



For immediate release

26 January 2010

**Preliminary results for the year ended 30 November 2009**

Porvair plc ("Porvair"), the specialist filtration and environmental technology group, today announces its preliminary results for the year ended 30 November 2009.

**Financial highlights**

- Revenues for the year were £55.2m (2008: £54.8m).
- Profit before tax and exceptional items was £1.7m (2008: £4.2m), almost all generated in the second half of the year. Profit before tax was £1.1m (2008: £4.2m).
- Cash generated from operations of £6.0m (2008: £4.2m), well ahead of the prior year.
- Net debt reduced to £13.9m (2008: £16.7m).
- Final dividend of 1.25 pence per share (2008: 1.25p) maintained.

**Operating highlights**

- The results for the year are dominated by the sharp fall in demand at Metals Filtration in the first half as aluminium and US automotive de-stocking fed through the supply chain.
- The business reacted swiftly to address costs where necessary. Over the course of the year Group headcount was cut by 15%.
- The second half of the year was better with sales rates in the US firming in the final quarter. The Group was profitable and cash generative for the year as whole.
- Good strategic progress was made, despite the prevailing conditions. The benefits of revenue from new products, cautious geographic expansion and the integration of recent acquisitions can be seen in the results for the year.
- Seal Analytical, the water analysis business acquired in 2008, had a strong first year with the Group, generating profits growth and a good cash return on investment.

**Commenting on the results and outlook, Ben Stocks, Chief Executive, said:**

"Current levels of demand across the business have been stable for several months. 2010 has started satisfactorily. Revenue run rates in the US are 10-15% ahead of the lows reached in early 2009. Order books in Microfiltration are at reasonable levels.

"The Board has set a cautious plan for 2010, recognising the uncertainties of the global economic situation. Nonetheless the Board sees grounds for guarded optimism. Microfiltration starts the year with a satisfactory order book and a promising pipeline of larger nuclear and energy orders. It is expanding its presence in Europe, the US and China. The Metals Filtration division is benefiting from a lower cost base such that modest increases in monthly revenues will improve results. Growth from new products will continue in 2010. The Board is confident that Porvair is well positioned to benefit as economic conditions improve."

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## Chairman and Chief Executive's statement

### Performance Summary

2009 was a year of maintaining strategic progress while dealing with difficult economic circumstances.

We are pleased to report that Porvair remained profitable and cash generative despite the tough economic conditions. The business reacted swiftly to unprecedented changes in demand early in the year, addressing costs where necessary. Over the course of the year Group headcount was cut by 15%. Good strategic progress was made, despite the difficult conditions. The benefits of revenue from new products, which grew to 13% of total revenues, cautious geographic expansion and the integration of recent acquisitions can be seen in the results for the year.

Revenues in the year to 30 November 2009 were £55.2m (2008: £54.8m), benefiting from a full year contribution from Seal Analytical, acquired in July 2008.

- Revenues in the Microfiltration division were £36.5m (2008: £32.3m). Stripping out acquisition effects, this division's revenues declined 10%. Revenues in Metals Filtration, the division hardest hit by falling demand early in the year, declined 32% in constant currency.
- As previously reported, exceptional restructuring costs of £0.7m (2008: £nil) were incurred to adapt each business to the changing economic circumstances. Operating profit before exceptional items for the Group was £2.8m (2008: £4.8m). Operating profit was £2.1m (2008: £4.8m). Profit before tax was £1.1m (2008: £4.2m). Profit before tax before exceptional restructuring costs was £1.7m (2008: £4.2m).
- Cash generation was good. Cash generated from operations increased 42% to £6.0m (2008: £4.2m). Net debt at 30 November 2009 decreased by £2.8m to £13.9m (2008: £16.7m).

The results for 2009 are dominated by the sharp fall in demand reported at the half year, with unprecedented production cuts made in many industrial sectors, particularly in the US. The Metals Filtration division was hit by demand reductions of up to 50% in some markets, notably global aluminium and US automotive. In response, staff numbers were cut by 40% in the US, and the Metals Filtration division's operations were restructured accordingly. The second half of the year was better, as the de-stocking phase of the recession eased and the Group's lower cost base took effect:

	Six months to 31 May 2009 £'000	Six months to 30 November 2009 £'000	Total 2009 £'000
Revenue	26,995	28,230	55,225
Operating profit before exceptional items	523	2,242	2,765
Exceptional items	(637)	(25)	(662)
Operating (loss)/profit	(114)	2,217	2,103

Not all sectors were affected by the global downturn in 2009. Energy filtration demand remained strong and demand for water analysis products grew robustly. The year finished in a manner that gave grounds for cautious optimism. Sales from new products grew 18% to £7.1m (2008: £6.0m) while demand levels in aluminium and US auto markets improved 10-15% in the final quarter. Both will support better trading in 2010, as will our newly opened Microfiltration sales office in France and Metals Filtration satellite plant in China. These strategic initiatives are helping Porvair weather the downturn, and will accelerate our recovery as conditions improve.

## Porvair's activities and strategy

Porvair specialises in filtration and related environmental technology. Our products are largely engineered consumables.

We operate two divisions. The **Microfiltration** division comprises the Porvair Filtration Group, Porvair Sciences and Seal Analytical. Its principal markets are aviation, environmental laboratory supplies and industrial/energy filtration. The **Metals Filtration** division trades as Selee Corporation. Its principal markets are the filtration of molten aluminium and super-alloy metals.

The Group manufactures in the UK, USA and Germany. Sales are global.

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

- Focus on markets which:
  - require proprietary products that are typically bespoke, consumable and have long life cycles;
  - are driven by regulation, legislation (health, safety or environmental), or a critical need for process reliability;
  - offer sustainable barriers to entry, extensive quality accreditation, design rights, or patent protection.
- Concentrate on markets that offer attractive long term growth potential. The Group's principal chosen markets are:
  - aviation;
  - energy and industrial process;
  - environmental laboratories; and
  - non-ferrous metals filtration.
- Generate organic growth through new product development and geographic expansion.
- Acquire complementary businesses that meet our rigorous financial and commercial criteria.
- Maintain an appropriately funded balance sheet and generate sufficient cash to sustain a progressive dividend policy.

## Operating Review

### Divisional Performance – Microfiltration

Revenue at the Microfiltration division was £36.5m (2008: £32.3m). Operating profits before exceptional items were £5.3m (2008: £5.1m). Excluding the impact of acquisitions, revenues were down 10% across the year.

Aviation demand fell around 11% at constant currencies across the year. This was a resilient performance in the circumstances due in part to our customer portfolio which covers commercial, regional and defence markets for both new build and after market spares. Expectations for 2010 are for similar levels of revenue to that achieved in 2009, with expected weakness in some segments offset by new product introductions. Notably, demand for our proprietary inerting filters (a vital part of an aircraft's fuel tank safety system) is growing.

Sales to energy markets were strong, offset by weakness in general industrial demand, particularly in the US. As reported at the interim stage, several sizeable contracts were delivered to nuclear customers during the year, with spares and other consumables to follow in 2010. The general level of activity and the order book in the energy (nuclear and gasification) market is promising and we have opened a sales office in France to support our plans for expansion.

The Microfiltration division's small US subsidiary had a difficult first half of the year as demand fell across US industry. However, it picked up new customer orders through the year and has started 2010 much more robustly. The geographic expansion of this part of our business is a focus for the next few years.

Seal Analytical, the water analysis business acquired in 2008, had a strong first year with the Group, generating profits growth and a good cash return on investment. Weaker demand in the US was offset by improved Asian demand. The rationalisation and integration of this business was finished during the year and it has started a growth plan based on geographical expansion; new product revenue growth; and reinvigoration of its installed base. It has started 2010 with a lower cost base and a stronger order book than twelve months ago.

### **Divisional Performance – Metals Filtration**

After record revenue in 2008, demand in Metals Filtration fell sharply in the first half of 2009 as aluminium and US automotive de-stocking fed through the supply chain. For the year, revenues were £18.7m (2008: £22.5m). In its operating currency, US dollars, this was a 32% reduction. As reported at the interim stage, a restructuring programme was undertaken in which employee numbers were reduced by 40% and remaining staff participated in a salary sacrifice scheme. The US management team performed well in difficult circumstances.

As de-stocking worked through, demand stabilised in the middle of the year, and by the final quarter was running at levels roughly 10-15% higher than the lows of February, March and April. Operating results consequently improved. Cash generation was good throughout the year.

Progress with new products – the key to sustainable recovery at Metals Filtration – continued despite the economic situation. Our patented “Selee CS-X™” aluminium filter has gained widespread acceptance in the market. It offers users a more efficient, lightweight filter that does not contain phosphates or ceramic fibres. We already have around 50% global share of this market. 80% of our current customers are now using the product. This will increase in 2010, as we start to win competitive accounts.

Customer trials of other new products have also gone well, notably a more robust foundry filter, for which commercial shipments began at the end of the year. Initial shipments of a high performance battery component were made and worked well in our US customer's first generation battery. Upheaval in the 2009 US truck market held the customer back and caused it to accelerate the development of its second generation battery, which has wider market appeal and will remain in development for 2010 prior to launch in 2011.

Whilst US and European demand for the Metals Filtration division's products has been badly affected, Asian demand has increased. A satellite plant to meet this demand was opened in China during the year and will expand in 2010.

### **EPS, dividend and financing**

Earnings per share were 1.6p (2008: 7.0p). Excluding exceptional restructuring costs, earnings per share were 2.7p (2008: 7.0p).

The business has been cash generative throughout the year and has reduced net debt by £2.8m. Net debt at 30 November 2009 was £13.9m (2008: £16.7m). Cash generated from operations was £6.0m (2008: £4.2m). During the course of the year banking arrangements were reviewed and certain covenants amended to reflect the changes in 2009 trading patterns.

It is the Board's opinion that Porvair will recover well as conditions improve. As a consequence, the Directors recommend a maintained final dividend of 1.25p (2008: 1.25p) making a full year dividend of 2.25p (2008: 2.25p).

### **Staff**

In what has been a difficult year, the Directors wish to thank all Porvair staff for their hard work during 2009. Our US staff, who have borne the brunt of the downturn, deserve special mention. Porvair did not award any pay increases at the start of 2010 as we wait to see how economic conditions develop, and we acknowledge this contribution from colleagues across the Group. In sometimes trying circumstances Porvair teams have continued to develop their businesses and maintain high levels of customer service. They have done well.

### **Current trading and outlook**

Current levels of demand across the business have been stable for several months. 2010 has started satisfactorily. Revenue run rates in the US are 10-15% ahead of the lows reached in early 2009. Order books in Microfiltration are at reasonable levels.

The Board has set a cautious plan for 2010, recognising the uncertainties of the global economic situation. Nonetheless the Board sees grounds for guarded optimism. Microfiltration starts the year with a satisfactory order book and a promising pipeline of larger nuclear and energy orders. It is expanding its presence in Europe, the US and China. The Metals Filtration division is benefiting from a lower cost base such that modest increases in monthly revenues will improve results. Growth from new products will continue in 2010. The Board is confident that Porvair is well positioned to benefit as economic conditions improve.

**Charles Matthews** – Chairman

**Ben Stocks** – Chief Executive

25 January 2010

## Finance Director's review

### Group operating performance

Group revenues were £55.2m (2008: £54.8m) and operating profit before exceptional restructuring costs of £0.7m was £2.8m (2008: £4.8m). The operating performance and key performance indicators of the Microfiltration and Metals Filtration divisions are described in detail in the Chairman and Chief Executive's statement. The operating loss associated with the Other Unallocated segment was £1.3m (2008: £1.3m), which mainly comprises Group corporate costs, some research and development costs, new business development costs and general financial services.

### Key performance indicators

The Group considers its key performance indicators to be: revenue growth and operating margins of its principal operations; revenue from new products; profit before tax growth; earnings per share growth; interest cover; gearing; and return on capital employed. The table below summarises these indicators:

Key performance indicators	2009	2008
Revenue growth	1%	20%
Revenue growth - Metals Filtration (US dollars)	(32)%	11%
Revenue growth - Microfiltration	13%	23%
Revenue from new products	13%	11%
Operating margin - Group (before restructuring in 2009)	5%	9%
Operating margin - Metals Filtration (before restructuring in 2009)	(6)%	5%
Operating margin - Microfiltration (before restructuring in 2009)	14%	16%
Profit before tax growth (before restructuring in 2009)	(59)%	23%
Earnings per share growth (before restructuring in 2009)	(61)%	21%
Interest cover (before restructuring in 2009)	3 times	7 times
Gearing	38%	40%
ROCE (before restructuring in 2009)	3%	8%

### Impact of exchange rate movements on performance

The international nature of the Group's business means that relative movements in exchange rates can have a significant impact on the reported performance. Sterling was weak compared with the dollar for the first five months of the year generally trading between \$1.4:£ and \$1.55:£. Sterling strengthened mid year and traded between \$1.6:£ and \$1.7:£ for the rest of the year. The Group sold forward the majority of its UK business's 2009 US dollar revenue at the start of the financial year and consequently achieved rates close to \$1.5:£ on that revenue. This provided the Microfiltration division with a benefit compared with the rates achieved in 2008. The average rate used for translating the results of US operations into Sterling was \$1.55:£ (2008: \$1.91). This has the effect of increasing the losses in Metals Filtration in 2009 and suppressing the profits in 2008 compared with the underlying US dollar results. The Group's Euro operations were translated at €1.12:£ (2008: €1.25:£) giving the European operations of the Microfiltration division approximately a 10% benefit compared with 2008.

## Finance costs

Net interest payable increased to £1.0m (2008: £0.7m). Included within interest are finance costs in relation to the defined benefit pension scheme, which increased to £0.3m (2008: credit of £0.1m) in the year.

Banking covenants were renegotiated to provide operating flexibility in the difficult trading conditions experienced in the year. As a result the Group's banking margin increased by approximately 1.2% offsetting some of the benefit of lower interest rates.

The Group took out interest rate swaps to fix the interest rates on certain of its borrowings. These will provide some protection for the Group in the event of interest rate rises or another spike in LIBOR as occurred in late 2008. The contracts in place are summarised below:

Fixed rate	Principal amount	Maturity date
2.21%	\$5m	12 December 2010
2.43%	\$5m	12 December 2011
3.03%	£3m	Reducing by £1m on each of 30 November 2010, 2011 and 2012

Interest cover before exceptional items was 3 times (2008: 7 times).

## Tax

The Group tax charge on profits before exceptional items was £0.6m (2008: £1.3m). After recognising a tax credit of £0.2m on the exceptional items, the Group tax charge was £0.4m (2008: £1.3m). This is an effective rate of 35% (2008: 31%), higher than the standard corporate tax rate of 28%, as a result of disallowed expenditure principally arising from the abolition of Industrial Buildings Allowances and the impact of state taxes based on revenue in the US. The tax charge comprises current tax of £1.0m (2008: £0.8m) and a deferred tax credit of £0.6m (2008: charge of £0.5m). The Group carries a deferred tax asset in relation to the past losses in its US operations and the deficit on the pension fund. The tax asset related to the past losses is limited to the amount expected to be recovered in the foreseeable future.

## Shareholders' funds

Shareholders' funds at 30 November 2009 were £36.4m (2008: £41.2m), a reduction of 12% over the prior year. Shareholders' funds increased by the profit after tax of £0.7m and a write back of £0.1m relating to share based payments. A charge to reflect the marked to market value of interest rate hedges reduced shareholders' funds by £0.2m. Shareholders' funds were reduced by exchange losses on retranslation of foreign currencies of £0.9m. Dividends paid of £1.0m and actuarial losses in the pension scheme net of deferred tax of £3.5m reduced shareholders' funds.

## **Cash flow**

Net cash generated from operations was £6.0m (2008: £4.2m). Reductions in working capital of £1.3m (2008: increase of £2.4m) boosted operating cash flow ahead of the prior year despite the lower operating profits. Tight control reduced inventories across the Group by £1.5m (2008: increase of £1.2m).

Receivables and payables both reduced principally due to lower revenue and production in Metals Filtration.

Net interest paid was £0.9m (2008: £0.7m). Although borrowings fell throughout the year, the average net borrowings in 2009 were higher than in 2008 as debt increased in July 2008 with the acquisition of Seal Analytical. The higher interest cost reflects the impact of increased average borrowings and the interest rate adjustments described in the Finance costs section above.

Tax paid of £0.6m (2008: £0.6m) was lower than the current tax charge as a result of repayments relating to prior periods.

Capital expenditure reduced to £1.2m (2008: £3.5m). After the year of significant investment in 2008 which included the fit out of the new Microfiltration facility; additional manufacturing capacity installed in Metals Filtration for new products; and the capitalisation of associated development and project management costs; the Group required much lower investment in 2009. The principal investments in 2009 were the completion of the manufacturing capacity in Metals Filtration and upgrading manufacturing capability in Microfiltration.

## **Borrowings and bank finance**

At the year end, the Group had net borrowings of £13.9m (2008: £16.7m) comprising gross borrowings of £17.1m (2008: £18.9m) and finance lease obligations of £0.2m (2008: £0.3m) offset by cash balances of £3.4m (2008: £2.5m). Borrowings of £9.1m (2008: £9.8m) (\$15.0m) are held in US dollars and the weakening of the US dollar relative to Sterling reduced the Group's net debt by £0.4m (2008: increase of £2.4m) compared with the prior year.

The Group put in place three year borrowing facilities with Barclays Bank plc in July 2008. At 30 November 2009 the Group had unutilised borrowing facilities of £1.6m (2008: £1.3m), an unutilised overdraft facility of £1.5m (2008: £1.5m) and cash balances of £3.4m (2008: £2.5m).

The Group's gearing (net debt as a percentage of shareholders' funds) reduced to 38% (2008: 41%).

## **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 \$15.0m (2008: \$15.0m) of US dollar borrowings exposure which hedged underlying US net tangible assets on the balance sheet of \$24.0m (2008: \$23.8m). In addition, the Group has a €1.6m 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. The Group has adopted a policy of fixing the interest rate on between 40% and 60% of its borrowings.

## **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.

The Group recorded a retirement benefit obligation of £8.6m (2008: £3.7m). The increase arose from an actuarial loss in the year of £4.9m (2008: £2.2m). The contributions to the scheme of £0.5m were in line with the service cost and finance charges incurred by the scheme.

The increase in the deficit in the year arose from a reduction in the discount rate used to value the liabilities to 5.5% (2008: 6.8%), a reduction in the expected rate of return on the plan assets to 6.6% (2008: 6.8%) and the adoption of more up to date mortality tables. The mortality tables used are the SAPS base tables with a 110% multiplier allowing for future improvements of 1.5% per annum for 10 years and 1% thereafter. The plan's expected life expectancy of a member at age 65 is 19.7 years (2008: 18.2 years) for men and 22.6 years (2008: 21.3 years) for women.

A valuation of the assets and liabilities of the closed defined benefit scheme was completed in 2007. As a result of this review, the Group and the Trustees agreed to alter the employer's contributions from 15% of salary to 8% of salary plus an £80,000 contribution towards the running costs of the scheme. 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 eight years. The first payment was made in December 2007.

The next actuarial valuation of the scheme will be based on the pension scheme's position at 31 March 2009 and the results of that valuation will be finalised before 30 June 2010. It is possible that the outcome of that valuation could require an increase in the contributions to cover the past service deficit. Any such increase would be likely to take effect in the 2011 financial year.

## **Principal risks and uncertainties**

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

### ***Existing markets risk***

The Group serves the needs of a range of specialist filtration markets, such that it is not dependent upon any one market. No single market represents more than 25% of revenue. However, four key markets: aviation filtration; energy and industrial process filtration; environmental laboratory supplies and non-ferrous metals filtration contribute more than 10% of the Group's revenue and the Group would be exposed to a significant decline in any of these markets.

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

The energy and industrial process products serve a range of customers who use filters as an integral part of processes in their plants. Sales are both for new build and after market spares. A sustained economic downturn, as experienced in 2009, will affect demand in this segment.

Environmental laboratory supplies are chiefly sold to laboratories engaged in meeting the regulatory requirements for clean water. This market is expected to grow as water regulations tighten throughout the world and demand for clean water in the developing world increases. Whilst revenue will be affected by access to capital in customer markets (municipal/utilities and industrial labs) it is expected that the regulated nature of this market will mitigate cyclical changes.

Aluminium production suffered a severe contraction in the first half of the year. The Group reacted quickly to the contraction in the market by reducing its cost base and successfully converting its customers to a new improved filter formulation. The production of aluminium is gradually moving to larger smelters in regions of low cost energy. The Group is developing its sales presence accordingly.

### ***New products and markets risk***

The Group invests significant amounts into the development of new products. Some of these new products are at an early stage of development and are driven either by environmental imperatives 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 has brought a number of these products to market in the last two years and is now much less exposed to the risks of new products. However, the Group maintains a close review of each of its major developments and is not significantly exposed if the market for any one product does not develop.

### ***Raw materials, resources and facilities 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 larger facilities could have a material impact on the Group's performance. The Group maintains insurance of its equipment and facilities and carries business interruption insurance to cover loss of profits. In addition, the Group has ISO 9001 and other industry specific quality control systems which reduce the risk that a disaster will occur.

### ***Competitive risk***

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

### ***Technological risk***

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

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

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

The Group carefully selects its development prospects and monitors their progress 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.

***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, US and Germany and sells its products throughout the world. As a result, the Group is exposed to fluctuations in exchange rates. The Group maintains certain of its borrowings in US dollars to hedge its investments in the US and enters into forward sales of its principal foreign currency revenues to reduce the impact of exchange rate movements.

***Liability risk***

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

**Christopher Tyler**  
Group Finance Director  
25 January 2010

**Consolidated income statement  
For the year ended 30 November**

	Note	2009 Before exceptional items £'000	2009 Exceptional items £'000	2009 Total £'000	2008 Total £'000
<b>Continuing operations</b>					
<b>Revenue</b>	1	55,225	-	55,225	54,839
Cost of sales		(37,783)	-	(37,783)	(37,172)
<b>Gross profit</b>		17,442	-	17,442	17,667
Distribution costs		(724)	-	(724)	(705)
Administrative expenses		(13,953)	(662)	(14,615)	(12,146)
<b>Operating profit/(loss)</b>	1	2,765	(662)	2,103	4,816
Interest payable and similar charges		(1,115)	-	(1,115)	(879)
Interest receivable		68	-	68	221
<b>Profit/(loss) before income tax</b>		1,718	(662)	1,056	4,158
Income tax (expense)/credit		(317)	75	(242)	(1,261)
Overseas tax (expense)/credit		(260)	135	(125)	(27)
<b>Profit/(loss) for the year attributable to shareholders</b>		1,141	(452)	689	2,870
<b>Earnings/(loss) per share (basic)</b>	2	2.7p	(1.1)p	1.6p	7.0p
<b>Earnings/(loss) per share (diluted)</b>	2	2.7p	(1.1)p	1.6p	7.0p

**Consolidated statement of recognised income and expense  
For the year ended 30 November**

	2009 £'000	2008 £'000
Exchange differences on translation of foreign subsidiaries	(872)	5,119
Actuarial losses on defined benefit pension scheme	(4,900)	(2,200)
Interest rate swap hedge	(245)	-
Taxation credit on items taken directly to equity	1,362	493
<b>Net (loss)/income recognised directly in equity</b>	(4,655)	3,412
Profit for the year	689	2,870
<b>Total recognised (loss)/income for the year</b>	(3,966)	6,282
<b>Attributable to shareholders of Porvair plc</b>	(3,966)	6,282

**Consolidated balance sheet  
As at 30 November**

	Note	2009 £'000	2008 £'000
<b>Non-current assets</b>			
Property, plant and equipment	4	8,872	9,870
Goodwill and other intangible assets	5	37,634	38,604
Deferred tax asset		2,664	751
Other receivable		1,431	1,261
		<u>50,601</u>	<u>50,486</u>
<b>Current assets</b>			
Inventories		8,335	9,970
Trade and other receivables		8,865	11,078
Derivative financial instruments		100	-
Cash and cash equivalents		3,384	2,501
		<u>20,684</u>	<u>23,549</u>
<b>Current liabilities</b>			
Trade and other payables		(7,945)	(9,201)
Current tax liabilities		(735)	(372)
Bank overdraft and loans	7	(582)	(582)
Finance lease liabilities		(142)	(164)
Derivative financial instruments		(245)	(283)
		<u>(9,649)</u>	<u>(10,602)</u>
<b>Net current assets</b>		<u>11,035</u>	<u>12,947</u>
<b>Non-current liabilities</b>			
Bank loans	7	(16,530)	(18,316)
Finance lease liabilities		(40)	(169)
Retirement benefit obligations		(8,606)	(3,704)
Provisions for other liabilities and charges	6	(65)	(60)
		<u>(25,241)</u>	<u>(22,249)</u>
<b>Net assets</b>		<u>36,395</u>	<u>41,184</u>
<b>Capital and reserves</b>			
Share capital	8	841	841
Share premium account	8	34,024	34,024
Cumulative translation reserve	9	423	1,295
Retained earnings	9	1,107	5,024
<b>Total shareholders' equity</b>		<u>36,395</u>	<u>41,184</u>

**Consolidated cash flow statement  
For the year ended 30 November**

	Note	2009 £'000	2008 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	10	6,016	4,237
Interest received		61	91
Interest paid		(997)	(823)
Tax paid		(564)	(599)
<b>Net cash generated from operating activities</b>		<b>4,516</b>	<b>2,906</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries (net of cash acquired)		-	(5,121)
Purchase of property, plant and equipment		(928)	(2,628)
Purchase of intangible assets		(267)	(828)
Proceeds from sale of property, plant and equipment		-	7
<b>Net cash used in investing activities</b>		<b>(1,195)</b>	<b>(8,570)</b>
<b>Cash flows from financing activities</b>			
(Repayment of)/increase in borrowings		(1,286)	6,008
Dividends paid to shareholders		(947)	(909)
Capital element of finance leases		(151)	(88)
<b>Net cash (used in)/generated from financing activities</b>		<b>(2,384)</b>	<b>5,011</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>937</b>	<b>(653)</b>
Effects of exchange rate changes		(54)	261
Cash and cash equivalents at 1 December		883	(392)
<b>Cash and cash equivalents at 30 November</b>		<b>2,501</b>	<b>2,893</b>
		<b>3,384</b>	<b>2,501</b>

**Reconciliation of net cash flow to movement in net debt**

	2009 £'000	2008 £'000
Net increase/(decrease) in cash and cash equivalents	937	(653)
Effects of exchange rate changes	446	(2,405)
Repayment of/(increase in) borrowings	1,286	(6,789)
Repayment of finance leases	151	88
Net debt at 1 December	(16,730)	(6,971)
<b>Net debt at 30 November</b>	<b>(13,910)</b>	<b>(16,730)</b>

## Notes

### 1. Segmental analyses

The segmental analyses of revenue, operating profit/(loss), net assets and geographical analyses of revenue are set out below:

#### Primary reporting format – business segments

2009	Metals Filtration £'000	Microfiltration £'000	Other Unallocated £'000	Group £'000
Revenue	18,696	36,529	-	55,225
Operating (loss)/profit before exceptional items	(1,210)	5,276	(1,301)	2,765
Exceptional items	(366)	(296)	-	(662)
Operating (loss)/profit	(1,576)	4,980	(1,301)	2,103
Finance costs	-	-	(1,047)	(1,047)
(Loss)/profit before income tax	(1,576)	4,980	(2,348)	1,056
Income tax expense	-	-	(367)	(367)
(Loss)/profit for the year	(1,576)	4,980	(2,715)	689
2008	Metals Filtration £'000	Microfiltration £'000	Other Unallocated £'000	Group £'000
Revenue	22,498	32,341	-	54,839
Operating profit/(loss)	1,061	5,068	(1,313)	4,816
Finance costs	-	-	(658)	(658)
Profit/(loss) before income tax	1,061	5,068	(1,971)	4,158
Income tax expense	-	-	(1,288)	(1,288)
Profit/(loss) for the year	1,061	5,068	(3,259)	2,870

The "Other Unallocated" segment mainly comprises Group corporate costs, some research and development costs, new business development costs and general financial services, which cannot be directly allocated.

Exceptional items of £0.7m (2008: £nil) relate to restructuring and redundancy costs incurred in reorganising the Group's operations. £0.4m was incurred in Metals Filtration and £0.3m was incurred in Microfiltration.

## 1. Segmental analyses continued

### Net assets

<b>At 30 November 2009</b>	<b>Metals Filtration £'000</b>	<b>Microfiltration £'000</b>	<b>Other Unallocated £'000</b>	<b>Group £'000</b>
Segmental assets	25,153	38,646	2,671	<b>66,470</b>
Long term receivable	-	-	1,431	<b>1,431</b>
Cash and cash equivalents	-	-	3,384	<b>3,384</b>
<b>Total assets</b>	<b>25,153</b>	<b>38,646</b>	<b>7,486</b>	<b>71,285</b>
Segmental liabilities	(2,194)	(5,101)	(1,695)	<b>(8,990)</b>
Retirement obligations	-	-	(8,606)	<b>(8,606)</b>
Borrowings	-	(182)	(17,112)	<b>(17,294)</b>
<b>Total liabilities</b>	<b>(2,194)</b>	<b>(5,283)</b>	<b>(27,413)</b>	<b>(34,890)</b>
<b>At 30 November 2008</b>	<b>Metals Filtration £'000</b>	<b>Microfiltration £'000</b>	<b>Other Unallocated £'000</b>	<b>Group £'000</b>
Segmental assets	29,737	39,781	755	70,273
Long term receivable	-	-	1,261	1,261
Cash and cash equivalents	-	-	2,501	2,501
<b>Total assets</b>	<b>29,737</b>	<b>39,781</b>	<b>4,517</b>	<b>74,035</b>
Segmental liabilities	(3,248)	(5,479)	(1,189)	(9,916)
Retirement obligations	-	-	(3,704)	(3,704)
Borrowings	-	(333)	(18,898)	(19,231)
<b>Total liabilities</b>	<b>(3,248)</b>	<b>(5,812)</b>	<b>(23,791)</b>	<b>(32,851)</b>

### Secondary reporting format – geographical segments

	<b>2009</b>		<b>2008</b>	
	<b>By destination £'000</b>	<b>By origin £'000</b>	<b>By destination £'000</b>	<b>By origin £'000</b>
<b>Revenue</b>				
United Kingdom	13,301	26,297	14,834	28,302
Continental Europe	8,047	6,860	9,071	1,799
Americas	25,456	21,762	26,166	24,738
Asia	7,026	306	3,765	-
Australasia	525	-	490	-
Africa	870	-	513	-
	<b>55,225</b>	<b>55,225</b>	<b>54,839</b>	<b>54,839</b>

## 2. Earnings per share

	2009			2008		
	Earnings	Weighted average number of shares	Per share amount	Earnings	Weighted average number of shares	Per share amount
	£'000		(pence)	£'000		(pence)
Basic EPS – earnings attributable to ordinary shareholders before exceptional items	1,141		2.7	2,870		7.0
Exceptional items	(452)	-	(1.1)	-	-	-
<b>Earnings attributable to ordinary shareholders</b>	<b>689</b>	<b>42,073,640</b>	<b>1.6</b>	<b>2,870</b>	<b>41,041,288</b>	<b>7.0</b>
Effect of dilutive securities – share options	-	-	-		17,817	-
<b>Diluted EPS</b>	<b>689</b>	<b>42,073,640</b>	<b>1.6</b>	<b>2,870</b>	<b>41,059,105</b>	<b>7.0</b>

## 3. Dividends per share

	2009		2008	
	Per share	£'000	Per share	£'000
Final dividend paid	1.25p	526	1.20p	488
Interim dividend paid	1.00p	421	1.00p	421
	<b>2.25p</b>	<b>947</b>	<b>2.20p</b>	<b>909</b>

The Directors recommend the payment of a final dividend of 1.25 pence per share (2008: 1.25 pence per share) on 11 June 2010 to shareholders on the register on 30 April 2010; the ex-dividend date is 28 April 2010. This makes a total dividend for the year of 2.25 pence per share (2008: 2.25 pence per share).

## 4. Property, plant and equipment

Cost	Freehold land and buildings	Assets in the course of construction	Property, plant and equipment	Total
	£'000	£'000	£'000	£'000
At 1 December 2008	4,166	222	21,698	26,086
Reclassification	-	(456)	456	-
Additions	1	369	558	928
Disposals	-	-	(360)	(360)
Exchange differences	(160)	(9)	(803)	(972)
<b>At 30 November 2009</b>	<b>4,007</b>	<b>126</b>	<b>21,549</b>	<b>25,682</b>
<b>Depreciation</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 December 2008	(926)	-	(15,290)	(16,216)
Charge for the year	(212)	-	(1,376)	(1,588)
Disposals	-	-	356	356
Exchange differences	67	-	571	638
<b>At 30 November 2009</b>	<b>(1,071)</b>	<b>-</b>	<b>(15,739)</b>	<b>(16,810)</b>
<b>Net book value</b>				
<b>At 30 November 2009</b>	<b>2,936</b>	<b>126</b>	<b>5,810</b>	<b>8,872</b>
At 30 November 2008	3,240	222	6,408	9,870

## 5. Goodwill and other intangible assets

<b>2009</b>					
	<b>Goodwill</b>	<b>Development expenditure capitalised</b>	<b>Software capitalised</b>	<b>Trademarks</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Net book amount at 1 December 2008	36,601	1,390	584	29	38,604
Additions	-	229	38	-	267
Disposals	-	-	(1)	-	(1)
Amortisation	-	(196)	(200)	(7)	(403)
Exchange differences	(758)	(92)	13	4	(833)
<b>Net book amount at 30 November 2009</b>	<b>35,843</b>	<b>1,331</b>	<b>434</b>	<b>26</b>	<b>37,634</b>
<b>At 30 November 2009</b>					
	<b>Goodwill</b>	<b>Development expenditure capitalised</b>	<b>Software capitalised</b>	<b>Trademarks</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cost	54,464	1,820	1,006	36	57,326
Accumulated amortisation and impairment	(18,621)	(489)	(572)	(10)	(19,692)
<b>Net book amount</b>	<b>35,843</b>	<b>1,331</b>	<b>434</b>	<b>26</b>	<b>37,634</b>

## 6. Provisions for other liabilities and charges

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
At 1 December	<b>60</b>	133
Used during year	-	(78)
Charged to consolidated income statement:		
Unwinding of discount	<b>5</b>	5
<b>At 30 November</b>	<b>65</b>	<b>60</b>

The provision at 30 November 2008 and 2009 relates to a discounted dilapidations provision for leased property which is expected to reverse in 2027.

## 7. Borrowings

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Secured multi-currency revolving credit facility of \$25 million (2008: US\$25 million) maturing in July 2011 with interest at 2.95% (2008: 1.825%) above US dollar LIBOR	<b>13,588</b>	14,919
Secured five year amortising debt facility of £1.875 million (2008: £2.375 million) expiring in July 2013 with interest at 3.25% (2008: 1.825%) above LIBOR	<b>1,863</b>	2,359
Secured revolving credit facility of €1.6 million (2008: €1.6 million) maturing in January 2011 with interest at 2.95% (2008: 1.825%) above EURIBOR	<b>1,461</b>	1,320
Unsecured loan notes relating to the acquisition of Toolturn Engineering Limited payable in three annual instalments to March 2011	<b>200</b>	300
<b>At 30 November</b>	<b>17,112</b>	<b>18,898</b>

## 8. Share capital and premium

	Number of shares	Ordinary shares	Share premium account	Total
	thousands	£'000	£'000	£'000
At 1 December 2007	40,699	814	32,765	33,579
Issue of shares as part consideration for the Seal Analytical acquisition	1,375	27	1,259	1,286
<b>At 30 November 2008 and 2009</b>	<b>42,074</b>	<b>841</b>	<b>34,024</b>	<b>34,865</b>

## 9. Other reserves

	Cumulative translation reserve	Retained earnings
	£'000	£'000
At 1 December 2007	(3,824)	4,665
Profit for the year attributable to shareholders	-	2,870
Direct to equity:		
Dividends paid	-	(909)
Actuarial losses net of tax	-	(1,652)
Share based payments net of tax	-	50
Exchange differences	5,119	-
<b>At 30 November 2008</b>	<b>1,295</b>	<b>5,024</b>
Profit for the year attributable to shareholders	-	689
Direct to equity:		
Dividends paid	-	(947)
Actuarial losses net of tax	-	(3,528)
Share based payments net of tax	-	114
Interest rate swap cash flow hedge	-	(245)
Exchange differences	(872)	-
<b>At 30 November 2009</b>	<b>423</b>	<b>1,107</b>

## 10. Cash generated from operations

	2009	2008
	£'000	£'000
Operating profit	2,103	4,816
Non cash pension charge	500	100
Share based payments	124	105
Depreciation and amortisation	1,991	1,623
Loss on disposal of property, plant and equipment	5	1
<b>Operating cash flows before movement in working capital</b>	<b>4,723</b>	<b>6,645</b>
Decrease/(increase) in inventories	1,522	(1,176)
Decrease in trade and other receivables	1,982	289
Decrease in payables	(2,211)	(1,443)
Decrease in provisions	-	(78)
<b>Decrease/(increase) in working capital</b>	<b>1,293</b>	<b>(2,408)</b>
<b>Cash generated from operating activities</b>	<b>6,016</b>	<b>4,237</b>

## 11. Basis of preparation

The preliminary announcement for the year ended 30 November 2009 has been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as at 30 November 2009. The financial information contained in this preliminary announcement does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information has been extracted from the financial statements for the year ended 30 November 2009, which have been approved by the Board of Directors and on which the auditors have reported without qualification. The financial statements will be delivered to the Registrar of Companies after the Annual General Meeting. The financial statements for the year ended 30 November 2008, upon which the auditors reported without qualification, have been delivered to the Registrar of Companies.

**12. Annual general meeting**

The Company's Annual General Meeting will be held on Tuesday 13 April 2010 at 7 Regis Place, Bergen Way, King's Lynn, PE30 2JN.