used provisions for impaired receivables of £38 000 during the year ended 30 November 2007 (2006 £28 000) The creation and usage of provisions for impairment of receivables has been included in 'administrative costs' in the income statement

15 Cash and cash equivalents

	2007 £'000	2006 £ 000
Cash at bank and in hand	**1,193**	956
Short term bank deposits	**1,700**	800
	2,893	1,756

The effective interest rate on short term bank deposits was 5 44% (2006 4 65%), these deposits have an average maturity of one day (2006 one day)

16 Trade and other payables

	2007 £'000	2006 £ 000
Amounts falling due within one year		
Trade payables	**4,453**	4 170
Taxation and social security	**277**	391
Accruals and deferred income	**2,207**	1 378
	6,937	5,939

17 Borrowings

	2007 £ 000	2006 £ 000
Secured multi-currency revolving credit facility of US$20 million (2006 US$20 million) maturing in September 2009 with interest at 1 655% (2006 1 85%) above US dollar LIBOR	**8,364**	8,195
Secured five year amortising debt facility of £1 5 million (2006 £2 0 million) expiring in October 2010 with interest at 1 655% (2006 1 85%) above LIBOR	**1,500**	2,000
	9,864	10,195

Bank and other loans of the Group are repayable as follows	2007 £'000	2006 £ 000
Within one year	**500**	500
One to two years	**8,864**	500
Two to five years	**500**	9,195
	9,864	10 195

17 Borrowings (continued)

The maturity date of the secured multi-currency revolving credit facility of US$20 million was extended in the year from October 2008 to September 2009

At 30 November 2007 the Group had £1,363,000 (2006 £1 972 000) of unutilised borrowing facilities under the existing bank facility and an unutilised £3 000 000 (2006 £3 000 000) overdraft facility

The carrying values of bank borrowings approximate their fair value

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

18 Deferred tax asset

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

	Note	2007 £ 000	2006 £ 000
At 1 December		**1,976**	2,819
Exchange differences		**(14)**	(51)
Income statement (charge)	6	**(453)**	(63)
Tax charged to equity		**(756)**	(729)
At 30 November		**753**	1 976

The movement of deferred tax assets and (liabilities) during the year is as follows

	Accelerated capital allowances £ 000	Other short term timing differences £ 000	Fair value gains £ 000	R & D capitalised £ 000	Share based payments £ 000	Retirement obligations £ 000	Total £ 000
At 1 December 2005	(546)	1,465	39	(31)	26	1 866	2 819
Credited/(charged) to income statement	6	(75)	(6)	(65)	43	34	(63)
(Charged) to equity	–	–	–	–	(39)	(690)	(729)
Exchange differences	86	(137)	–	–	–	–	(51)
At 30 November 2006	(454)	1,253	33	(96)	30	1 210	1 976
(Charged)/credited to income statement	(137)	(270)	(7)	(70)	31	–	(453)
(Charged) to equity	–	–	–	–	(36)	(720)	(756)
Exchange differences	27	(41)	–	–	–	–	(14)
At 30 November 2007	**(564)**	**942**	**26**	**(166)**	**25**	**490**	**753**

There were £536,000 (2006 £1 114 000) of unrecognised deferred tax assets at 30 November 2007 relating to unutilised tax losses primarily in the US The 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 2007 (2006 £Nil)

19 Retirement benefit obligations

	2007 £ 000	2006 £ 000
Defined benefit scheme deficit	**1,632**	4 032
Additional pension commitments	**172**	243
	1,804	4 275

The additonal pension commitments arise out of contractual commitments to certain employees which have fallen outside the scope of the defined benefit plan deficit These liabilities will crystalise between two and fourteen years The reduction in the commitment is included in the past service cost within the defined benefit plan

a) Defined contribution schemes

For its USA employees, the Group operates a defined contribution pension plan (the "Pension Plan") covering all eligible full time employees The Group contributes 3% of each participant's base salary each year to the Pension Plan In 2007 this amounted to £146 000 (2006 £148 000) In 2007 the Group also made payments of £140,000 (2006 £143,000) to designated US 401k schemes on behalf of its employees

In the UK after the closure of the defined benefit plan to new members, the Group introduced a stakeholder plan to be offered to all new employees Total employer contributions in the UK to defined contribution schemes was £211,000 (2006 £196 000)

19 Retirement benefit obligations (continued)

b) Defined benefit plan
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 2006

The principal actuarial assumptions adopted in the 2006 valuation were	2006 valuation assumptions %	2003 valuation assumptions %
Past service investment return		
Pre-retirement	6 75	8 00
Post-retirement	4 75	8 00
Future service investment return		
Pre-retirement	7 00	8 00
Post-retirement	5 00	8 00
Salary increases	4 00	5 00

The actuarial value of the assets on the funding basis was sufficient to cover 92% (previous valuation in 2003 83%) of the benefits that had accrued to members after allowing for expected increases in pensionable remuneration and the current funding deficiency amounted to £1 8 million

The UK pension charge for the year was £381 000 (2006 £400,000), the funding via employer contributions was £281 000 (2006 £837 000)

The valuation used 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 2007

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

Valuation method	**2007 Projected unit**	2006 Projected unit	2005 Projected unit
Discount rate	**5 9%**	5 0%	4 9%
Inflation rate	**3 2%**	2 9%	2 6%
General salary increases	**4 2%**	3 9%	4 1%
Rate of increase of pensions in payment	**3 2%**	2 9%	2 6%
Rate of increase for deferred pensioners	**3 2%**	2 9%	2 6%

Pre and post retirement mortality
The PMA92 and PFA92 Calendar Year tables for pre and post retirement mortality have been used, rated up one year for both males and females with reduction of 0 25%pa on discount rate to allow for future improvements, as published by the Continuous Mortality Investigation Bureau (CMIB) The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is 18 2 for men and 21 3 for women

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

	Long term expected rate of return at 30 November 2007	**Value at 30 November 2007 £ 000**	Long term expected rate of return at 30 November 2006	Value at 30 November 2006 £ 000	Long term expected rate of return at 30 November 2005	Value at 30 November 2005 £ 000	Long term expected rate of return at 30 November 2004	Value at 30 November 2004 £ 000
Equities	**8 0%**	**12,200**	7 8%	12,100	8 0%	11 300	8 3%	9,900
Bonds	**4 6%**	**6,800**	4 4%	6 600	4 2%	6,200	4 6%	5,200
Other	**4 6%**	**68**	4 3%	268	4 1%	131	4 1%	-
Fair value of plan assets		**19,068**		18,968		17 631		15,100
Present value of funded obligations		**(20,700)**		(23,000)		(24,400)		(22 400)
Deficit in the Plan (excluding deferred tax)		**(1,632)**		(4,032)		(6,769)		(7 300)

19 Retirement benefit obligations (continued)

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

	2007 £'000	2006 £'000	2005 £'000
Deficit at 1 December	**(4,032)**	(6 769)	(7 300)
Contributions paid	**281**	837	831
Current service cost	**(300)**	(400)	(400)
Past service cost	**(81)**	–	–
Other finance income/(charge)	**100**	–	(200)
Actuarial gains	**2,400**	2,300	300
Deficit at 30 November	**(1,632)**	(4,032)	(6 769)

Income statement	2007 £'000	2006 £'000
Analysis of amounts chargeable to operating profit		
Current service cost	**(300)**	(400)
Past service cost	**(81)**	–
Amount chargeable to operating profit	**(381)**	(400)
Analysis of amounts chargeable to other finance income		
Interest on Plan liabilities	**(1,100)**	(1,200)
Expected return on assets in the Plan	**1,200**	1,200
Net amount credited to other finance income	**100**	–
Total chargeable within the income statement before deduction of tax	**(281)**	(400)
Other items		
Analysis of amounts recognised in the statement of recognised income and expense		
(Losses)/gains on assets	**(300)**	100
Experience gains on liabilities	**-**	3,500
Gains/(losses) on change in financial and demographic assumptions	**2,700**	(1 300)
Total actuarial gain recognised in the statement of recognised income and expenditure	**2,400**	2 300

20 Provisions for other liabilities and charges

	2007 £'000	2006 £'000
At 1 December	**517**	809
Charged to consolidated income statement		
- Additional provisions	**55**	–
- Unused amounts reversed	**(439)**	(292)
At 30 November	**133**	517

The provisions arise from an onerous lease provision discounted at 6 75% relocations legal and other expenses relating to the sale of companies on 30 November 2003 Further details are shown in note 2 The additional provision in 2007 relates to a discounted dilapidations provision for leased property which is expected to reverse in 2027

Analysis of total provisions	2007 £'000	2006 £'000
Current	**78**	150
Non-current	**55**	367
	133	517

21 Share capital and premium

	Number of shares	Ordinary shares £'000	Share premium account £'000	Total £'000
At 1 December 2005	40,483,011	810	32 513	33 323
Employee share option scheme				
- Proceeds from exercised shares under share option schemes	91,575	1	102	103
At 30 November 2006	40 574 586	811	32 615	33,426
Employee share option scheme				
- Proceeds from exercised shares under share option schemes	123,920	3	150	153
At 30 November 2007	**40,698,506**	**814**	**32,765**	**33,579**

The authorised number of ordinary shares is 75 million shares (2006 75 million shares) with a par value of 2p per share (2006 2p per share) All issued shares are fully paid

Share options

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

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

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

Group

21 Share capital and premium (continued)

Details of the share options are

	Year of grant	Exercise period	Subscription price pence	2007 Number of shares	2006 Number of shares
1997 (Revenue unapproved)	2000	2003 – 2007	214 49	–	31,887
1997 (Revenue unapproved)	2001	2004 – 2008	259 00	**130,000**	130,000
1997 (Revenue approved)	2002	2005 – 2012	231 00	–	3,000
1997 (Revenue approved)	2002	2005 – 2012	126 50	–	5,000
1997 (Revenue unapproved)	2002	2005 – 2009	126 50	**85,000**	85,000
1997 (Revenue approved)	2003	2006 – 2013	111 00	**5,000**	13,000
1997 (Revenue unapproved)	2003	2006 – 2010	111 00	**85,000**	85 000
1997 (Revenue unapproved)	2003	2006 – 2010	160 00	**10,000**	50 000
2003 Save As You Earn Scheme	2003	2006 – 2007	123 75	–	214 288
1997 (Revenue approved)	2004	2007 – 2014	114 00	**30,000**	30,000
1997 (Revenue unapproved)	2004	2007 – 2011	114 00	**20,000**	25,000
1997 (Revenue unapproved)	2004	2007 – 2011	101 50	**60,000**	60,000
1997 (Revenue unapproved)	2004	2007 – 2011	103 50	**30,000**	30 000
1997 (Revenue unapproved)	2005	2008 – 2012	98 00	**274,000**	274 000
2005 EMI (Revenue approved)	2006	2009 – 2013	151 00	**40,000**	40,000
2005 EMI (Revenue approved)	2006	2009 – 2013	131 00	**182,660**	182,660
2005 (Revenue unapproved)	2006	2009 – 2013	131 00	**147,340**	147,340
2005 EMI (Revenue approved)	2007	2010 – 2014	138 00	**132,463**	–
2005 (Revenue unapproved)	2007	2010 – 2014	138 00	**177,537**	–
2007 Save As You Earn Scheme	2007	2010 – 2011	108 00	**415,975**	–
At 30 November				**1,824,975**	1 406,175

Movements in share options during the year were

	2007 Weighted average exercise price (pence)	2006 Weighted average exercise price (pence)	2007 Number of shares	2006 Number of shares
At 1 December	**134 81**	158 52	**1,406,175**	1,641 860
Options granted	**120 81**	133 16	**725,975**	370 000
Options expired	**214 49**	388 53	**(122,255)**	(108,409)
Options forfeited	**150 55**	166 42	**(61,000)**	(405 701)
Options exercised	**123 75**	112 50	**(123,920)**	(91,575)
At 30 November	**128 62**	134 81	**1,824,975**	1,406,175
Options exercisable at 30 November	**155 84**	158 76	**455,000**	617,175
Options not exercisable at 30 November	**119 58**	116 08	**1,369,975**	789 000
Total	**128 62**	134 81	**1,824,975**	1,406,175

21 Share capital and premium (continued)

Options expired during the year were	Scheme	Subscription price pence	2007 Number of shares	2006 Number of shares
	1986	388 53	-	108,409
	1997	214 49	**31,887**	-
	SAYE	123 75	**90,368**	-
At 30 November			**122,255**	108 409

Options forfeited during the year were

	1997	126 50	**5,000**	-
	SAYE	123 75	-	76,776
	1997	231 00	**3,000**	17 000
	1997	126 00	-	50 000
	1997	160 00	**40,000**	50,000
	1997	148 17	-	37,203
	1997	116 18	-	53 149
	1997	259 00	-	80 000
	1997	214 49	-	26 573
	1997	111 00	**8,000**	10,000
	1997	114 00	**5,000**	5 000
At 30 November			**61,000**	405 701

Options exercised during the year were

	1997	111 00	-	65,000
	1997	116 18	-	26,575
	SAYE	123 75	**123,920**	-
At 30 November			**123,920**	91 575

Share based payment

30 November 2007

Grant date Scheme	28/1/03 Porvair 1997 share option	01/5/03 Share save 2003	25/6/03 Porvair 1997 share option	29/6/04 Porvair 1997 share option	16/9/04 Porvair 1997 share option	25/11/04 Porvair 1997 share option	25/1/05 Porvair 1997 share option	25/1/06 Porvair 2005 share option	07/3/06 Porvair 2005 share option	28/2/07 Porvair 2005 share option	17/8/07 Share save 2007
Share price at grant date	111 00p	137 50p	160 00p	114 00p	101 00p	103 50p	98 00p	131 00p	151 00p	138 00p	135 00p
Exercise price	111 00p	123 75p	160 00p	114 00p	101 00p	103 50p	98 00p	131 00p	151 00p	138 00p	108 00p
Shares under option	116 000	215 201	90 000	65 000	60 000	30 000	274 000	330 000	40 000	310 000	415 975
Vesting period (years)	3	3	3	3	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Expected life (years)	3	3	3	3	3	3	3	3	3	3	3
Risk free rate	4 00%	3 75%	3 75%	4 50%	4 75%	4 75%	4 75%	4 50%	4 50%	5 25%	5 75%
Dividend yield	3 06%	2 47%	2 13%	1 75%	1 97%	1 93%	2 09%	1 60%	1 39%	1 56%	1 59%
Fair value per option (£)	0 21907	0 33875	0 33726	0 25840	0 22892	0 23421	0 21883	0 30066	0 35263	0 33045	0 46118

	2007 £ 000	2006 £ 000
Share based payments	**104**	92

The expected volatility is based on historic share price movements The Directors anticipate the performance criteria in relation to the share options will be met

22 Other reserves

	2007 Cumulative translation reserve £'000	2007 Retained earnings £'000	2006 Cumulative translation reserve £'000	2006 Retained (deficit)/earnings £'000
At 1 December	**(3,296)**	**1,394**	(1,698)	(1,528)
Profit for the year attributable to shareholders	**–**	**2,376**	–	2,091
Direct to equity				
Dividends paid	**–**	**(853)**	–	(832)
Actuarial gains net of tax	**–**	**1,680**	–	1,610
Share based payments net of tax	**–**	**68**	–	53
Exchange differences	**(528)**	**–**	(1,598)	–
At 30 November	**(3,824)**	**4,665**	(3,296)	1,394

23 Cash generated from operations

	2007 £'000	2006 £'000
Operating profit	**3,835**	3,673
Adjustments for		
– Non cash pension charge	**100**	113
– Share based payments	**104**	92
– Depreciation and amortisation	**1,345**	1,466
– (Profit)/loss on disposal of property plant and equipment	**(41)**	4
Operating cash flows before movement in working capital	**5,343**	5,348
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)		
– (Increase) in inventories	**(322)**	(634)
– Decrease/(increase) in trade and other receivables	**102**	(1,017)
– Increase/(decrease) in payables	**972**	(1,102)
– (Decrease) in provisions	**(384)**	(292)
Decrease/(increase) in working capital	**368**	(3,045)
Cash generated from operations	**5,711**	2,303

24 Acquisition of Omnifilter

On 18 January 2007 the Group purchased the trade and assets of Omnifilter & Manufacturing Inc for a total consideration of US$2 060,000 (£1,059,000)

The acquired business contributed revenues of £1,021,000 and net profit of £120 000 to the Group for the period from 18 January 2007 to 30 November 2007

	Note	£'000
Purchase consideration		
Cash paid		**1,049**
Direct costs relating to the acquisition		**10**
Total purchase consideration		**1,059**
Fair value of net assets acquired		**(310)**
Goodwill	10	**749**

The Goodwill is attributable to the workforce of the acquired business and synergies expected to arise after acquisition within the Microfiltration segment

The total adjustments required to the book values of the assets and liabilities acquired in order to present the net assets at fair value in accordance with Group accounting principles were £16 000 The purchase has been accounted for as an acquisition

The assets and liabilities as of 18 January 2007 arising from the acquisition are as follows

	Note	Fair value £ 000	Acquiree's carrying amount £'000
Property plant and equipment	9	**62**	**78**
Inventories		**158**	**158**
Trade and other receivables		**103**	**103**
Cash and cash equivalents		**13**	**13**
Trade and other payables		**(26)**	**(26)**
Net assets acquired		**310**	**326**
Purchase consideration settled in cash		**1,059**	
Cash and cash equivalents in assets acquired		**(13)**	
Cash outflow on acquisition		**1,046**	

There were no acquisitions in the year ended 30 November 2006

25 Commitments

Capital and other financial commitments
Contracts placed for future capital expenditure not provided in the financial statements at 30 November 2007 were £637,000 (2006 £136,000)

Operating lease commitments – minimum lease payments

	2007		2006	
	Land and buildings £'000	Other £ 000	Land and buildings £ 000	Other £ 000
Commitments under non-cancellable operating leases expiring				
Within one year	**92**	**56**	45	41
Later than one year and less than five years	**584**	**201**	331	88
After five years	**7,242**	**-**	3,400	–
	7,918	**257**	3 776	129

Operating rent receivable from a sublet property agreement amounts to £875 000 (2006 £1 183,000)

Group

26 Key management compensation

Only the Executive Directors are classified as key management Their remuneration is shown in the Report of the Remuneration Committee Dr John Sexton was an Executive Director for part of the year but was employed by the Group throughout the year His remuneration for the full year is included here

	2007 £'000	2006 £'000
Salaries and other short term employee benefits	**718**	545
Other long term benefits	**70**	56
Share based payments	**74**	50
	862	651

27 Principal subsidiaries

The principal operating companies at 30 November 2007 are as follows

Name	Country of incorporation and operation	% holding
Selee Corporation	USA	100%
Porvair Advanced Materials	USA	100%
Omnifilter	USA	100%
Porvair Filtration Group Limited	England	100%
Porvair Sciences Limited	England	100%

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

We have audited the parent company financial statements of Porvair plc for the year ended 30 November 2007 which comprise the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes These parent company financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Report of the Remuneration Committee that is described as having been audited

We have reported separately on the Group financial statements of Porvair plc for the year ended 30 November 2007

Respective responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the Annual Report, the Report of the Remuneration Committee and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the parent company financial statements and the part of the Report of the Remuneration Committee to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) 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 parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Report of the Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements The information given in the Directors' report includes that specific information presented in the Chairman and the Chief Executive's statement and the Finance Director's review that is cross referred from the Business review section of the Directors' report

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements The other information comprises About Porvair, the Chairman and the Chief Executive s statement, Key highlights in 2007, Porvair's strategy, the Finance Director's review the Board of Directors, the Board committees, Secretary and advisers, the Directors report, the unaudited part of the Report of the Remuneration Committee and the Corporate governance statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements Our responsibilities do not extend to any other information

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Report of the Remuneration Committee to be audited It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company 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 parent company financial statements and the part of the Report of the Remuneration Committee to be audited 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 parent company financial statements and the part of the Report of the Remuneration Committee to be audited

Opinion
In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 November 2007,
- the parent company financial statements and the part of the Report of the Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the parent company financial statements

PricewaterhouseCoopers LLP
PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cambridge
28 January 2008

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

As at 30 November	Note	2007 £'000	2006 Restated £ 000
Fixed assets			
Tangible assets	4	**15**	11
Investments	5	**53,811**	55 365
		53,826	55 376
Current assets			
Debtors amounts falling due after more than one year	6	**73**	53
Debtors amounts falling due within one year	6	**137**	600
		210	653
Creditors amounts falling due within one year	7	**(5,205)**	(7,140)
Net current liabilities		**(4,995)**	(6 487)
Total assets less current liabilities		**48,831**	48 889
Creditors amounts falling due after more than one year	7	**(9,536)**	(9,695)
Net assets		**39,295**	39,194
Capital and reserves			
Called up share capital	10	**814**	811
Share premium account	11	**32,765**	32,615
Exchange reserves	11	**(1,623)**	(1 486)
Profit and loss account	11	**7,339**	7 254
Total shareholders' funds		**39,295**	39 194

The financial statements on pages 52 to 58 were approved by the Board of Directors on 28 January 2008 and were signed on its behalf by

B D W Stocks
C P Tyler

Statement of total recognised gains and losses

For the year ended 30 November	2007 £ 000	2006 Restated £ 000
Profit/(loss) for the financial year	**834**	(2,217)
Total recognised gains/(losses) for the year	**834**	(2,217)
Prior year adjustment – UITF 44	**88**	
Total recognised gains since last annual report	**922**	

Company profit 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 profit after tax attributable to the Company which has been dealt with in the accounts is £834 000 (2006 restated loss of £2,217,000)

Reconciliation of movements in shareholders' funds

For the year ended 30 November	Note	2007 £ 000	2006 Restated £ 000
Profit/(loss) for the financial year		**834**	(2 217)
Dividends		**(853)**	(832)
		(19)	(3,049)
Exchange differences	11	**(137)**	(277)
Net proceeds from issue of ordinary share capital	10 11	**153**	103
Share based payments	11	**104**	92
Net increase/(reduction) in shareholders' funds		**101**	(3,131)
Opening shareholders' funds as previously reported		**39,106**	42 281
Prior year adjustment – UITF 44	1 11	**88**	44
Opening shareholders funds as restated		**39,194**	42,325
Closing shareholders' funds		**39,295**	39 194

1 Summary of significant accounting policies
These financial statements have been prepared under the historical cost convention in accordance with the Companies Act 1985 and applicable UK accounting standards A summary of the more important accounting policies is set out below, which have been applied on a consistent basis with the previous year, except where noted

Changes in Accounting Standards
The Company has adopted Urgent Issues Task Force (UITF) Abstract 44, "Financial Reporting Standard 20 – Group and Treasury Share Transactions" The parent company has granted rights over its equity instruments to the employees of subsidiary companies in the years ended 30 November 2006 and 30 November 2007 and there is a corresponding increase recognised in the investment in subsidiary undertakings in those years (note 5) The effect of the change in accounting policy was to reduce the profit after tax for the year ended 30 November 2007 by £52,000, recognise a deferred tax asset of £23 000 and increase investments in subsidiary undertakings by £29 000 An increase in the loss after tax of £48 000 an increase in the deferred tax asset of £20,000 and an increase in investments in subsidiary undertakings of £24,000 has been reflected in the year ended 30 November 2006 As at 1 December 2005 the investments in subsidiary undertakings and deferred tax asset were increased by £28,000 and £16,000 respectively

Tangible fixed assets
Tangible fixed assets are capitalised at cost and are depreciated by equal annual amounts over their estimated useful lives Annual depreciation rates are 10% to 30% for plant machinery and equipment

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

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

Turnover
Turnover comprises the invoiced value of goods and services supplied net of value added tax and other sales taxes Turnover is recognised when goods are despatched to the customer

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

Foreign exchange
Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year

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

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

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

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

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

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

2 Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging	2007 £'000	2006 Restated £'000
Staff costs		
Wages and salaries	**823**	818
Social security costs	**83**	77
Other pension costs	**98**	118
Share based payments	**75**	68
	1,079	1,081
Average number of employees	**7**	7

Directors' share based payments are shown in note 26 of the Group's accounts

Services provided by the Company's auditors and network firms
During the year the Company obtained the following services from the Company's auditors at costs as detailed below

Fees payable to Company auditors for audit of parent company	**13**	14
Tax services	**41**	33
	54	47

In addition to the above services the Company's auditors acted as auditors to the Porvair plc Pension and Death Benefit Plan The appointment of auditors to the Group's pension plan and the fees paid in respect of those audits are agreed by the trustees who act independently from the management of the Company The aggregate fees paid to the Company's auditors for the audit services to the pension plan during the year was £11 000 (2006 £11,000)

3 Directors' emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the Report of the Remuneration Committee on pages 18 to 20

4 Tangible fixed assets

	Plant machinery and equipment £'000
Cost	
At 1 December 2006	98
Additions	15
Disposals	(2)
At 30 November 2007	**111**
Depreciation	
At 1 December 2006	(87)
Charge for the year	(11)
Disposals	2
At 30 November 2007	**(96)**
Net book value	
At 30 November 2007	**15**
At 30 November 2006	11

There were no capital commitments, authorised and contracted for in the Company at 30 November 2007 (2006 £Nil)

5 Fixed asset investments

	2007			2006		
	Investment in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000	Restated investment in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Restated total £'000
Cost						
At 1 December	**42,295**	**29,144**	**71,439**	42 271	30 104	72 375
(Repayments)/advances	**–**	**(1,183)**	**(1,183)**	–	308	308
Capital contributions arising from FRS 20 share based payments charge	**29**	**–**	**29**	24	–	24
Exchange differences	**–**	**(400)**	**(400)**	–	(1 268)	(1,268)
At 30 November	**42,324**	**27,561**	**69,885**	42,295	29,144	71 439
Provisions						
At 1 December	**(2,598)**	**(13,476)**	**(16,074)**	(2 598)	(13 476)	(16,074)
At 30 November	**(2,598)**	**(13,476)**	**(16,074)**	(2,598)	(13 476)	(16 074)
Net book value						
At 30 November	**39,726**	**14,085**	**53,811**	39 697	15 668	55,365
At 1 December	**39,697**	**15,668**	**55,365**	39,673	16,628	56,301

The capital contributions arising from FRS 20 charges represent the Company granting rights over its equity instruments to the employees of subsidiary undertakings Application of UITF 44 results in a corresponding increase in investments in subsidiary undertakings The brought forward balance at 1 December 2005 includes a share based payment investment of £28,000

Details of the subsidiary undertakings are given in Note 27 of the Group accounts

6 Debtors

	Note	2007 £'000	2006 Restated £'000
Amounts falling due within one year			
Corporation tax recoverable		**108**	577
Prepayments		**29**	23
		137	600
Amounts falling due after more than one year			
Deferred taxation	9	**73**	53
		73	53

7 Creditors

	Note	2007 £'000	2006 £'000
Amounts falling due within one year			
Bank overdraft and other loans	8	**4,638**	6,047
Trade creditors		**83**	99
Taxation and social security		**59**	49
Accruals and deferred income		**425**	945
		5,205	7,140
Amounts falling due after more than one year			
Bank loans	8	**9,364**	9 695
Retirement obligations		**172**	–
		9,536	9,695

8 Bank and other loans

	2007 £'000	2006 £ 000
Secured multi-currency revolving credit facility of US$20 million (2006 US$20 million) maturing in September 2009 with interest at 1 655% (2006 1 85%) above US LIBOR	**8,364**	8,195
Secured five year amortising debt facility of £1 5 million (2006 £2 million) expiring in October 2010 with interest at 1 655% (2006 1 85%) above LIBOR	**1,500**	2 000
Bank loans offset against cash balances in other Group companies under a Group banking offset arrangement	**4,138**	5 547
	14,002	15,742

	2007 £ 000	2006 £ 000
Bank and other loans of the Company are repayable as follows		
Within one year	**4,638**	6 047
One to two years	**8,864**	500
Two to five years	**500**	9,195
	14,002	15 742

The maturity date of the secured mult-currency revolving credit facility of US$20 million was extended in the year from October 2008 to September 2009

At 30 November 2007, the Company had £1,363,000 (2006 £1,972,000) of unutilised borrowing facilities under the existing bank facility and an unutilised £3,000,000 (2006 £3 000 000) overdraft facility

The carrying values of bank borrowings approximate to their fair value

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

9 Provisions for liabilities and charges

Under FRS 19 the Company provides for deferred tax on a full provision basis Deferred tax assets in the accounts have been provided for as follows

	2007 £'000	2006 Restated £ 000
Assets		
Accelerated capital allowances	**14**	17
Short term timing differences	**59**	36
	73	53

There were no other unprovided deferred tax amounts at 30 November 2007 (2006 £Nil)

The deferred tax assets in the table above have been included in debtors amounts falling due after more than one year (note 6)

10 Called up share capital

	2007 £ 000	2006 £ 000
Authorised		
75 000 000 ordinary shares of 2 pence each (2006 75,000,000)	**1,500**	1 500
Allotted, called up and fully paid		
40,698,506 ordinary shares of 2 pence each (2006 40,574 586)	**814**	811
Shares issued as fully paid		
At 1 December	**40,574,586**	40 483 011
Issued during the year	**123,920**	91 575
At 30 November	**40,698,506**	40,574,586

Details of shares issued during the year and share options are disclosed in note 21 of the Group accounts

11 Reserves

	Share premium account £ 000	Exchange reserve £ 000	Restated profit and loss account £ 000	Restated total £ 000
At 1 December 2006 as previously reported	32,615	(1,486)	7,166	38,295
Prior year adjustment – UITF 44	–	–	88	88
At 1 December 2006 as restated	32 615	(1,486)	7,254	38,383
Premium on shares issued	150	–	–	150
Deficit for the year	–	–	(19)	(19)
Exchange differences	–	(137)	–	(137)
Share based payments	–	–	104	104
At 30 November 2007	**32,765**	**(1,623)**	**7,339**	**38,481**

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

NOTICE is hereby given that the Annual General Meeting of Porvair plc (the "Company") will be held at Brampton House 50 Bergen Way Kings Lynn PE30 2JG on 9 April 2008 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 7 will be proposed as ordinary resolutions and number 8 will be proposed as a special resolution

1 To receive the Company's annual accounts for the year ended 30 November 2007 together with the Directors' report and the auditors report on those accounts and on the auditable part of the Report of the Remuneration Committee

2 To approve the Report of the Remuneration Committee for the year ended 30 November 2007 which is set out in the Annual Report of the Company for the year ended 30 November 2007

3 To declare and approve the payment of a final dividend of 1 2 pence per ordinary share

4 To re-elect Michael Gatenby as a Director

5 To re-elect Ben Stocks as a Director

6 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

7 THAT for the purposes of section 80 Companies Act 1985 (the Act") (and so that expressions used in this resolution shall bear the same meanings as in the said section 80)

7 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 £307,823 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

7 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

8 THAT the Directors be and are empowered in accordance with section 95 Companies Act 1985 to sell treasury shares (as defined in section 162 of the Act) and subject to the passing of resolution 7 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

8 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

8 2 the allotment (otherwise than pursuant to paragraph 8 1 above) of equity securities up to an aggregate nominal value not exceeding £40,698 50

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 9 and 10 will be proposed as special resolutions and number 11 will be proposed as an ordinary resolution

9 THAT the Company be and is hereby generally and unconditionally authorised for the purpose of section 166 of the Act 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

9 1 the maximum number of ordinary shares hereby authorised to be purchased is 4,069,850

9 2 the minimum price (exclusive of expenses) which may be paid for such ordinary shares is 2p per share, being the nominal amount thereof,

9 3 the maximum price (exclusive of expenses) which may be paid for such ordinary shares shall be the higher of (i) the 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 and (ii) the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System (SETS),

9 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

9 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

10 THAT pursuant to section 9 of the Companies Act 1985 the Articles of Association of the Company be deleted in their entirety and the regulations contained in the document submitted to the Meeting and for the purposes of identification signed by the Chairman, be approved and adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association of the Company

11 THAT the Directors be and are hereby authorised

11 1 to establish The Porvair Long Term Share Plan 2008 (the 'Plan"), a copy of the draft rules of which has been produced to the Meeting and signed by the Chairman for the purpose of identification only and a summary of the principal terms of which is set out in the Notice of the Annual General Meeting and

11 2 to establish other share plans for employees resident or working outside the United Kingdom based on the Plan but modified to take account of local tax, exchange control and securities law PROVIDED THAT

11 2 1 such other plans shall confer benefits and contain limits so as to ensure, so far as the Directors consider practicable substantial equality of treatment with employees participating in the Plan, and

11 2 2 any shares issued or which might be issued under such other plans are treated as counting against the overall limitations on the issue of new shares as set out in the Plan

By order of the Board

Christopher Tyler, Company Secretary
28 January 2008

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 exercise all or any of the rights of the member to attend and speak and 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 7 April 2008 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 7 April 2008 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) To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 9 30 a m on 7 April 2008 For this purpose the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means CREST personal members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST For further information on CREST procedures, limitations and system timings please refer to the CREST manual The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 In any case your proxy form must be received by the Company s registrars no later than 9 30 a m on 7 April 2008

(6) 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) copies of service contracts of the Executive Directors under which they are employed by the Company and the letters of appointment of the Non-Executive Directors,

(b) a copy of the proposed new Articles of Association of the Company, and a copy of the existing Articles of Association marked to show the changes being proposed in resolution 10, and

(c) a copy of the rules of the proposed Porvair Long Term Share Plan 2008

Items (b) and (c) are also available for inspection at the offices of Travers Smith, 10 Snow Hill, London EC1A 2AL during normal 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

Summary of principal amendments to Porvair's Articles of Association

1 Definitions

The following definitions are used in this summary

the New Articles	the proposed new Articles of Association of the Company
the Existing Articles	the existing Articles of Association of the Company,
the Company	Porvair plc
the 2006 Act	the Companies Act 2006 and
the 1985 Act	the Companies Act 1985

2 Proposed amendments

A General

Specific references to the 1985 Act in the existing Articles

Where the provisions of the 1985 Act have been or will be repealed and replaced in their entirety by new provisions in the 2006 Act, references to 'the Act" (i e the 1985 Act) have been updated to refer to the 2006 Act"

Extraordinary general meetings and extraordinary resolutions

The terms 'extraordinary general meeting' and "extraordinary resolution are no longer used in the 2006 Act and the relevant provisions of the 1985 Act relating to extraordinary resolutions and meetings were repealed from 1 October 2007 References to 'extraordinary general meetings" and "extraordinary resolutions' are therefore replaced in the New Articles by references to "general meetings" and "special resolutions"

Interpretation

There are words and expressions in the New Articles which are defined in both the 1985 Act and the 2006 Act There should be no overlap between these definitions since the Commencement Orders published by the Government make it clear that such definitions will apply, depending on the context, according to whether the relevant provision of the 1985 Act or 2006 Act is in force The New Articles therefore include wording to make this clear

B Specific changes

General meetings and notice of general meetings

The New Articles provide (in accordance with the 2006 Act) that all general meetings other than annual general meetings (including those at which a special resolution is to be proposed) may now be called by not less than 14 days' notice

Proxy voting rights

The New Articles reflect the fact that since 1 October 2007 every proxy present at a general meeting who has been duly appointed is entitled to speak and vote on a resolution on a show of hands as well as to demand and to vote on a poll

Execution of proxies

The New Articles provide that a proxy may, if the Directors from time to time permit, be appointed by electronic communication (for details of the new provisions regarding electronic communications please see "Electronic and website communications" below)

Directors election, appointment and retirement by rotation

The New Articles have been amended to refer specifically to the wording of The Combined Code on Corporate Governance (June 2006)

Conflicts of interest

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes Under the 2006 Act, from 1 October 2008, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests The requirement is very broad and could apply for example, if a director becomes a director of another company or a trustee of another organisation The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate where the Articles of Association contain a provision to this effect The 2006 Act also allows the Articles of Association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty The New Articles give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current provision

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict First only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company s success The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate

Minutes and destruction of documents

The 2006 Act requires that certain documents must be retained by the Company for prescribed periods so that, for example, minutes of directors meetings and general meetings must be retained for a period of 10 years and the New Articles provide for this

Electronic and website communications
Since 2000, companies were able to provide certain information via their websites to shareholders who specifically agreed to website publication The 2006 Act enables companies to deem such agreement to have been given if a shareholder does not respond to a request for agreement to receive information via the Company's website within 28 days from the date of the request In order to take advantage of this, shareholders also need to approve a resolution to permit website communications or the Company's Articles must authorise website communications

The Existing Articles did not provide for any form of electronic or website communication The New Articles therefore permit the Company and the members to communicate with each other by electronic communication (including website communication), whether that be through the Company posting notices of meetings or other documents on its website or by the Company or a member sending or receiving such notices or other documents in electronic form The definitions at the start of the New Articles have been updated to reflect the substantive changes

Indemnity
The New Articles have been amended to reflect new provisions under the 2006 Act which allow the Company to indemnify directors of pension trustee companies out of the assets of the Company against any liability incurred by such director in connection therewith

Exercise of members' rights
The 2006 Act provides a statutory framework for indirect investors who hold their shares through intermediaries to exercise certain membership rights Even if the Articles of Association are not amended, members of companies whose shares are admitted to trading on a regulated market are able to nominate another person to receive all information to which they are entitled The New Articles specifically provide for a nomination process

C Deleted articles
Closing registers
The provisions of the 1985 Act which permitted the closure of a company's share register have been repealed and have not been replaced Existing Article 51, which allowed for the closing of the Company's register of members has not therefore been replicated in the New Articles

Vacation of office of director
From 6 April 2007 the relevant provisions of the 1985 Act which prevented a person from being appointed or reappointed as a director of a company if they had reached the age of 70 (subject to certain exceptions) and imposed a duty on a director to disclose their age, if over 70, have been repealed and are not being replaced The references to the relevant provisions of the 1985 Act were deleted at last year's annual general meeting however the entire article has been removed in the New Articles

Chairman's casting vote
A casting vote is not permitted under the 2006 Act Existing Article 80 has not therefore been replicated in the New Articles

Summary of the principal terms of the Porvair Long Term Share Plan 2008 (the "Plan")
The Plan will enable selected employees of the Company and its subsidiaries (the Group") to be granted awards (Awards") in respect of ordinary shares in the capital of the Company (Shares") Awards are not transferable and may only be exercised by the participant or if a participant dies, his personal representatives Benefits under the Plan are not pensionable

Administration
The operation of the Plan will be overseen by the Remuneration Committee of the Directors (the 'Committee")

Participation
Awards may be granted to any employee or Executive Director of the Group at the discretion of the Committee No Awards may be granted after 9 April 2018

Form of Awards
Awards may be granted in the form of

(i) nil or nominal cost options to acquire Shares, or

(ii) contingent rights to acquire Shares

Awards may be satisfied by the issue of new Shares (in which case the participant will pay the nominal value of the Shares), by Shares purchased in the market by an employees' trust, or by the transfer of Shares out of treasury

In addition, options under the Plan may be granted either as normal options for which there are no tax advantages, or as enterprise management incentive awards ("EMI Awards"), being tax-favoured Awards

This reflects the fact that the Company currently meets the requirements of the tax legislation governing EMI Awards, which enables awards to be made on a tax-efficient basis for both the Company and the individual Accordingly, where possible EMI Awards will be made to participants, rather than unapproved option Awards or contingent Awards

In the event that an EMI Award ceases to be a qualifying EMI Award for the purposes of the relevant legislation, it will be deemed to continue as a normal nil or nominal cost option

Grant of Awards
Awards may only be granted

(i) in the period of 42 days following the approval of the Plan by shareholders

(ii) in the period of six weeks beginning with the fourth dealing day following the announcement of the Company's results for any period,

(iii) within 28 days of a person first joining the Group, or

(iv) subject to the Model Code and other relevant restrictions on dealings in Shares, at any other time, if the Committee determines that exceptional circumstances exist to justify the Award

If regulatory or statutory restrictions prevent Awards from being granted in these periods, the Awards may be made within the period of 42 days (or 28 days as the case may be) following the removal of such restrictions

No payment will be required for the grant of an Award

Individual limits
The maximum number of Shares that may be awarded to a participant in any 12 month period will be limited so that the market value of such Shares on the date of grant will not normally exceed 100% of basic salary However, Awards may be made in excess of this limit if the Committee considers that exceptional circumstances exist which justify the Award In the initial year of the scheme the Committee intends to make awards to the Executive Directors over shares with a value equal to 200% of basic salary The exceptional award will be made in conjunction with demanding performance conditions which mean that only an exceptional performance by the Group and return for shareholders will be rewarded

Limitations on the issue of New Shares
The number of new Shares issued or which may be issued in respect of Awards made under the Plan or in respect of options or other awards made under the Company's other executive and employee share schemes in any period of 10 years will not exceed 10% of the ordinary share capital of the Company in issue from time to time

If Awards or other rights are to be satisfied by a transfer of existing Shares, the limits stated above will not apply Insofar as it is necessary to ensure compliance with the guidelines issued from time to time by the Association of British Insurers, the percentage limits will apply to Awards or other rights satisfied by the transfer of Shares out of treasury

Vesting of Awards

Awards will not normally vest until after the end of a period of three financial years beginning not earlier than the financial year in which the Award is made (the Performance Period") and then only if and insofar as targets relating to the performance of the Company ("Performance Conditions") measured over that Performance Period have been met

The Performance Conditions which will apply to initial Awards under the Plan are that

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

(b) provided that the condition in a) above is satisfied then 25% of the award will vest if the peak share price in the year to 10 April 2011 is 205 pence per share for at least 20 working days and 100% of the award will vest if the peak share price is 245 pence or more for at least 20 working days in the year to 10 April 2011 A sliding scale on a straight line operates if the peak share price over 20 working days is between 205 pence and 245 pence No shares will vest if the share price does not reach 205 pence in the year to 10 April 2011

Once a Performance Condition has been satisfied a vested Award in the form of an option may be exercised at any time up to the tenth anniversary of the date of grant A vested Award in the form of a contingent share award will be satisfied as soon as practicable by the issue or transfer of Shares to (or to the order of) the participant

Leavers

If a participant leaves the Group by reason of injury, disability redundancy, retirement or the sale of the participant s employing business or company, he may exercise a vested option Award in full within a period of six months following cessation of employment and a contingent share award will be satisfied by the issue or transfer of Shares to (or to the order of) the participant as soon as practicable

If the participant's Award has not yet vested he may exercise an option Award in respect of a proportion of the Award Shares (calculated by reference to the extent to which the Performance Period has then elapsed and the Performance Condition is deemed to be satisfied at the date of cessation) within a period of six months following cessation of employment and a contingent share award will be satisfied by the issue or transfer of such number of Shares (calculated on the same basis as above) to (or to the order of) the participant as soon as practicable In exceptional circumstances, the Committee may decide to permit such an Award to vest in respect of additional Shares

If the participant dies, his personal representatives may exercise a vested option Award in full within a period of 12 months following the date of death and a contingent share award will be satisfied by the issue or transfer of Shares to (or to the order of) the participant's personal representatives as soon as practicable

If the participant's Award has not vested at the date of death, his personal representatives may exercise such Award in respect of a proportion of the Award Shares (calculated by reference to the extent to which the Performance Period has then elapsed and the Performance Condition is deemed to be satisfied at the date of death) within a period of 12 months following the date of death, and a contingent share award will be satisfied by the issue or transfer of such number of Shares (calculated on the same basis as above) to (or to the order of) the participant s personal representatives as soon as practicable In exceptional circumstances, the Committee may decide to permit such an Award to be exercised in respect of additional Shares

If the participant leaves for any other reason the Committee may determine the extent (if any) to which the Award may be exercised or contingent share award Shares may be issued or transferred to (or to the order of) the participant (having due regard to the extent to which the Performance Condition is likely to be satisfied)

Change of control, reconstruction, winding up

In the event of a change of control or winding up of the Company unvested Awards shall vest in respect of a proportion of the Award Shares (calculated by reference to the extent to which the Performance Period has then elapsed and the Performance Condition is deemed to be satisfied at the date of the change of control)

Additionally, in the event of a reorganisation, reconstruction, amalgamation or demerger of the Company, the Committee may determine that a proportion of unvested Awards shall vest, calculated on the same basis as above

In either case in exceptional circumstances, the Committee may permit a greater proportion of Shares to vest if it considers this appropriate

Dividends on Award Shares

A participant may, if the Committee so determines, be entitled, if and when the Award Shares vest to receive a cash amount (which will be subject to the deduction of income tax and employees' National Insurance contributions) equal to the dividends on such Shares paid during the period since the date of grant of the Award or additional Shares equal to the number of Shares that could have been acquired if such dividends had been re-invested in Shares

Rights attaching to Shares

Shares allotted or transferred under the Plan will rank alongside Shares of the same class then in issue The Company will apply to the UK Listing Authority for the listing of any newly issued Shares

Adjustment of Awards

If there is a rights or capitalisation issue, sub-division consolidation, reduction or other variation of the Company s ordinary share capital, or a demerger or payment of a special dividend which would otherwise materially affect the value of an Award, the Committee may adjust the number of Shares subject to Awards

Amendment of the Plan

The Committee may amend the rules of the Plan However the provisions governing eligibility requirements equity dilution, individual participation limits the basis for determining the rights of participants to acquire Shares and the adjustments that may be made following a rights issue or any other variation of capital cannot be altered to the advantage of existing or new participants without the prior approval of the Companys shareholders in general meeting

There is an exception for amendments

(i) of a minor nature to benefit the administration of the Plan

(ii) to take account of a change in legislation or developments in the law affecting the Plan, or

(iii) to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the Plan or for any member of the Group

Overseas plans

The Committee may at any time, without further reference to shareholders establish further plans based on the Plan but modified to take account of local securities laws exchange controls or tax laws provided that any Shares made available under such further plans are treated as counting against the individual limits and overall dilution limits under the Plans

The above summary of the principal terms of the Plan does not form part of the rules of the Plan and should not be taken as affecting the interpretation of its detailed terms and conditions The Committee reserves the right up to the time of the forthcoming Annual General Meeting, to make such amendments and additions to the rules of the Plan as it considers necessary or appropriate provided that any amendment does not conflict in a material respect with the above summary

Form of Proxy

Form of Proxy for use by members of Porvair plc at the Annual General Meeting to be held at Brampton House, 50 Bergen Way, King's Lynn PE30 2JG at 9 30 a m on 9 April 2008

I/We being a member/members of the above-named Company hereby appoint the Chairman of the Meeting or

____

or, failing whom the Chairman of the Meeting as my/our proxy to attend speak and vote on my/our behalf at the Annual General Meeting of the Company to be held at 9 30 a m on 9 April 2008 at Brampton House 50 Bergen Way Kings Lynn, PE30 2JG (or at any adjournment thereof) I/We direct that my/our proxy will vote (or abstain from voting) on the resolutions set out in the Notice of Annual General Meeting as indicated below

Resolutions	For	Against	Vote withheld
1 To receive the Company's annual accounts and the Directors' and Auditors' reports			
2 To approve the Report of the Remuneration Committee			
3 To declare a final dividend of 1 2p per ordinary share			
4 To re-elect Michael Gatenby as a Director			
5 To re elect Ben Stocks as a Director			
6 To re-appoint PricewaterhouseCoopers LLP as auditors to the Company and authorise the Directors to fix their remuneration			
7 To authorise the Directors to allot shares under section 80 Companies Act 1985			
8 To disapply statutory pre-emption rights under section 89 Companies Act 1985 (special resolution)			
9 To authorise the Company to make market purchases of its own ordinary shares (special resolution)			
10 To adopt new Articles of Association of the Company (special resolution)			
11 To authorise the Directors to establish The Porvair Long Term Share Plan 2008			

Please note that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the votes cast for and against the resolution

Please complete the details below in block capitals and sign and date where indicated

Print Name Date

Signature of shareholder or common seal/signature of duly authorised officer of corporate shareholder

Note If joint shareholders, only one joint holder need sign

Please return this Form of Proxy to Capita Registrars, The Registry, 34 Beckenham Road, Kent BR3 4TU so as to arrive by 9 30 a m on 7 April 2008

Notes

1 A proxy need not be a member of the Company but must attend the Meeting to represent you You may appoint as your proxy (a) person(s) of your own choice by inserting his/their name(s) in the space provided If no name is inserted in the space provided the Chairman will be deemed appointed as the proxy To appoint more than one proxy additional form(s) of proxy may be obtained from Capita Registrars on request

2 Please indicate with a cross in the appropriate box how you wish your votes to be cast In the absence of any specific direction the proxy will vote (or abstain from voting) at his or her discretion On any other business which properly comes before the Annual General Meeting (including any motion to amend any resolution or to adjourn the Meeting) the proxy will vote or abstain at his or her discretion

3 To be valid this Form of Proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be received by Capita Registrars The Registry 34 Beckenham Road Kent BR3 4TU by not later than 9 30 a m on 7 April 2008

4 Completion and return of this Form of Proxy will not prevent you from attending and voting at the Annual General Meeting if you so wish

5 In the case of a corporate shareholder this Form of Proxy should either be executed by the Company under seal or signed by two Directors a Director and the Secretary or a duly authorised officer or attorney A copy of the written authority must accompany the form of proxy

6 In the case of joint holders the vote of the first named in the register of members of the Company will be accepted to the exclusion of that of other joint holders

7 Shares held in uncertified form (i e in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual

Third Fold (Tuck in)

BUSINESS REPLY SERVICE
Licence No MB122

1

Capita Registrars (Proxies)
PO Box 25
Beckenham
Kent BR3 4BR

Second Fold

First Fold

First Fold

Financial calendar

29 January 2008
Preliminary announcement of 2007 results

2 April 2008
Ex-dividend date for the final dividend on ordinary shares

4 April 2008
Closure of share register for final dividend on ordinary shares

9 April 2008
Annual General Meeting

8 May 2008
Payment of final dividend on ordinary shares

24 June 2008
Announcement of interim results

September 2008
Payment of interim dividend on ordinary shares

30 November 2008
2008 financial year end

Designed & Produced by Bexon Woodhouse Creative www bexonwoodhouse com
Printed by Royle Print a Carbon Neutral Company

This Annual Report is printed on material which is up to 50% recycled, elemental Chlorine free and comes from a certified sustainable resource Both paper mill and printer have ISO14001 accreditation

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