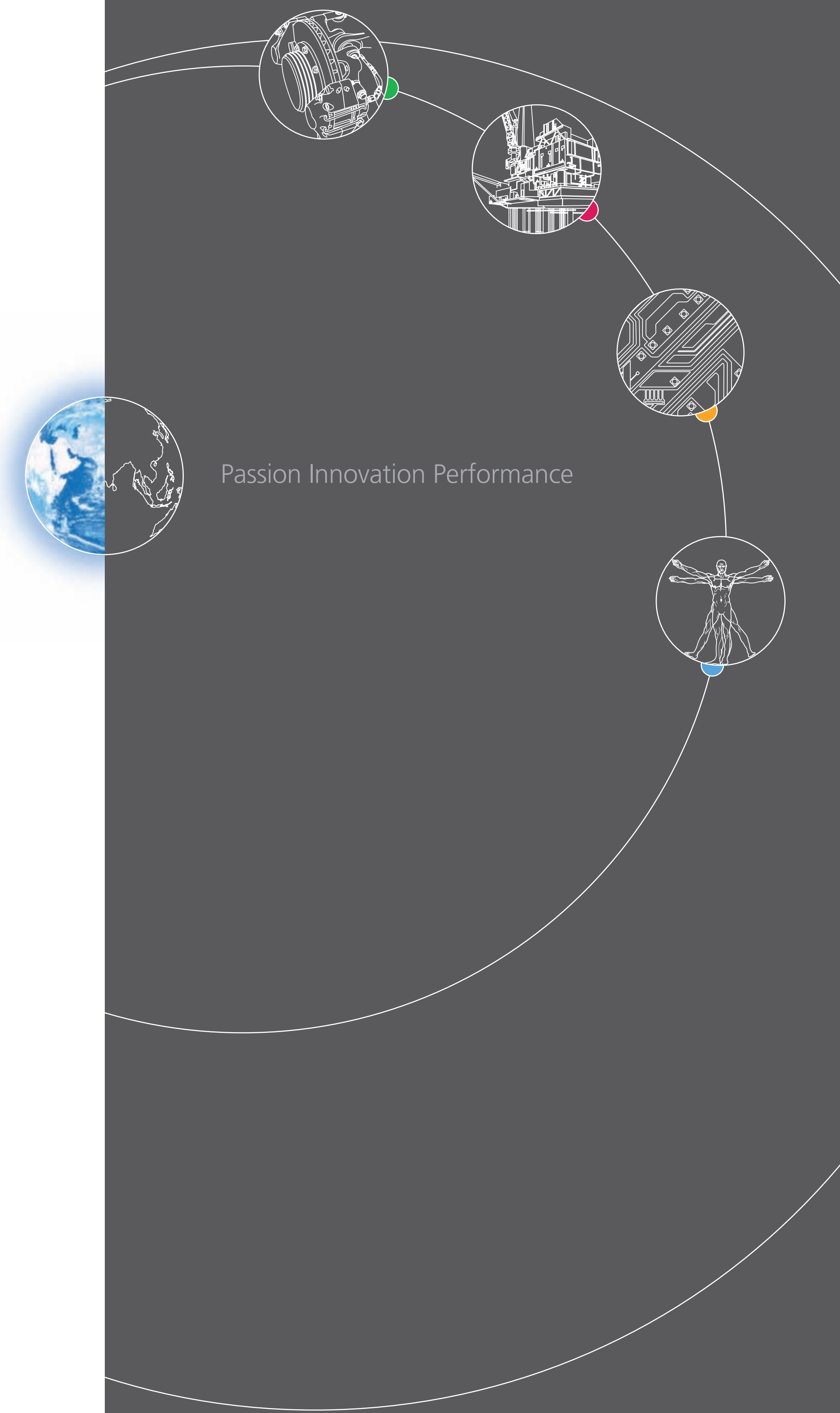
victrex®

VICTREX plc Annual Report 2006



Passion Innovation Performance

Contents

Market segments

highlights

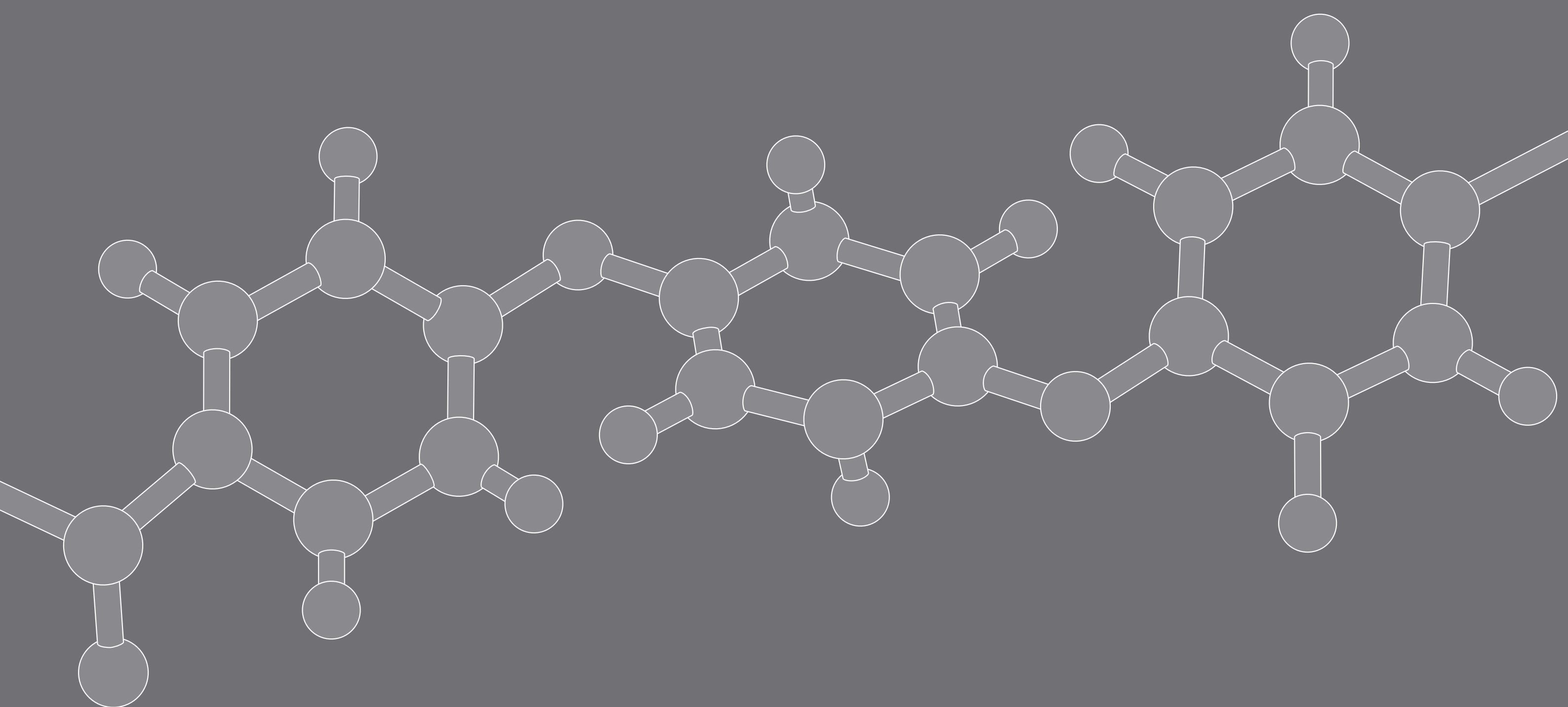
Volume up 19%

Revenue up 21%

Profit before taxation up 31%

Earnings per share up 32%

Dividend per share up 20%



Chairman's Statement

I am pleased to report another year of excellent progress as Victrex has again delivered record sales and profits, further strong organic growth and continued success in developing new product applications in increasingly diverse industries.

Results and dividend

Profit before tax grew by 30.8% to a record level of £46.1m (2005: £35.3m) on revenue of £122.5m (2005: £100.9m). Basic earnings per share were up 31.8% at 39.4p (2005: 29.9p).

In recognition of this strong performance the Directors are recommending a final dividend of 10.2p (2005: 9.3p) per ordinary share, making a total of 14.4p (2005: 12.0p) per ordinary share for the year, an increase of 20% over last year.

Board appointment

I am very pleased to welcome Giles Kerr to the Board as a non-executive Director. He is currently the Finance Director of Oxford University and was formerly Group Finance Director of Amersham plc. With his breadth of experience, he will contribute significantly to the Board.

People

Our continued success is, again, largely due to the skill, efforts and dedication of our employees. I would like to thank them for their major contribution to another successful year.

Prospects

During the year we have made significant progress across our business. We have successfully launched new products, expanded our presence in emerging markets and broadened our application and customer base. Our capital expenditure programme is on schedule to ensure that we have the necessary infrastructure to support the continuing development of the business.

We believe that this leaves us well placed to further realise the underlying growth potential of the business.

Peter Warry
Chairman
4 December 2006

Annual Business Review

Business overview

VICTREX plc is an innovative world leader in high performance materials through the manufacture of VICTREX® PEEK™ polymer, a high performance, easy to process thermoplastic.

VICTREX PEEK has a unique combination of chemical, wear, electrical, hydrolysis and temperature resistance, as well as excellent dimensional, mechanical and chemical stability combined with inherent purity and low flammability.

End users specify VICTREX PEEK to reduce systems costs, improve part performance, exploit greater design freedom and create a differentiated application. VICTREX PEEK is used across a broad range of applications in diverse markets including transport, industrial, electronics and medical. Invibio®, Victrex's biomaterials business, provides specialised solutions for medical device manufacturers.

The Group's headquarters are in the UK where its manufacturing facilities are based. This is complemented by a global network of sales, distribution and technical centres that serve more than 30 countries worldwide. Our team of dedicated market-development, sales and technical support professionals work with customers around the world offering assistance in new application development, product performance data and processing support.

Strategy and objectives

Victrex's strategic objectives are to:

- ▲ Achieve sustainable earnings growth;
- ▲ Deliver new solutions to meet end users' evolving application requirements through product and technology innovation;
- ▲ Continually improve customer satisfaction through superior product quality and customer service and innovative application solutions;
- ▲ Achieve the highest appropriate standards for the supply chain in terms of capacity, operational efficiency, safety, health and environment ("SHE") performance and quality and,
- ▲ Maximise employee motivation and performance.

Key performance indicators

The Victrex Board monitors a number of financial and non-financial performance indicators to assess the Group's performance against its strategic objectives. Of these performance indicators, the key performance indicators ("KPI"s) are:

Area	KPI	Target	Actual 2006	Actual 2005
Financial performance	Five year compound annual growth rate in basic EPS	Sustainable earnings growth	15.2%	16.2%
New application development	Commercialised applications	Delivery of sufficient new commercialised applications to underpin growth	517 new applications with 345 tonnes of MAV	475 new applications with 351 tonnes of MAV
Supply chain	Capacity	Delivery of sufficient high quality capacity to meet demand	Current capacity - 2,800 tonnes per annum. Final delivery of a further 1,450 tonnes per annum scheduled for Autumn 2008.	Current capacity - 2,800 tonnes per annum
Health & safety	Reportable injuries	0	0	0
Environment	Reportable incidents	0	1	1
Employees	Voluntary staff turnover	Minimise	5.2%	4.3%

Further information with respect to our financial performance, new application development and supply chain is set out below in this Annual Business Review. Further information with respect to SHE and employees is set out in the Corporate Social Responsibility Report on pages 24 to 26.

Annual Business Review continued

Financial results

These results are the first to be published under International Financial Reporting Standards ("IFRS"). The main effects of the transition from UK Generally Accepted Accounting Principles ("UK GAAP") to IFRS were set out in our 2005 Annual Report and are detailed in note 25.

Revenue for the year grew by 21.4% to £122.5m (2005: £100.9m). Gross profit increased by 32.3% to £75.8m (2005: £57.3m), representing 61.9% of revenue (2005: 56.8%). This significant gross margin improvement was driven by reduced cost of sales arising from last year's acquisition of certain BDF operations (the key raw material from which VICTREX PEEK is produced).

These numbers include revenue of £3.8m (2005: £2.2m) relating to third party sales by a small, low margin fluorides business acquired as part of the BDF acquisition. As this does not represent a strategic business for Victrex, we have implemented a closure programme which will be completed in the first half of 2007. Accordingly, we have provided for associated redundancy and infrastructure costs of £0.8m in the second half of 2006. Group gross profit excluding this business amounted to £76.1m (2005: £56.9m), representing 64.1% of revenue (2005: 57.7%).

Sales, marketing and administrative expenses increased by 34.6% to £30.7m (2005: £22.8m) as we have continued to invest in product development and sales and marketing resources for both the main VICTREX PEEK business and Invibio, the Group's biomaterials business.

Profit before tax increased by 30.8% to £46.1m (2005: £35.3m) and basic earnings per share were up 31.8% at 39.4p (2005: 29.9p). Compared with the previous year, exchange rates have had an adverse impact of £0.4m on profit, principally due to a weaker US Dollar partially offset by a stronger Euro.

The overall effective tax rate is 31.0% (2005: 32.2%).

Dividend

In recognition of this strong performance, the Directors are recommending a final dividend of 10.2p per ordinary share (2005: 9.3p), making a total of 14.4p per ordinary share for the year (2005: 12.0p). This represents an increase of 20% over last year and dividend cover of 2.7 times.

Cash flow

Cash flow generated from operations increased to £54.8m (2005: £37.4m) primarily as a result of improved trading. Capital expenditure cash payments amounted to £21.5m (2005: £6.0m) principally reflecting the ongoing investment in additional capacity. Taxation paid was £12.4m (2005: £9.9m) as a result of increased profits.

At the year end, the Group had net cash of £26.9m (2005: £15.7m). The Group has a committed bank facility of £40m, all of which was undrawn at the year end. This facility expires in September 2008.

Operational review

Markets

Total sales volume increased by 18.6% to 2,339 tonnes (2005: 1,972 tonnes) with second half volume of 1,226 tonnes (2005: 984 tonnes) up 10.2% on first half volume of 1,113 tonnes (2005: 988 tonnes).

Of our three principal market segments, industrial sales volume was up 21.6% at 761 tonnes (2005: 626 tonnes), largely due to increasing demand from US oil and gas and chemical processing customers and European demand for industrial machinery applications. Second half sales of 414 tonnes were up 19.3% on the first half of 347 tonnes.

Electronics sales volume increased by 18.1% to 658 tonnes (2005: 557 tonnes) as a result of increased semiconductor and consumer electronics sales. Second half sales volume of 344 tonnes was 9.6% above the first half of 314 tonnes.

Transport sales volume grew by 12.1% to 619 tonnes (2005: 552 tonnes) as a result of increased automotive sales in Europe and commercial aerospace volume in the United States. The second half sales of 305 tonnes were in line with the first half (314 tonnes).

Europe, our most established region, continued to show strong growth across all market segments with sales volume at 1,196 tonnes for the year, up 23.4% on 2005 (969 tonnes). Second half volume (640 tonnes) was 15.1% up on the first half performance (556 tonnes) partly as a result of increased electronics sales to European processors for use in Asia-Pacific applications.

At 724 tonnes, United States volume was 19.1% up on 2005 (608 tonnes) due to increased demand in the oil and gas, chemical processing, aerospace and semiconductor segments. Second half sales volume of 376 tonnes was up 8.0% on the first half (348 tonnes).

Market segment

Transport

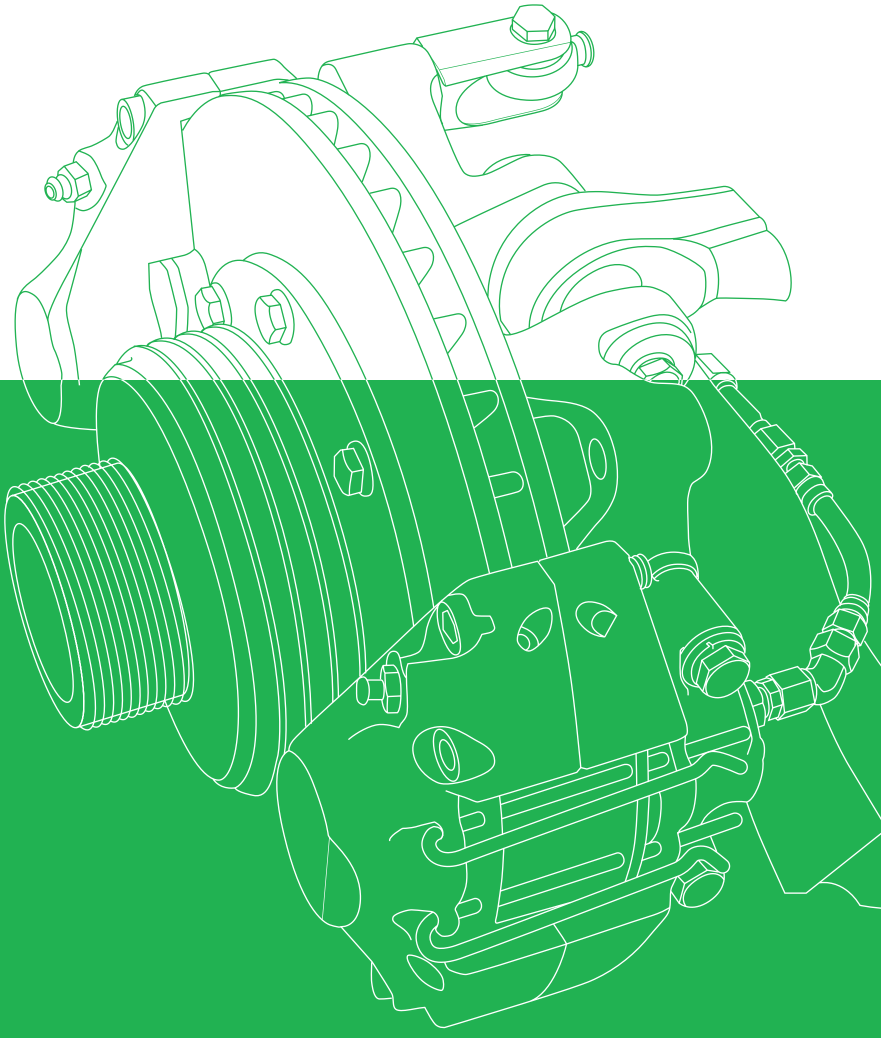
VICTREX PEEK delivers an excellent combination of properties that make it the material of choice in a wide range of transportation applications. In the automotive industry, increased performance requirements such as higher operating temperatures, size reduction and demands for lower production costs continue to drive increased usage of VICTREX PEEK.

WHY VICTREX PEEK?

- Metal replacement
- Ease of processing
- Systems cost savings
- Outstanding mechanical performance over a wide temperature range
- Impact strength
- Excellent fatigue properties
- Outstanding resistance to chemicals, solvents and fuels
- Excellent wear performance
- Increased design and processing flexibility ranging from injection moulding and extrusion to coatings and solution membrane casting
- Friction resistance

APPLICATION AREAS

- Transmissions
- Heating, ventilation and air-conditioning systems
- Jet engines
- Avionics
- Gears
- Fuel line protection
- Engines
- Structural parts/composites
- Sensors
- Brakes
- Steering
- Suspension



Annual Business Review continued

Asia-Pacific sales volume increased to 419 tonnes, up 6.1% on 2005 (395 tonnes) as we consolidated our position in this region after three years of very strong growth. Second half sales volume (210 tonnes) was in line with the first half (209 tonnes). As noted above, these volumes do not reflect sales to European processors for use in Asia-Pacific applications and we continue to believe that this region offers excellent growth potential in the medium term.

Invibio

Invibio has had another excellent year with revenue of £15.4m, showing an increase of 40.5% over 2005 (£11.0m). This reflects continued sales growth of the PEEK-OPTIMA® family of implantable polymers and sales of recently launched products such as ENDOLIGN® composites and PEEK-CLASSIX® polymer.

During the year we entered into 35 additional PEEK-OPTIMA polymer long-term supply assurance agreements with implantable medical device manufacturers. We have achieved further penetration of strategic end use markets including spine, arthroscopy, dental, orthopaedic, trauma, urology and neurostimulation.

Invibio received Frost & Sullivan's 2005 Product Innovation of the Year Award for polymeric materials in the medical implant market. This award recognised Invibio for the introduction of new biomaterials, valuable regulatory approval expertise and for collaborating with key market players for medical device innovation.

We have continued to invest in our business with the construction of a new Invibio Global Technology Centre in the UK due for completion in Spring 2007 and the establishment of a presence in Asia-Pacific with a new sales office and dedicated personnel. Long-term implantable devices utilising PEEK-OPTIMA polymer have now been approved in China, Taiwan, Korea, India, Australia and Japan.

Business development

Victrex market development efforts continued to accelerate in 2006, as our global teams developed new applications for Victrex products in an increasingly diverse set of industries.

We introduced a new range of coating products under the VICOTE™ brand, characterised by the theme "VICOTE Coatings… the next generation of coatings for durability and long-life", which will allow us to continue to broaden our application and industry exposure. In addition to launching the product range, we commercialised a number of applications ranging from consumer cookware to industrial belting, in industries which were not served by our traditional products.

We commenced sales of high performance films (based on VICTREX PEEK) directly to end users and fabricators. This has begun to develop the market ahead of a wider initiative for 2007 driven by strong industry interest and supported by Victrex's investment in our own film manufacturing facility currently under construction on our main UK site at Thornton Cleveleys, Lancashire. This facility is due for completion in Spring 2007 at an estimated capital cost of £5.3m. We are developing a number of applications based on VICTREX PEEK film in areas such as aerospace insulation and flexible printed circuits, and have commercialised applications in high performance speakers and electronic substrates.

To further extend the potential uses for our materials, we launched the VICTREX T-Series of polymers, the first product family introduced by Victrex not entirely based on VICTREX PEEK polymer. This product, a blend of VICTREX PEEK and Celazole® PBI, extends the performance range of our materials into even more demanding temperature and wear applications such as high speed compressors and components for semiconductor wafer handling systems.

While new product innovation continues to open up new markets, other investments globally underline our commitment to emerging market areas. We opened our first dedicated technical centre outside the UK, the Asia Innovation and Technology Center ("AITC"), based in Shanghai. The AITC is focused on delivering application solutions rapidly to regional and global customers, to keep pace with their increasing demands. Since opening in June 2006, the Center has already become very active, with many customer seminars, technical programmes and visits already completed. In addition, our AITC based technical team are helping to drive new semiconductor application developments.

In our more traditional industries and geographies, we are seeing expansion of both our applications and our customer base. Reduced systems cost, improved safety and reduced warranty claims continue to drive interest in VICTREX PEEK in the automotive segment, with exciting new applications in areas such as ball joints, gears and mechanical friction and wear components. In the electronics market, we are penetrating new board level components such as connectors, capacitors and battery systems where lead-free solder processes demand robust materials at higher temperatures. The need for weight savings in the aerospace market, especially with the launch of a new generation of fuel efficient aircraft, requires the use of materials which are lighter than traditional metals yet still offer outstanding strength and toughness in a variety of demanding environments.

Market segment

Industrial

Engineers are facing increased demands for materials with high temperature performance and chemical resistance while avoiding costly production downtime due to component failure.

VICTREX PEEK is an excellent choice for industrial applications due to its exceptional combination of physical properties and processability. Components designed with VICTREX PEEK can deliver superior long-term reliability in the harshest of environments that require high strength and wear resistance over a wide range of temperatures.

WHY VICTREX PEEK?

- Outstanding mechanical performance over a wide temperature range
- Excellent dynamic fatigue resistance and high creep resistance
- Extremely low gas permeability
- Excellent wear resistance
- Withstands high continuous operating temperatures; very thermally stable
- Good hydrolysis resistance; ability to retain mechanical properties and dimensional stability when exposed to water or steam at elevated temperatures
- Superior resistance to a wide range of chemicals

APPLICATION AREAS

- Data logging tools
- Seals and back up rings
- Cable insulation
- Cable ties
- Down-hole/sub-sea connectors
- Plugs and packers
- Submersible motor parts
- Bearings and bushings
- Compressor parts

Annual Business Review continued

Our success in new application development is best characterised by the continued strength of our development pipeline and new applications commercialised. At the year end, our pipeline of potential target opportunities contained 1,764 developments (2005: 1,433) with an estimated mature annualised volume ("MAV") of 2,754 tonnes (2005: 2,344 tonnes) which represents the total additional volume achievable if all of the developments were successfully commercialised. During the year we commercialised 517 new applications (2005: 475) with an estimated MAV of 345 tonnes (2005: 351 tonnes).

Supply chain and capital expenditure

The supply chain can currently support 2,800 tonnes per annum of VICTREX PEEK sales. To allow us to meet our growth expectations and demonstrate further security of supply to our customers, we are currently constructing a second VICTREX PEEK polymer powder plant on our main UK site. With an estimated capital cost of £29m, the new plant will have the capacity to support an additional 1,450 tonnes per annum of VICTREX PEEK sales and is on schedule to be completed in Autumn 2007.

Detailed design and costing of the BDF supply chain uprate to support this additional polymer capacity has now been completed. The estimated capital cost of the BDF uprate will be around £23m with completion expected in Autumn 2008.

Total tangible fixed asset additions amounted to £25.0m for the year (2005: £18.5m – including the acquisition of the BDF operations) compared with total forecast expenditure of around £30m. The additions principally related to the ongoing construction of the polymer powder plant. Other items include the AITC, Invibio Global Technology Centre and the film manufacturing facility. The lower than expected level of expenditure for the year simply reflects specific phasing of project expenditure. We expect capital expenditure for 2007 to amount to approximately £35m, again subject to phasing of projects. This will be funded from the Group's cash resources and committed borrowing facilities.

Outlook

Sales volume

Sales volume has shown further growth since the year end which, if sustained, will result in higher first half volume than the second half of 2006.

Currency impact

As previously reported, trading results for 2007 will be impacted by the strengthening of Sterling against our key trading currencies (US Dollar, Euro and Yen) compared with 2006. Based on our budgeted sales volume, currency hedging already in place and recent spot exchange rates, we currently estimate the following average exchange rates will apply:

	Year to 30 September 2006 Actual	Six months to 31 March 2007	Six months to 30 September 2007	Year to 30 September 2007
US Dollar	1.82	1.81	1.89	1.85
Euro	1.43	1.46	1.46	1.46
Yen	188	201	210	205

As can be seen from the above table, most of the impact will be felt in the second half. By way of illustration, if the estimated 2007 rates had applied in 2006, this would have had an adverse impact of £2.5m on profits.

The future

As we look to the future, we will continue to expand the applications, markets and industries we serve through investments in market development, product and application technology and supply chain infrastructure. We believe that this provides a sound basis for sustainable earnings growth.

Market segment

Electronics

Victrex works with component manufacturers to reduce system cost while improving overall application performance.

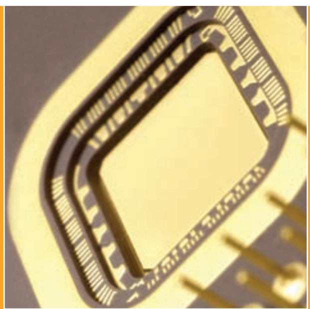
VICTREX PEEK provides electronic components with an exceptional combination of benefits including wear resistance, strength, dimensional stability, low outgassing and moisture absorption and high temperature resistance. This means greater part functionality, reliability and cost savings for designers.

WHY VICTREX PEEK?

- High temperature resistance
- Eco compliant (Green) FR systems
- High mechanical strength and abrasion resistance
- Fully recyclable
- Low moisture absorption
- Electrical stability
- Processing flexibility
- Chemical resistance
- Low particle generation
- Dimensional stability
- Low flammability

APPLICATION AREAS

- Mobile phones
- Semiconductor manufacturing
- Printers
- LEDs
- Connectors
- Batteries
- HDDs (hard disk drives)
- Computers
- Switches



Annual Business Review continued

Risks and uncertainties

Victrex's business and share price may be affected by a number of risks, not all of which are in our control. The process Victrex has in place for identifying, assessing and managing risks is set out in the Corporate Governance Report on page 17.

Sections of this Annual Report contain forward-looking statements, including statements related to: future demand and markets for the Group's products and services; research and development relating to new products and services, and liquidity and capital resources. These forward-looking statements involve risks and uncertainties, because they relate to events that may or may not occur in the future.

The specific principal risks (which could impact the Group's revenues, profits and reputation) and relevant mitigating factors, as currently identified by Victrex's risk management process, are described below. However, other risks may also adversely affect the Group. Accordingly, actual results may differ materially from anticipated results because of a variety of risk factors, including: changes in global, political, economic, business, competitive and market forces; changes to legislation and tax rates; future business combinations or disposals; relations with customers and customer credit risk; events affecting international security, including global health issues and terrorism; changes in regulatory environment, and the outcome of litigation.

Technological change

Victrex's business is dependent on manufacturing and selling high quality products into advanced applications. Demand for these applications and, consequently, for our products could be impacted as new technologies and materials are developed.

To address this, we employ specialists covering the major market segments for VICTREX PEEK to maintain and advance our skills and knowledge. This enables us to develop new applications for VICTREX PEEK, so that we maintain our position as a leading solutions provider to designers and engineers at our customers and end users.

Operational disruption

The Group's business is dependent on the ongoing operation of our various manufacturing facilities. A significant operational disruption could adversely affect our ability to make and supply products.

As a result, we have implemented policies and procedures to safely manage all our operations and maintain our supply of VICTREX PEEK to customers. In particular, we employ a dedicated and empowered SHE department to assist line management and to provide expert guidance. Further information on SHE matters is set out in the Corporate Social Responsibility Report on page 24.

We hold significant stocks of raw materials and finished goods to enable us to maintain supplies during any short-term disruption. Furthermore, the second VICTREX PEEK manufacturing plant will be able to operate independently from the existing plant, thereby reducing the impact of any operational disruption on our ability to continue manufacturing products.

Insufficient capacity

Our customers' businesses depend on maintaining a consistent supply of high quality products. Any unexpected upsurge in demand could lead to insufficient capacity to fulfil customers' needs; additionally any delays in the implementation of major capital expenditure programmes could create a capacity shortage, leading to customers seeking alternative products.

To mitigate this risk, our stocks of finished goods enable us to supply any short-term surge in demand from our customers. Additionally, it is our policy to keep capacity well ahead of demand, by investing in our supply chain, so that our customers can be confident that we can meet any requirements they may have.

Product specifications

The Group's products are used in highly demanding end use applications. Any failure to supply products in accordance with their specifications could lead to loss of business and, potentially, a product liability claim.

To mitigate this risk, VICTREX PEEK is manufactured within a quality management system approved to ISO 9001(2000). Invibio PEEK-OPTIMA polymer is additionally manufactured within the requirements of ISO 13485, a system of good manufacturing practice often used by the pharmaceutical industry and by medical companies.

Competitor activity

Victrex operates in competitive markets, both in terms of competitors offering directly comparable materials (other polyaryletherketone products) and alternative materials. Failure to compete successfully could lead to loss of business.

Accordingly, we are continuing to work closely with our customers to provide high quality products as required and to invest in resources to bring cost effective, high quality application solutions to our customers.

Currency exposure

Currently, the Group exports 97% of sales from the UK. These sales are denominated in US Dollar, Euro and Yen. Fluctuations in exchange rates between Sterling and these other currencies could cause profit and balance sheet volatility.

The Group hedging policy to mitigate this risk is set out in the Corporate Governance Report on page 17.

Market segment

Invibio®

Invibio is an innovative global leader providing high performance biomaterials, advanced technical research and proven market expertise across a wide range of medical device applications. Our biomaterials solutions enable customers to deliver innovative medical devices that enhance patient quality of life.

Invibio's proprietary biomaterials, including implantable PEEK-OPTIMA polymer and ENDOLIGN composite, and medical grade PEEK-CLASSIX polymer, combine outstanding physical properties and biocompatibility, making them the material of choice for leading medical device manufacturers.

WHY INVIBIO BIOMATERIALS?

- Excellent biocompatibility and biostability
- Modulus similar to human bone
- Excellent repeated sterilisation resistance
- Imaging compatibility allows clear visualisation of the healing site
- Outstanding wear properties
- Exceptional mechanical properties that can be tailored to applications
- Wide design and processing flexibility

APPLICATION AREAS

PEEK-OPTIMA POLYMER

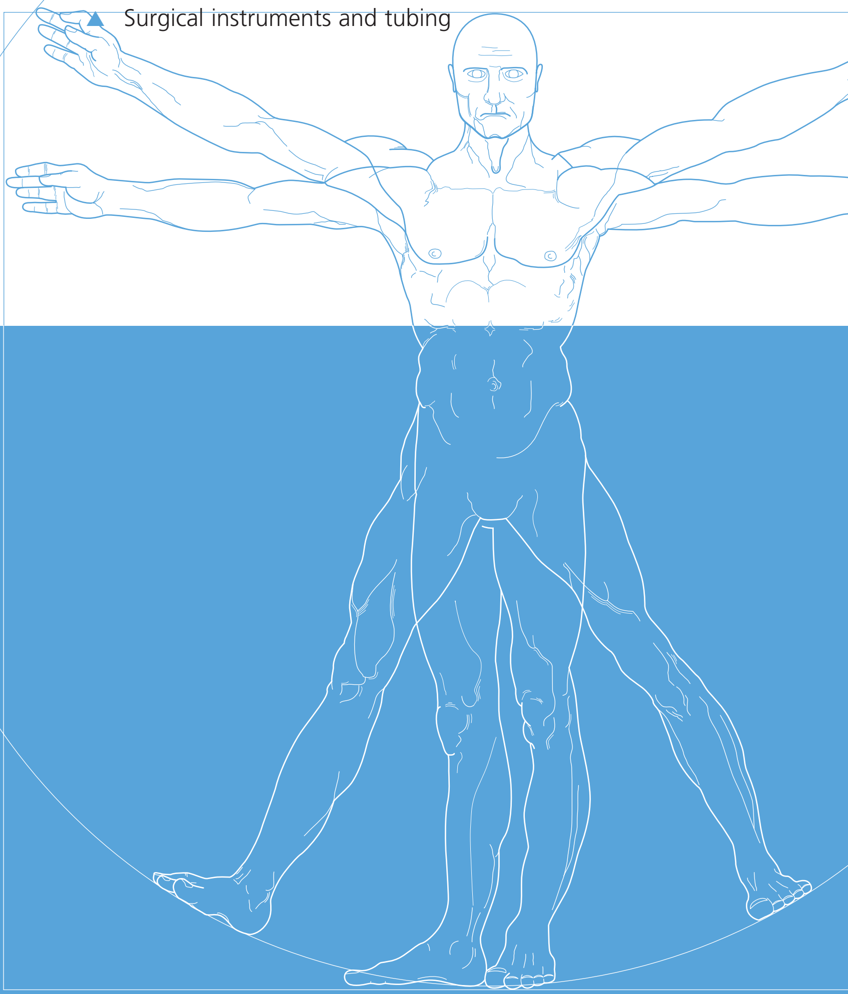
- Spinal fixation and motion preservation
- Arthroscopy
- Cardiovascular
- Dental
- Drug delivery
- Orthopaedic
- Neurology

ENDOLIGN COMPOSITE

- Translaminar pins
- Osteosynthesis plates
- Spinal fixation cages
- Trauma fixation

PEEK-CLASSIX POLYMER

- Analytical equipment
- Dental components
- Surgical instruments and tubing



The Board

Non-executive Directors

Peter Warry (57)
MA FREng
*Non-executive Chairman * #*

Appointed Chairman in 1999. Chairman of the Nominations Committee. Currently Chairman of Kier Group PLC, BSS Group PLC and of the Particle Physics and Astronomy Research Council. He has previously held a number of senior positions in the engineering industry.

Anita Frew (49)
BA MPhil
*Non-executive Director * † #*

Appointed in 2000. Chairman of the Remuneration Committee and Senior Independent Director. Currently a non-executive Director of Aberdeen Asset Management plc, The City of London Investment Trust plc, IMI plc, Northumbrian Water Limited and Securities Trust of Scotland plc.

Giles Kerr (47)
BA ACA
*Non-executive Director * † #*

Appointed in August 2006. Chairman of the Audit Committee. Currently Finance Director of Oxford University. He was formerly Finance Director of Amersham plc and was previously a partner in Arthur Andersen.

Jonathan Azis (49)
MA Solicitor
*Non-executive Director * † #*

Appointed in 2003. Currently Chairman of Isotron PLC and Director of Hanson Westhouse LLP; a Solicitor, he was previously an executive Director and Company Secretary of Hanson PLC.

Executive Directors

David Hummel (48)
BSc
*Chief Executive **

Appointed in 1993. Formerly with Diamond Shamrock, GE Plastics & ICI, assuming responsibility for VICTREX PEEK worldwide in 1992.

Michael Peacock (48)
BA ACA
Finance Director

Appointed in 2000. Formerly with Barclays de Zoete Wedd's corporate finance department before moving into industry as a Finance Director, most recently with Viva! Health and Leisure Clubs Limited.

Blair Souder (43)
BCEng MBA
Commercial Director

Appointed in 2002. Formerly with GE Plastics in a number of senior management positions, most recently as Global Marketing Director for Emerging Markets.

Tim Walker (58)
BSc PhD CChem FRSC
Production & Technical Director

Appointed in 1999. Formerly with ICI where he held senior appointments in R&D and Operations, most recently as Manufacturing General Manager for the Dulux paints business.

Nominations Committee * Audit Committee † Remuneration Committee #

Directors' Report

The Directors present their Annual Report and Accounts to shareholders for the year ended 30 September 2006.

Principal activity

The Group's principal activity is the manufacture and sale of high performance materials.

Annual business review

The Company is required to set out in this report a fair review of the business of the Group during the financial year ended 30 September 2006, the position of the Group at the end of that financial year and a description of the principal risks and uncertainties facing the Group (known as an "Annual Business Review").

The information that fulfils the requirements of this Annual Business Review can be found on pages 3 to 10.

Results and dividends

Group profit after tax for the year was £31.8m (2005: £23.9m).

The Directors recommend the payment of a final dividend of 10.2p per share, on 1 March 2007, to all shareholders on the register on 2 February 2007. This makes a total dividend of 14.4p per share for the year (2005: 12.0p per share).

Share capital

During the year 504,479 shares were issued in respect of options exercised under employee share schemes. Details of these schemes are summarised in note 18.

Own shares held

Details of own shares held are given in note 19 to the financial statements.

Directors

Charles Irving-Swift retired from the Board on 5 June 2006.

Giles Kerr was appointed to the Board with effect from 1 August 2006.

Details of the Directors of the Company are given on page 12. Details of Directors' interests in shares are provided in the Report on Directors' Remuneration on pages 18 to 23.

At the forthcoming Annual General Meeting ("AGM"), resolutions will be proposed for the re-election of Mr G F B Kerr, Mr M W Peacock, Ms A M Frew, Mr D R Hummel and Mr J G A Azis.

Employment policies

The Group's employment policies, including its policy regarding the employment of disabled people, are set out on page 25.

Major interests in shares

The Company has been notified of the following interests in 3% or more of its issued share capital as at 1 December 2006:

	Number of ordinary shares	
Schroder Investment Management Limited	10,083,076	12.34%
The AEGON UK plc Group	4,220,537	5.16%
Legal & General Group plc	3,253,821	3.98%
Standard Life Investments Limited	2,861,423	3.50%
Morgan Stanley Securities Limited	2,600,402	3.18%

Donations

The Group made charitable donations of £25,451 (2005: £13,698) during the year of which £5,334 (2005: £9,235) was in the UK. No political donations were made (2005: £nil).

Creditor payment policy

The Group does not follow any standard code on payment practice. Terms and conditions are agreed with each supplier as appropriate. The Group has trade creditors outstanding at the year end representing 27 days (2005: 21 days) of purchases. The Company does not have any significant external trade creditors.

Directors' indemnities

The Company has granted indemnities in favour of Directors under Deeds of Indemnity. These Deeds were in force during the year ended 30 September 2006 and remain in force as at the date of this report. The Deeds and the Company's Articles of Association are available for inspection during normal business hours at the Company's registered office and will be available at the AGM.

Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each 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/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

A resolution proposing the reappointment of KPMG Audit Plc as Auditor of the Company will be put to the AGM.

By order of the Board

Michael Peacock
Company Secretary
4 December 2006

Corporate Governance

The Directors have reviewed the Group's compliance with the Combined Code on Corporate Governance issued by the Financial Services Authority in July 2003 (the "Code").

For FTSE 250 companies, the Code requires that at least half of the Board, excluding the Chairman, should comprise non-executive Directors determined by the Board to be independent. The Group has not strictly complied with this requirement as there are four executive Directors and only three independent non-executive Directors although the Board also considers the Chairman to be independent. However the Board is unanimously of the view that the current balance between executive and non-executive members is conducive to the good governance of the business.

The Chairman has served as a member of the Audit and Remuneration Committees during the year. Following the appointment of Giles Kerr as a non-executive Director and Chairman of the Audit Committee on 1 August, the Chairman has ceased to be a member of the Audit Committee but attends by invitation. He remains a member of the Remuneration Committee as the Board considers this beneficial in view of his skills, experience and training. While this is not in compliance with the current Code, it is permitted under the new Combined Code issued in June this year, which will apply to future reporting periods.

Subject to the above paragraph, the Directors confirm that the Group complied in all respects with the Code throughout the year, as follows:

The Board

The Board is responsible for the Group's strategic development, monitoring achievement of its business objectives and maintaining a system of effective corporate governance, which includes the responsibility for health, safety, environmental, social and ethical matters.

The Board comprises a non-executive Chairman, three other non-executive Directors and four executive Directors. All of the Directors served throughout the year with the exception of Charles Irving-Swift who retired on 5 June 2006 and Giles Kerr who was appointed on 1 August 2006. The offices of Chairman and Chief Executive are separate and clearly distinct. The division of their responsibilities is set out in writing and has been agreed by the Board. There is no Deputy Chairman.

The non-executive Directors (including the Chairman), are all considered by the Board to be independent of the management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. Anita Frew is the Senior Independent Director.

The Board has a clearly documented schedule of matters reserved for its decision, including approval of the Group's strategy, the annual budget, material capital expenditure, material contracts, customer credit limits above certain levels, major investments and disposals and entering into material strategic alliances, joint ventures and partnerships. The Board delegates day-to-day and business management control to the executive Directors led by the Chief Executive.

The Board receives sufficient management information and reports on all strategic and significant operational matters on a timely basis. Senior executives also attend Board meetings as appropriate. Site visits and briefings by operational management to enhance the Board's understanding of the business take place regularly.

Training (including social, environmental and ethical matters) is provided for new Directors, by means of a tailored induction, and subsequently as required. Directors can take independent professional advice where necessary at the Company's expense and have access to the services of the Company Secretary whose appointment is a Board matter and who is responsible for ensuring that Board procedures and all applicable rules and regulations are followed. Appropriate levels of insurance cover are obtained for all Directors and Officers of the Company.

The Board met formally seven times during the year. With the exception of the Commercial Director, who was unable to attend one meeting, there was full attendance at all meetings. During the year, the Chairman met with the other non-executive Directors without the executive Directors present on two occasions, and the Senior Independent Director met with the other non-executive Directors, without the Chairman present, on one occasion.

The Board has delegated certain responsibilities to standing Committees, which report back to the Board on the basis of clearly defined terms of reference.

The terms of reference of the Committees are available, on request, from the Registered Office of the Company.

A formal review of Board and Board Committee performance is carried out annually. The Chairman's performance is reviewed by the Remuneration Committee (excluding the Chairman) in conjunction with the Chief Executive. The other non-executive Directors' performance is evaluated by the Chairman in consultation with the executive Directors. Executive Directors' performance is reviewed by the Remuneration Committee in conjunction with the Chief Executive, except in the case of his own performance review.

Nominations Committee

(Chairman – Peter Warry)

The Nominations Committee, comprising all of the non-executive Directors and the Chief Executive, is responsible for regularly reviewing the structure, size and composition of the Board, including succession planning and identifying and recommending appropriate candidates for membership of the Board when vacancies arise. In considering an appointment the Nominations Committee evaluates the balance of skills, knowledge and experience of the Board and prepares a description of the role and capabilities required for a particular appointment. External search consultants are then used to identify appropriate candidates. This procedure was most recently applied for the appointment of Giles Kerr. The external search consultants used were Blackwood Group.

The Nominations Committee is also responsible for annually reviewing the time required from each non-executive Director. The Nominations Committee met three times during the year and there was full attendance at all meetings.

Based on recommendations from the Nominations Committee, Directors submit themselves for re-election at the AGM following their appointment and thereafter by rotation, at least once every three years.

Remuneration Committee

(Chairman – Anita Frew)

The Remuneration Committee, comprising all of the non-executive Directors, is responsible for reviewing and recommending the framework and policy for remuneration of the Chairman, executive Directors and senior executives, which the Board as a whole is responsible for approving. Once approved, the Remuneration Committee is responsible for evaluating the performance and determining specific remuneration packages for the Chairman and each executive Director. The Committee also monitors the level and structure of remuneration for senior executives. The Chairman and executive Directors are responsible for the agreement of non-executive Directors' remuneration.

The Remuneration Committee met four times during the year and there was full attendance at all meetings.

Audit Committee

(Chairman – Giles Kerr)

The Audit Committee, comprising all of the non-executive Directors (except the Chairman), is responsible for assisting the Board with its responsibilities in respect of external financial reporting. This includes reviewing the Group's financial statements, preliminary announcements and any formal announcements relating to financial performance, or other statements containing financial information, before submission to the Board for endorsement.

It is also responsible for overseeing all matters associated with the appointment, terms, remuneration and performance of the external auditor and for reviewing the scope and results of the audit and its cost effectiveness. The Committee reviews annually the independence and objectivity of the external auditor taking into account the non-audit services provided by them.

Such non-audit services require approval by the Committee. In considering whether the provision of such services could impair the external auditor's independence or objectivity, the Committee is governed by the following guidelines, which are incorporated in its terms of reference:

- ▲ whether the skills and experience of the audit firm make it a suitable supplier of the non-audit service under consideration;
- ▲ whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor;
- ▲ the nature of the non-audit services, the related fee levels individually and in aggregate relative to the audit fee and,
- ▲ the criteria which govern the compensation of the individuals performing the audit.

In principle the external auditor should not provide any service which:

- ▲ results in the external auditor auditing its own firm's work;
- ▲ leads to the external auditor making a management decision for the Company;
- ▲ creates a mutuality of interest or,
- ▲ leads to the external auditor being put in the role of advocate for the Company.

The Audit Committee met four times during the year and there was full attendance at all meetings. Only Committee members are entitled to attend a meeting. However, the Chairman, the Finance Director, the Financial Controller and the external audit engagement partner are normally invited to attend meetings. Others are also invited to attend as appropriate. A section of at least one meeting each year takes place without management present.

At its meeting on 25 November 2005, the Committee reviewed the Company's preliminary announcement of its results for the financial year ended 30 September 2005 and the draft report and accounts for that year. The external auditor reported to the Committee on the conduct of their audit, their review of the

Corporate Governance continued

accounts, including accounting policies and areas of judgement, and commented on risk management and control matters. The results of regular internal control reviews were also considered, together with an update on the implementation of International Financial Reporting Standards ("IFRS"). The Committee carried out the annual appraisal of the external auditor (including reviewing non-audit fees) and the effectiveness of the audit process.

The Committee met on 7 February 2006 to carry out a detailed review of the impact of implementing IFRS.

At its meeting on 23 May 2006, the Committee reviewed the Company's interim results announcement and draft half year report. The external auditor reported to the Committee on their review. The Committee also reviewed the draft IFRS guidance announcement and considered the results of regular internal control reviews.

On 26 September 2006, the external auditor presented their proposed fees and scope for the audit for the year ended 30 September 2006. The Committee also carried out its annual performance appraisal and terms of reference review.

Disclosure Committee

(Chairman – Peter Warry, David Hummel or Michael Peacock)

The Disclosure Committee's responsibilities are to ensure that the Company's obligations to make timely and accurate disclosure of information in accordance with any applicable law or regulation are met in circumstances where it is impractical for the Board, or any other Board Committee with delegated responsibility, to fulfil those obligations. In accordance with these responsibilities the Committee may make disclosures on behalf of the Board.

The Committee comprises all Directors of the Company and senior finance executives. The Chairman of each Committee meeting will be appointed on an ad hoc basis. A quorum for a Committee meeting will be any two Committee members, provided that this includes at least one of the Company's Chairman, the Chief Executive or the Finance Director. Meetings of the Committee may be called by any member of the Committee on any period of notice provided that notice is given to all members.

The Committee will consider the circumstances that give rise to the potential need for a disclosure, whether it is practical for the Board or any other Board Committee to consider the potential disclosure and, if it is impractical, the form and content of a disclosure to be made on behalf of the Board.

The Committee will take advice, including advice from the Company's brokers, external auditors and legal advisers, on the form and content of any disclosure under consideration.

Relations with shareholders

The Company is always ready, where practicable, to enter into dialogue with institutional shareholders to promote a mutual understanding of objectives. Institutional investor relations activity is normally concentrated in the periods following the announcement of the interim and final results. More broadly based presentations and site visits are arranged when there is a sufficient demand to make it cost effective. The AGM provides the Board with an opportunity to meet informally and communicate directly with private investors. Proxy votes lodged on each AGM resolution are announced.

To ensure that the Board, particularly the non-executive Directors, understand the views of major shareholders, the Company's brokers provide a summary of feedback from the meetings following the announcement of the interim and final results. The Board is also regularly provided with summaries of analysts' views on the Company. In addition the Chairman attends analyst briefings following results announcements and is available to meet institutional shareholders. The Senior Independent Director and other non-executive Directors will attend meetings with major shareholders if requested.

Internal control

The Group has complied with the Code provisions on internal control by operating throughout the year ended 30 September 2006 (and up to the date of approval of this Annual Report) those procedures necessary to implement the recommendations of the Turnbull Committee and by reporting in accordance with these recommendations. The Board is ultimately responsible for the Group's system of internal control (which covers all controls including financial, operational, compliance and risk management as further described on page 17) and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Control environment

The Group maintains a clearly defined and well established control environment. The Group's strategy is established and periodically reviewed by the Board and key projects are considered in this context. The management of the Group is delegated to the Chief Executive and his fellow executive Directors. Authority is delegated to senior executives as appropriate and the organisational requirements of a rapidly developing business are regularly reviewed.

The Group has a comprehensive process of annual budgeting, detailed monthly management reporting and regular forecasting linked to the Group's business objectives.

The Directors have also reviewed the need for an internal audit function and have concluded that there is no requirement at present.

The Group has a clear and ongoing process for identifying, evaluating and managing significant risks, which is managed by the Risk Management Committee.

Risk Management Committee

(Chairman - Tim Walker)

The Risk Management Committee, chaired by the Production and Technical Director, comprising two further executive Directors and senior executives from the operational, commercial and finance functions, is responsible for ensuring that all risks facing the Group are reduced to an acceptable level.

This is achieved by an ongoing review which includes identifying all risks faced by the Group and assessing those risks, whilst recognising existing control measures, so that unacceptable risks are identified. Plans are developed and implemented to eliminate, reduce or transfer these risks where practicable. The Committee is also responsible for reviewing the risk management and control process within the Group.

The Committee meets quarterly and regularly reports to the Board. In addition, the Board undertakes annually a formal review of the risk management process and the performance of the Risk Management Committee.

Currency Committee

(Chairman - David Hummel)

The Currency Committee, chaired by the Chief Executive, comprising three further executive Directors and senior finance executives, meets monthly to review and manage the Group's currency hedging activities. The Board is responsible for setting the hedging policy.

Currently the Group exports 97% of sales from the UK. These sales are denominated in US Dollar, Euro and Yen.

Group hedging policy is to defer the impact on profits of currency movements by hedging:

- a minimum of 90% and a maximum of 100% of projected transaction exposures arising from trading in the forthcoming six month period;
- a minimum of 75% and a maximum of 100% of projected transaction exposures arising in the following six month period and,
- at the Board's discretion a maximum of 75% of projected transaction exposures arising in the further three month period.

Profitability can nevertheless vary due to the impact of fluctuating exchange rates on the uncovered portion of the transaction exposures and from revised forecasts of future trading, which can lead to an adjustment of currency cover in place. The impact of this hedging policy is disclosed in notes 13 and 24 to the financial statements.

Directors' responsibility for preparing financial statements

The Directors are required by UK company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group as at the end of the year and of the profit for the year. In preparing these financial statements, suitable accounting policies, as explained in the notes to the financial statements, consistently applied and supported by reasonable and prudent judgements and estimates and applicable accounting standards have been followed.

The Directors are responsible for ensuring that proper and adequate accounting records are kept, and that reasonable procedures have been followed for safeguarding the assets of the Group and for preventing and detecting fraud and other irregularities.

Going concern

The Directors are satisfied that the Company and Group have adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the "going concern" basis for preparing the financial statements.

Report on Directors' Remuneration

This report covers the remuneration of executive and non-executive Directors.

The Company's approach to the Chairman's and executive Directors' remuneration is determined by the Board on the advice of the Remuneration Committee. Individual remuneration packages are determined by the Remuneration Committee within the framework approved by the Board.

The Company's approach to non-executive Directors' remuneration is set by the Board.

The Remuneration Committee consists entirely of non-executive Directors, as set out on page 15, and is chaired by Anita Frew. The Remuneration Committee has access to independent advice where it considers it appropriate.

Remuneration policy

The Company aims to provide an appropriate remuneration structure that is competitive in the marketplace and is sufficient to attract, retain and motivate executive Directors of the requisite calibre. Company policy is that performance related components should form a significant portion of the overall remuneration package. If executive Directors earn a maximum annual bonus and Long Term Incentive Plan ("LTIP") payout, basic salary would represent 37.75% of total remuneration, annual bonus 24.5% and LTIP 37.75% (excluding pension provision). In formulating remuneration policy, full consideration has been given to the principles set out in Section B of the Combined Code.

Basic salary and benefits

The basic salary for each executive Director is reviewed annually by the Remuneration Committee. It is intended that basic salary levels should reflect those paid to senior management of comparable companies. Salary amendments take into account performance against agreed objectives and comparative data, including reference to other employees in the Group as well as the Group's financial needs. The Company also provides private health insurance and company car benefits.

Annual cash bonus

Each executive Director was eligible to receive an annual cash bonus of up to 65% of basic salary for the year ended 30 September 2006. This was determined by reference to performance targets based on the Group's financial results (up to 45% of basic salary) and specific objectives (up to 20% of basic salary) set at the beginning of the financial year.

The actual bonus payable to each executive Director for the year ended 30 September 2006 was 65% of basic salary. This comprised 45% based on performance against budgeted Group profit before tax and 20% for the achievement of specific objectives relating to commercial and supply chain development and the achievement of certain business development milestones.

Awards under the Victrex Long Term Incentive Plan

Each year, executive Directors can be awarded options to acquire, at no cost, market purchased shares in the Company up to a maximum equivalent value of 100% of basic salary. The awards normally become exercisable between the fifth and tenth anniversaries of the grant date subject to the Group's performance over the three year period commencing at the start of the financial year in which the grant is made.

The extent to which an award may become exercisable is dependent on two performance conditions with 50% determined by reference to the Company's Total Shareholder Return ("TSR") and 50% determined by reference to the Group's earnings per share ("EPS"):

- the TSR element of an award will vest in full if the TSR ranks in the upper quartile, as measured over the three year period, relative to the constituents of the FTSE 250 Index at the beginning of that period. This element of the award is reduced to 12.5% on a pro-rata basis for median performance and is reduced to nil for below median performance. Notwithstanding these provisions, no shares will vest under this performance condition unless, in the opinion of the Remuneration Committee, there has been a sustained improvement in the underlying financial performance of the Group over the relevant performance period and,
- the EPS element of an award will vest in full if EPS growth exceeds inflation, as measured by the Retail Prices Index, by an average of 12% per annum or more over the three year period. This element of the award is reduced to 10% on a pro-rata basis if EPS growth exceeds inflation by an average of 5% per annum over the period and is reduced to nil if EPS growth fails to exceed inflation by 5% per annum.

The Remuneration Committee considers that this combination of performance conditions is the most appropriate way of rewarding executive Directors because it takes into account both the long-term returns to shareholders and the Group's underlying financial performance. The TSR performance condition is monitored on our behalf by New Bridge Street Consultants LLP whilst the Group's EPS growth is derived from the audited financial statements.

Share options

With the exception of a one-off award to Blair Souder, shortly following his appointment, share options under the Victrex 1995 Executive Share Option Scheme were only granted to executive Directors up to 1999. Such options are exercisable once growth in the Group's EPS exceeds growth in the Retail Prices Index by at least 9% over any three year period. The Company does not intend to grant options to executive Directors under the Victrex 2005 Executive Share Option Plan.

Michael Peacock and Tim Walker, residents of the UK, can participate in the Victrex 2005 UK Sharesave Plan and the Group's All Employee Share Ownership Scheme on the same basis as other UK employees.

David Hummel and Blair Souder, residents of the US, can participate in the Victrex 2005 Employee Stock Purchase Plan on the same basis as other US employees.

Pension arrangements

The executive Directors, with the exception of David Hummel and Blair Souder, participate in the defined benefit section of the Group's UK pension scheme, details of which are set out in note 16 to the financial statements. Members of the UK pension scheme are entitled to:

- life assurance cover of four times salary and a retirement pension subject to the scheme rules and Inland Revenue limits and,
- if a member dies whilst in pensionable service, a surviving spouse and dependants are entitled to a pension subject to the scheme rules and Inland Revenue limits.

David Hummel and Blair Souder, residents of the US, participate in a defined contribution scheme and a life assurance plan operated in respect of US employees.

Executive Directors' pension and life assurance benefits are provided by approved pension schemes and group life assurance plans, as far as possible. Where the promised levels of benefits cannot be provided through the appropriate scheme, the Group provides benefits through the provision of additional salary supplements.

Service agreements

The service agreements of the executive Directors are terminable by either the Company or the Director on 12 months notice and make provision, at the Board's discretion, for early termination by way of payment of salary in lieu of 12 months notice. In calculating the amount payable to a Director on termination of employment, the Board would take into account the commercial interests of the Company and apply usual common law and contractual principles.

The service agreement of Blair Souder provides for payment of salary in lieu of 12 months notice (unmitigated) in the event of a change of control of the Company. This agreement is governed by and interpreted in accordance with the laws of Massachusetts.

Non-executive Directors

Non-executive Directors receive only a basic fee and are appointed under arrangements that may generally be terminated at will by either party without compensation.

Report on Directors' Remuneration continued

The Auditors are required to report on the information contained from here to page 22 inclusive.

Directors' remuneration for the year ended 30 September 2006 was as follows:

	Date of service contract	Basic salary £	Bonus £	Benefits in kind £	Total 2006 £	Total 2005 £
Executive Directors						
D R Hummel	6 Dec 95	289,528[1]	152,425	325	442,278	410,335
M W Peacock	1 Feb 00	195,894[1]	113,551	13,122	322,567	291,407
B V Souder	16 Sept 02	184,664[1]	103,992	11,416	300,072	261,823
T J Walker	1 May 99	191,561[1]	107,357	4,593	303,511	271,510
Chairman						
P T Warry	1 Oct 01	88,000	–	–	88,000	77,651
Non-executive Directors						
A M Frew	1 Aug 00	32,000	–	–	32,000	28,300
J G A Azis	22 Sept 03	27,500	–	–	27,500	25,800
C E Irving-Swift (retired 5 June 2006)	12 Feb 02	20,346	–	–	20,346	28,300
G F B Kerr (appointed 1 August 2006)	1 Aug 06	5,000	–	–	5,000	–
Total remuneration		1,034,493	477,325	29,456	1,541,274	1,395,126

The total payments (including pension contributions) made to the highest paid Director, D R Hummel, were £456,959 (2005: £418,434).

[1] In accordance with the policy outlined on page 19, basic salary for D R Hummel and B V Souder includes an additional salary supplement of £36,938 and £16,607 respectively with regards to the shortfall in the promised level of pension benefit which cannot be provided through the appropriate approved scheme and £6,333 and £1,985 for D R Hummel and B V Souder respectively with regards to the shortfall in the promised levels of life and disability insurance. Basic salary for M W Peacock and T J Walker includes additional salary supplements of £16,896 and £14,516 respectively with regards to the shortfall in the promised level of pension benefit which cannot be provided through the appropriate approved scheme. In addition M W Peacock and T J Walker received an additional salary supplement of £4,304 and £11,880 respectively in lieu of a company car.

Pensions

	Age at 30/09/06	Accrued benefit at 30/09/05 £	Change in accrued benefit due to inflation £	Change in accrued benefit due to other factors £	Accrued benefit at 30/09/06 £	Transfer value at 30/09/05 £	Directors' contributions £	Increase in transfer value net of Directors' contributions £	Transfer value at 30/09/06 £
M W Peacock	48	11,170	383	1,955	13,508	95,981	5,268	14,960	116,209
T J Walker	58	12,649	434	1,945	15,028	167,651	5,268	24,899	197,818

The transfer value of the change in accrued benefit due to other factors less Directors' contributions for M W Peacock and T J Walker were £11,546 and £20,335 respectively.

The cost of pension contributions payable and accrued under defined contribution arrangements for D R Hummel and B V Souder amounted to £14,681 (2005: £9,476) and £16,501 (2005: £10,320) respectively.

Directors' shares

The Directors of the Company have beneficial and non-beneficial interests in the Company's ordinary shares as follows:

	30/09/06 Beneficial	30/09/06 Non-beneficial	30/09/05 Beneficial	30/09/05 Non-beneficial
Executive Directors				
D R Hummel	3,660,080	179,000	3,638,629	179,000
M W Peacock	38,146	–	24,968	–
B V Souder	7,000	–	2,000	–
T J Walker	88,618	–	70,639	–
Chairman				
P T Warry	57,067	–	57,067	–
Non-executive Directors				
A M Frew	9,184	–	9,184	–
J G A Azis	1,125	–	1,125	–
G F B Kerr (appointed 1 August 2006)	–	–	–	–

Between 30 September 2006 and 1 December 2006, the beneficial shareholding for T J Walker increased by 34 shares.

The Directors' share options at 30 September 2006 under the Victrex 1995 Executive Share Option Scheme were as follows:

	30/09/06	30/09/05	Exercise price [1]	Normal exercise period
B V Souder	54,000	100,000	214.0p	2005-2012

[1] The exercise price equates to the market value of the shares on the date of grant.

The performance conditions applicable to these options are set out on page 19.

On 9 February 2006 B V Souder exercised 46,000 share options at an option price of 214.0p per share when the market price was 756p per share.

Report on Directors' Remuneration continued

The mid-market price of VICTREX plc shares at 30 September 2006 was 791.5p (2005: 598.5p). The range in the financial year was 571p to 807p (2005: 321.25p to 604.5p).

The Directors' Sharesave options at 30 September 2006 were as follows:

	30/09/06	30/09/05	Exercise price [(1)]	Normal exercise period
T J Walker	–	4,587	206p	2006
T J Walker	1,791	–	522p	2009

(1) In accordance with the rules of the scheme the exercise price equates to a discount of 20% on the market value of the shares on the date of grant. No performance conditions apply to these options, since this scheme is open to all employees who have completed a qualifying service period.

On 2 March 2006 T J Walker exercised 4,587 Sharesave options at an option price of 206p when the market price was 740p per share.

Long Term Incentive Plan

The Long Term Incentive Plan ("LTIP") commenced on 26 January 1999. The Directors' contingent interests in shares at 30 September 2006, as set out below, were as follows:

	30/09/05	Granted in year	Exercised in year	Lapsed in year	30/09/06
D R Hummel	244,557	37,905	(43,745)	–	238,717
M W Peacock	159,115	26,814	(22,367)	–	163,562
B V Souder	124,284	25,860	–	–	150,144
T J Walker	154,751	25,351	(22,367)	–	157,735
	682,707	115,930	(88,479)	–	710,158

The market value of the shares granted in the year was 644p per share on the date of the grant.

On 9 February 2006 D R Hummel, M W Peacock and T J Walker exercised 43,745, 22,367 and 22,367 shares respectively at an option price of £nil when the market price was 756p per share.

Outstanding option awards granted annually under the LTIP:

Granted in year	2001	2002	2003	2004	2005	2006	30/09/06
D R Hummel	100	10,044	81,490	62,140	47,038	37,905	238,717
M W Peacock	–	5,778	50,970	44,151	35,849	26,814	163,562
B V Souder	–	–	51,740	41,289	31,255	25,860	150,144
T J Walker	–	5,778	50,970	41,743	33,893	25,351	157,735
	100	21,600	235,170	189,323	148,035	115,930	710,158
LTIP performance period - three years ending	30/09/03	30/09/04	30/09/05	30/09/06	30/09/07	30/09/08	
Total Shareholder Return[(1)]	27th	108th	46th	35th	n/a[(3)]	n/a[(3)]	
EPS growth[(2)]	7.6%	4.8%	19.0%	22.3%	n/a[(3)]	n/a[(3)]	
Exercisable rate (% of grant)	74.88%	14.40%	100%	100%	n/a[(3)]	n/a[(3)]	

(1) VICTREX plc's Total Shareholder Return ranked relative to companies in the FTSE 250 as at the start of the period.

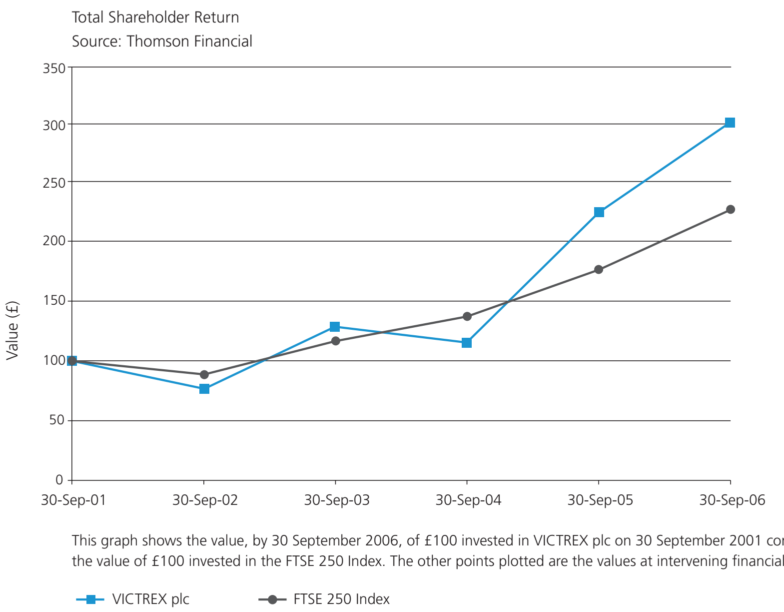
(2) The average percent per annum by which the Group's earnings per share growth exceeded inflation.

(3) The three year performance periods in respect of the awards granted in 2005 and 2006 are not yet complete and hence the excercisable rate has yet to be determined.

The performance conditions applicable to these option awards are outlined on page 18.

Total Shareholder Return performance graph

The following graph shows the cumulative Total Shareholder Return of the Company over the last five financial years relative to the FTSE 250 Index. The FTSE 250 Index has been selected for consistency as it is the Index against which the Company's Total Shareholder Return is measured for the purposes of the LTIP. In addition, the Company is a constituent of the Index.



This graph shows the value, by 30 September 2006, of £100 invested in VICTREX plc on 30 September 2001 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

Anita Frew
Chairman of the Remuneration Committee
4 December 2006

Corporate Social Responsibility Report

As noted on page 14, the Board considers that the management of safety, health, environmental, social and ethical matters forms a key element of effective corporate governance. These areas are managed in conjunction with all other business risks and are covered by the internal control systems and procedures outlined on page 16.

A review of the Group's policies related to safety, health, environment, human resources and business ethics is set out below.

Safety, Health and Environment

The Board believes that all employees should be able to work safely in a healthy workplace and that the Group's activities should not harm the public or the environment. Everyone in the Group is expected to place the highest priority on achieving these aims. Good safety, health and environmental performance go hand in hand with good business performance.

These policy objectives are achieved by:

- ▲ identifying safety, health and environmental hazards;
- ▲ assessment of the risks associated with the identified hazards;
- ▲ implementation of appropriate control measures, with external guidance and advice being sought and used where appropriate;
- ▲ ensuring that all employees are appropriately and properly trained and understand what they are required to do;
- ▲ reviewing and learning from our own and other people's experiences and taking on board new legislation and other requirements and,
- ▲ ensuring that all employees contribute to improving safety, health and environmental performance through regular and effective communication and consultation.

The Board has ultimate responsibility for SHE policy and performance and receives a report on safety, health and environmental issues on a monthly basis.

The Production and Technical Director is directly accountable to the Board for SHE performance. He is responsible for ensuring that adequate arrangements and resources are in place to implement the SHE policy as outlined above and that these measures are effective. A dedicated SHE department support him in this.

Senior executives are responsible for ensuring that the SHE policy is implemented in their departments and that all employees have been trained in defined safe working methods as required.

All employees have a responsibility to prevent injury and damage to health and the environment and to contribute to improvements in SHE performance through regular communication and consultation.

The Group's excellent health and safety performance has continued with no employees having a reportable injury for the eighteenth successive year. The Group received the Royal Society for the Prevention of Accidents ("RoSPA") Gold Medal in 2006 for the fifth year, following five consecutive years of receiving the RoSPA Gold Award.

As in 2003, 2004 and 2005, there have again been no prosecutions, fines or enforcement action as a result of non-compliance with safety, health or environmental legislation.

We seek to stay well ahead of relevant environmental standards. Our manufacturing plants are authorised processes under the Environmental Protection Act 1990 and as such are subject to close monitoring of environmental emissions. There was one reportable environmental incident during the year (2005: one). As part of routine monitoring of emissions at our Rotherham plant, the amount of oxides of nitrogen released was found to be marginally greater than our agreed limit on one occasion.

We are regulated by Integrated Pollution Prevention and Control legislation which imposes restrictions on emissions to air and controlled water. We seek to minimise the environmental impacts of our business as far as practicable.

The principal environmental impacts of the Group's UK operations are set out in the table below. The environmental impact of our overseas operations is not considered material:

Environmental impacts per tonne of VICTREX PEEK sold	2004	2005	2006
VICTREX PEEK sales volume (tonnes)	1,802	1,972	2,339
Energy use GJ	212	206	181
Water use m^3	197	224	210
CO_2 emissions tonnes equivalent	11	10	9
Hazardous waste (post treatment) tonnes	4.4	3.0	0.2

The figures above incorporate pro-forma estimates for certain manufacturing operations relating to BDF production prior to acquisition on 1 April 2005 to ensure the impacts for each year are provided on a consistent basis.

We are constantly striving to improve efficiency in all areas of our operations, including energy use (and therefore CO_2 emissions), water consumption and quantities of hazardous waste produced. This is achieved by implementing many procedures and projects, large and small, across the business. The major decrease in post treatment hazardous waste disposed of in 2006 was principally due to the implementation of improved treatment processes by the main waste disposal contractor at our DFDPM manufacturing plant (the precursor to BDF, the principal raw material from which VICTREX PEEK is manufactured). The increase in water usage per tonne of PEEK sold in 2005 was due to increased cooling water use on our polymer manufacturing plant to comply with a revised consent from the Environment Agency which required us to discharge water at a lower temperature. Process improvements have enabled us to reduce water usage in 2006.

REACH

We have been monitoring the development of the forthcoming Registration, Evaluation and Authorisation of Chemicals Regulations ("REACH") and their potential impact on Victrex. REACH is expected to come into force in Spring 2007 although full implementation is not expected to be completed until 2010. Although we cannot precisely quantify the financial impact on Victrex at this stage, we do not expect it to be material, particularly as polymers are currently outside the scope of the regulations.

Employees

We recognise our talented and diverse workforce as a key business asset. Our business success is a reflection of the quality and skill of our people. Victrex is committed to seeking out, retaining and developing the highest calibre employees to maximise business growth and performance. Assessment of ongoing training needs comprises a key element of the annual appraisal process.

We operate an equal opportunities policy and regard this as a commitment to make full use of the talents and resources of all our employees, and to provide a healthy environment which will encourage good and productive working relationships within the organisation.

In Victrex, diversity encompasses differences in ethnicity, gender, language, age, sexual orientation, religion, socio-economic status, physical and mental ability, thinking style, experience and education. We believe that the wide array of perspectives that result from such diversity promotes innovation and business success. As part of this policy, Victrex gives due consideration to employment applications from disabled people consistent with their capabilities and provides every opportunity to employees who become disabled to continue employment with appropriate training and career development.

The Group places considerable emphasis on the involvement of its employees and has continued its practice of keeping them informed on matters relating to the performance of the Group or relating directly to them as employees, either formally through the Staff Committee, or informally via newsletters and the Group intranet to which all employees worldwide have access.

The Company supports employee share ownership, and where practical offers the opportunity to participate in share schemes. As at 30 September 2006, approximately 76% (2005: 68%) of employees worldwide were participants in employee share schemes, principally as option holders under the Company's employee share option schemes.

We also sponsor pension plans for employees throughout the world. These comprise a mixture of defined benefit or defined contribution arrangements, savings schemes and provident funds designed to provide appropriate retirement benefits based on local laws, custom and market practice. Details of the Group's principal pension schemes are set out in note 16 to the financial statements.

Largely as a result of the above approach, Victrex has low voluntary employee turnover, 5.2% in 2006 (2005: 4.3%).

Business ethics

We have a formal global ethics policy which incorporates the Group's key principles and standards governing business conduct towards our key stakeholder groups. We believe that we should treat all of these groups with honesty and integrity. Our policy is set out below:

Corporate Social Responsibility Report continued

Our customers

We recognise that satisfied customers underpin our future commercial prosperity, and that understanding and meeting their needs is key to our success.

We will seek to:

- ▲ have our product available to meet our promised delivery schedules, and deliver them when they are needed;
- ▲ continuously improve the quality and performance of our products and services in line with customer needs;
- ▲ provide prompt technical support for the products that customers have purchased;
- ▲ provide timely, reliable technical advice to customers on new product applications;
- ▲ collaborate with customers to provide innovative solutions to their material requirements and,
- ▲ operate to the highest ethical and business conduct standards.

Our suppliers

Our commitment to our customers is underpinned by a strong supply chain.

We will seek to:

- ▲ maintain appropriate standards of business conduct in our dealings with our suppliers;
- ▲ encourage suppliers to adopt similar principles and standards of business conduct to Victrex's own;
- ▲ where appropriate, collaborate with our suppliers to increase the performance, quality and efficiency of the supply chain;
- ▲ adhere to the contract terms agreed with suppliers and,
- ▲ encourage our suppliers to meet Victrex's own safety, health and environment standards.

Our employees

We recognise that, whilst being an asset-based business, Victrex relies heavily on the skills, experience and competence of our employees to produce our products safely and efficiently, develop innovative new products, and support business development in our existing and new markets.

We will seek to:

- ▲ provide a clean, safe working environment which meets all legislative requirements and to provide all the necessary training support for employees to operate safely within it;
- ▲ provide appropriate remuneration for work carried out, and equal opportunities for development and career advancement;
- ▲ be intolerant of any unacceptable working practices such as any form of discrimination, bullying or harassment;
- ▲ prohibit the illegal use of drugs on our sites and encourage anyone with any form of addiction to seek help and,
- ▲ be intolerant of any corrupt practices by any level of employee and to encourage whistle blowing (through our formal procedure) if such practices are encountered. In particular, improper payments are prohibited and no gift whose value is material and could be interpreted as a form of inducement, should be offered or accepted by any employee.

Our shareholders

Our shareholders are the ultimate owners of the business and we recognise that we have responsibilities towards them as stewards of their investments.

We will seek to:

- ▲ grow our business over time to maximise shareholder value;
- ▲ communicate in an open and timely manner regarding the performance, position and prospects of the business and,
- ▲ maintain sound systems of corporate governance to ensure that the Company is well directed and managed.

The environment

We recognise that our operations have an impact on the environment, and that we have a responsibility to minimise this.

We will seek to:

- ▲ work within the regulatory frameworks of the countries in which we operate and apply appropriate standards and,
- ▲ minimise the environmental impacts of our operations as far as reasonably practicable.

Independent Auditor's Report to the members of VICTREX plc

We have audited the Group and Parent Company financial statements (the "financial statements") of VICTREX plc for the year ended 30 September 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expenses and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 17.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, 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 financial statements. The information given in the Directors' Report includes that specific information presented in the Annual Business Review that is cross referenced from the Annual 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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the 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 financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report 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 financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

– The Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 30 September 2006 and of its profit for the year then ended;

– The Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 30 September 2006;

– The financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation and,

– The information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
4 December 2006

Consolidated Income Statement For the year ended 30 September

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Revenue	2		122,516		100,913
Cost of sales	3		(46,708)		(43,614)
Gross profit			75,808		57,299
Sales, marketing and administrative expenses	3		(30,743)		(22,847)
Operating profit	2		45,065		34,452
Financial income	5	688		419	
Financial expenses	6	(88)		(131)	
Net financing income			600		288
Share of profit of Japanese joint venture			474		526
Profit before tax			46,139		35,266
Income tax expense	7		(14,303)		(11,365)
Profit for the year attributable to equity shareholders of the parent			31,836		23,901
Earnings per share					
Basic	8		39.4p		29.9p
Diluted	8		38.9p		29.5p
Dividend per share					
Interim	19		4.2p		2.7p
Final	19		10.2p		9.3p
	19		14.4p		12.0p

A final dividend in respect of 2006 of 10.2p per share has been recommended by the Directors for approval at the Annual General Meeting in February 2007.

Balance Sheets As at 30 September

	Note	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Assets					
Non-current assets					
Property, plant and equipment	9	84,009	63,813	–	–
Intangible assets	10	9,404	10,015	–	–
Investments	11	–	–	11,251	11,251
Investment in Japanese joint venture	11	370	80	–	–
Deferred tax assets	12	7,201	4,166	–	–
		100,984	78,074	11,251	11,251
Current assets					
Inventories	14	22,969	19,939	–	–
Current income tax assets		774	453	319	280
Trade and other receivables	15	12,139	12,813	63,764	60,077
Derivative financial instruments	13	2,776	1,437	–	–
Cash and cash equivalents		26,860	15,747	19	17
		65,518	50,389	64,102	60,374
Total assets		166,502	128,463	75,353	71,625
Liabilities					
Non-current liabilities					
Deferred tax liabilities	12	(12,385)	(9,593)	–	–
Retirement benefit obligations	16	(12,159)	(7,812)	–	–
		(24,544)	(17,405)	–	–
Current liabilities					
Derivative financial instruments	13	(244)	(1,010)	–	–
Current income tax liabilities		(7,549)	(6,312)	–	–
Trade and other payables	17	(20,714)	(11,489)	(3,127)	(2,360)
		(28,507)	(18,811)	(3,127)	(2,360)
Total liabilities		(53,051)	(36,216)	(3,127)	(2,360)
Net assets		113,451	92,247	72,226	69,265
Equity					
Share capital		817	812	817	812
Share premium account		16,549	15,243	16,549	15,243
Translation reserve		(229)	50	–	–
Hedging reserve		1,325	228	–	–
Retained earnings		94,989	75,914	54,860	53,210
Total equity	19	113,451	92,247	72,226	69,265

These financial statements were approved by the Board of Directors on 4 December 2006 and were signed on its behalf by:

D R Hummel
Chief Executive

M W Peacock
Finance Director

Cash Flow Statements For the year ended 30 September

	Note	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Cash flows from operating activities					
Profit/(loss) for the year		31,836	23,901	(60)	(48)
Adjustments for:					
Depreciation	9	4,836	4,061	–	–
Amortisation	10	611	609	–	–
Increase in inventories		(3,030)	(206)	–	–
Decrease/(increase) in trade and other receivables		675	(2,795)	(3,687)	(7,244)
Increase/(decrease) in trade and other payables		5,595	(657)	767	61
Equity-settled share-based payment transactions	18	1,122	694	–	–
Japanese joint venture profit in stock adjustment		59	435	–	–
Share of profit of Japanese joint venture		(474)	(526)	–	–
Net financing income		(600)	(288)	1	–
Income tax expense	7	14,303	11,365	(26)	–
Changes in fair value of derivative financial instruments		(440)	376	–	–
Increase in retirement benefit obligations		298	440	–	–
Cash generated from the operations		54,791	37,409	(3,005)	(7,231)
Interest and similar charges paid		(20)	(49)	(1)	–
Interest received		688	419	–	–
Tax paid		(12,357)	(9,892)	(13)	(34)
Net cash flow from operating activities		43,102	27,887	(3,019)	(7,265)
Cash flows from investing activities					
Acquisition of property, plant and equipment	9	(21,470)	(6,043)	–	–
Purchase of business including acquisition costs	21	–	(17,747)	–	–
Dividends received		112	123	13,373	12,586
Net cash flow from investing activities		(21,358)	(23,667)	13,373	12,586
Cash flows from financing activities					
Issue of ordinary shares exercised under option	19	5	7	5	7
Premium on issue of ordinary shares exercised under option	19	1,306	1,860	1,306	1,860
Purchase of own shares held	19	(767)	(84)	(767)	(84)
Dividends paid	19	(10,896)	(7,119)	(10,896)	(7,119)
Net cash flow from financing activities		(10,352)	(5,336)	(10,352)	(5,336)
Net increase/(decrease) in cash and cash equivalents		11,392	(1,116)	2	(15)
Exchange differences on net investment translation of foreign operations		(279)	50	–	–
Cash and cash equivalents at beginning of year		15,747	16,813	17	32
Cash and cash equivalents at end of year		26,860	15,747	19	17

Statements of Recognised Income and Expense For the year ended 30 September

	Note	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Changes in fair value of cash flow hedges		299	(2,427)	–	–
Net change in fair value of cash flow hedges transferred to income statement		1,366	2,113	–	–
Exchange differences on net investment translation of foreign operations	19	(279)	50	–	–
Actuarial (losses)/gains on defined benefit plans	16	(4,050)	812	–	–
Tax on items taken directly to or transferred from equity		1,262	(247)	–	–
Net (expense)/income recognised directly in equity		(1,402)	301	–	–
Profit for the year		31,836	23,901	13,313	12,538
Total recognised income and expense for the year attributable to equity shareholders of the parent	19	30,434	24,202	13,313	12,538

Notes to the Financial Statements

1 Significant accounting policies

General information

VICTREX plc (the "Company") is a limited liability company incorporated and domiciled in the United Kingdom. The address of its registered office is Victrex Technology Centre, Hillhouse International, Thornton Cleveleys, Lancashire, FY5 4QD, United Kingdom.

The consolidated financial statements of the Company for the year ended 30 September 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in the Japanese joint venture.

The Company is listed on the London Stock Exchange.

These consolidated financial statements have been approved for issue by the Board of Directors on 4 December 2006.

Basis of preparation

These results are the first to be published under International Financial Reporting Standards ("IFRS"). The main effects of the transition from UK Generally Accepted Accounting Principles ("UK GAAP") to IFRS were set out in our 2005 Annual Report and are detailed in note 25 to the financial statements.

The restated financial statements for the year ended 30 September 2005 and the opening balance sheet at 1 October 2004 have been prepared in accordance with IFRS as adopted by the EU.

The consolidated financial statements have been prepared on the historical cost basis except that derivative financial instruments are measured at their fair value.

The preparation of financial statements in conformity with IFRS 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 the 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.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 October 2004 for the purposes of the transition to IFRS.

The accounting policies have been consistently applied by Group entities.

Victrex has decided to take advantage of the IFRS 1 - First-time Adoption of International Financial Reporting Standards exemption whereby IFRS 3 - Business Combinations can be applied prospectively from the date of transition, hence removing the need to restate previous business combinations.

In addition, Victrex has also taken advantage of the IFRS 1 exemption to deem as zero at the date of transition to IFRS the cumulative translation differences for all foreign operations.

Share option arrangements granted before 7 November 2002 exist. The recognition and measurement principles in IFRS 2 - Share-based Payment have not been applied to these grants in accordance with the transitional provisions in IFRS 1.

A number of standards, amendments and interpretations have been issued during the period which are not yet effective, and accordingly the Group has not yet adopted. The cumulative impact of the adoption of these standards is not deemed to be significant.

Investments

In the Company's accounts, investments in subsidiary undertakings and Victrex-MC, Inc are stated at cost less any impairment in the value of the investment.

Basis of consolidation

Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing control. Subsidiaries are consolidated from the date that control commences until the date that control ceases.

Joint venture

The activities of the Japanese joint venture are governed by a joint venture agreement between the Company and Mitsui Chemicals Inc. Certain key management decisions require the co-operation of both parties. The Group's share of profits less losses of the Japanese joint venture is included in the consolidated income statement on the equity accounting basis. The holding value of the Japanese joint venture in the Group balance sheet is calculated by reference to the Group's equity in the gross assets and liabilities of the Japanese joint venture, adjusted for unrealised profit in stock.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with the joint venture are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated in the same way as unrealised gains, unless the transaction provides evidence of an impairment of the asset transferred.

Segment reporting

A geographical segment is engaged in providing products or services within a particular environment that are subject to risks and returns that are different from those of segments operating in other economic environments. A business segment is defined as 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.

The Group has determined the primary reporting segment to be geographic as the Group is engaged in providing products or services within particular geographic environments that are subject to varying risks and returns.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operated (the "functional currency"). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation to balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

b) Income and expenses for each income statement are translated at weighted average exchange rates and,

c) All resulting exchange differences, from 1 October 2004, are recognised as a separate component of equity.

Derivative financial instruments and hedging activities

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivatives are recognised at fair value. The method of recognising any gain or loss on remeasurement of fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

For derivatives not used in hedging transactions, the gain or loss on remeasurement of fair value is recognised immediately in the income statement.

Notes to the Financial Statements continued

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective portion of changes in fair value is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Fair value estimation

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

Property, plant and equipment

Owned assets

All owned items of property, plant and equipment are stated at historical cost less accumulated depreciation and provision for impairment. The cost of self constructed assets includes the cost of materials, direct labour and an appropriate proportion of overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Leased assets

Operating lease rentals are charged to the income statement on a straight line basis over the life of the lease.

Depreciation

Depreciation is charged to the income statement on a straight line basis over the estimated useful economic lives as follows:

Long leasehold buildings	30 years
Freehold buildings	30 years
Plant and machinery	10-20 years
Fixtures, fittings, tools and equipment	5 years
Computers and motor vehicles	3-5 years

Freehold land is not depreciated.

The residual values and useful lives of assets are reviewed annually for continued appropriateness and indications of impairment, and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Intangible assets

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment.

In respect of acquisitions prior to 1 October 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded previously under UK GAAP. In respect of acquisitions that have occurred since 1 October 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the assets, liabilities and contingent liabilities acquired.

Expenditure on internally generated goodwill is recognised in the income statement as an expense as incurred.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Development expenditure is recognised in the income statement as an expense as incurred unless it meets all the criteria to be capitalised under IAS 38 - Intangible Assets.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation. Other intangible assets are tested annually for impairment.

Amortisation

Amortisation is charged to the income statement on a straight line basis in order to allocate the cost over the estimated useful economic lives as follows:

Knowhow	10 years

The residual values and useful lives of assets are reviewed annually for continued appropriateness and impairment, and adjusted if appropriate.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances, call deposits and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the Financial Statements continued

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affects neither accounting nor taxable profit and, differences relating to investments in subsidiaries except to the extent that they will probably reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

Revenue recognition

Revenue comprises the amounts receivable for the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from contractual payments is recognised by reference to completion of a specific milestone in accordance with the substance of the relevant agreements. Royalty income is recognised when the amount payable is known.

No revenue is recognised if there is significant uncertainty regarding recovery of the consideration due, associated costs or the possible return of goods.

Employee benefits

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit pension plans

The Group's net obligation in respect of defined benefit pension plans recognised in the balance sheet is the present value of the future benefits that employees have earned in return for their service in the current and prior periods less the fair value of plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating to the terms of the related pension liability.

Victrex has decided to take advantage of the option under IAS 19 - Employee Benefits to recognise actuarial gains and losses through the statement of recognised income and expense as opposed to the income statement.

Ongoing actuarial gains and losses are being immediately recognised in full through the statement of recognised income and expense.

Share-based payment transactions

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable and include employee service periods and performance targets which are not related to the parent's share price, such as earnings per share growth. The fair value of the options is measured by the Stochastic model, taking into account the terms and conditions upon which the instruments were granted. At each balance sheet date the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

Any failure to meet market conditions, which includes performance targets such as share price or Total Shareholder Return, would not result in a reversal of original estimates in the income statement.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and it has been reliably estimated.

Net financing income and expense

Net financing income and expense comprises interest payable on borrowings, interest received on funds invested and charges on bank loans and overdrafts.

2 Segment reporting

Primary geographical segments

Results

	Europe 2006 £000	USA 2006 £000	Asia-Pacific 2006 £000	Group 2006 £000	Europe 2005 £000	USA 2005 £000	Asia-Pacific 2005 £000	Group 2005 £000
Total segment sales	65,076	70,452	17,789	153,317	52,423	55,063	16,401	123,887
Less inter-segment sales	(158)	(29,974)	(669)	(30,801)	–	(22,974)	–	(22,974)
Revenue from external sales	64,918	40,478	17,120	122,516	52,423	32,089	16,401	100,913
Segment operating profit	29,753	14,670	4,754	49,177	22,303	11,214	4,664	38,181
Unallocated central costs				(4,112)				(3,729)
Operating profit				45,065				34,452
Net financing income				600				288
Share of profit of Japanese joint venture				474				526
Profit before tax				46,139				35,266
Income tax expense				(14,303)				(11,365)
Profit for the year attributable to equity shareholders of the parent				31,836				23,901

Notes to the Financial Statements continued

Other information

	Europe 2006 £000	USA 2006 £000	Asia-Pacific 2006 £000	Group 2006 £000	Europe 2005 £000	USA 2005 £000	Asia-Pacific 2005 £000	Group 2005 £000
Segment assets	152,341	8,788	5,373	166,502	116,170	9,299	2,994	128,463
Segment liabilities	43,418	9,482	151	53,051	28,945	7,271	–	36,216
Capital expenditure	23,637	33	1,365	25,035	18,502	27	–	18,529
Depreciation	4,772	30	34	4,836	4,056	5	–	4,061
Amortisation	611	–	–	611	609	–	–	609

Secondary business segments

	2006 £000	2005 £000
Sales		
VICTREX PEEK	107,076	89,926
Invibio	15,440	10,987
	122,516	100,913
Total assets		
VICTREX PEEK	159,049	122,144
Invibio	7,453	6,319
	166,502	128,463
Capital expenditure		
VICTREX PEEK	23,581	18,519
Invibio	1,454	10
	25,035	18,529

Analysis of sales by category

	2006 £000	2005 £000
Product sales	118,670	98,060
Other income	3,846	2,853
	122,516	100,913

3 Expenses by nature

	Note	2006 £000	2005 £000
Staff costs	4	23,934	18,306
Depreciation of property, plant and equipment	9	4,836	4,061
Amortisation of knowhow	10	611	609
Operating lease rentals	9	898	753
Other costs of manufacture		34,676	33,525
Other sales and marketing costs		6,827	4,318
Other administrative costs		3,192	2,942
Other research and development costs		2,477	1,947
		77,451	66,461

Auditor's remuneration is as follows:

	2006 £000	2005 £000
Audit services	101	101
Tax services	18	15
Other services	5	55
	124	171

4 Staff costs

	Note	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Wages and salaries		19,014	14,141	173	160
Social security costs		1,530	1,364	19	18
Defined contribution pension plans		905	634	–	–
Defined benefit pension plans	16	1,363	1,473	–	–
Equity-settled share-based payment transactions	18	1,122	694	–	–
	3	23,934	18,306	192	178

The average number of people employed during the period (including Directors), analysed by category, was as follows:

	Group 2006	Group 2005	Company 2006	Company 2005
Operations	192	149	–	–
Technical	61	49	–	–
Commercial	99	78	–	–
Administration	48	41	4	4
	400	317	4	4

Notes to the Financial Statements continued

5 Financial income

	2006 £000	2005 £000
Bank interest receivable	688	419

6 Financial expenses

	2006 £000	2005 £000
Bank interest and similar charges payable	88	131

7 Income tax expense

	Note	2006 £000	2005 £000
Current tax			
Current tax		11,605	9,098
UK corporation tax adjustments relating to prior years		(343)	–
Foreign tax on profits for the year		2,022	2,090
Foreign corporation tax adjustments relating to prior years		–	(310)
Other		–	(32)
		13,284	10,846
Deferred tax			
Origination and reversal of temporary differences	12	1,019	519
Total tax expense in income statement		14,303	11,365

Reconciliation of effective tax rate	Note	2006 %	2006 £000	2005 %	2005 £000
Profit before tax			46,139		35,266
Tax expense using UK tax rate		30.0	13,842	30.0	10,580
Expenses not deductible for tax purposes			658		611
Capital allowances for the year in excess of depreciation			(2,224)		(1,520)
Movement in short-term temporary differences			1,205		1,048
Higher rates of tax on overseas earnings			326		587
UK research and development tax credits			(180)		(150)
UK corporation tax adjustments relating to prior years			(343)		–
Foreign corporation tax adjustments relating to prior years			–		(310)
Origination and reversal of timing differences	12		1,019		519
Effective tax rate		31.0	14,303	32.2	11,365

8 Earnings per share

Diluted earnings per share is based on the Group's profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year, excluding own shares held (see note 19).

		2006	2005
Earnings per share	- basic	39.4p	29.9p
	- diluted	38.9p	29.5p
Profit for the financial year		£31,836,000	£23,901,000
Weighted average number of shares used:			
Issued ordinary shares at beginning of year		81,235,566	80,515,020
Effect of own shares held		(720,157)	(770,498)
Effect of shares issued during the year		258,054	306,470
Basic weighted average number of shares		80,773,463	80,050,992
Effect of share options		1,064,721	871,459
Diluted weighted average number of shares		81,838,184	80,922,451

Notes to the Financial Statements continued

9 Property, plant and equipment

	Long leasehold land and buildings £000	Freehold land and buildings £000	Plant and machinery £000	Computers and motor vehicles £000	Fixtures, fittings, tools and equipment £000	Assets in course of construction £000	Total £000
Cost							
At 1 October 2004	2,288	1,223	54,551	3,442	331	7,354	69,189
Additions	–	1,019	12,981	796	37	3,696	18,529
Disposals	–	–	(43)	(164)	(15)	–	(222)
Reclassification	–	–	7,105	–	–	(7,105)	–
At 30 September 2005	2,288	2,242	74,594	4,074	353	3,945	87,496
Additions	–	968	1,605	904	144	21,414	25,035
Disposals	–	–	–	(12)	(1)	–	(13)
Reclassification	–	2,348	819	315	100	(3,582)	–
At 30 September 2006	2,288	5,558	77,018	5,281	596	21,777	112,518
Depreciation							
At 1 October 2004	583	31	16,354	2,623	253	–	19,844
Disposals	–	–	(43)	(164)	(15)	–	(222)
Depreciation charge	80	42	3,436	462	41	–	4,061
At 30 September 2005	663	73	19,747	2,921	279	–	23,683
Disposals	–	–	–	(9)	(1)	–	(10)
Depreciation charge	74	110	3,999	606	47	–	4,836
At 30 September 2006	737	183	23,746	3,518	325	–	28,509
Carrying amounts							
At 30 September 2006	1,551	5,375	53,272	1,763	271	21,777	84,009
At 30 September 2005	1,625	2,169	54,847	1,153	74	3,945	63,813

The Company has no property, plant or equipment.

Leased property, plant and equipment

There are no finance lease agreements for either the Group or Company.

Operating lease rentals of £898,000 (2005: £753,000) relating to the lease of property, plant and equipment are included in the income statement (see note 3).

10 Intangible assets

	Goodwill £000	Knowhow £000	Total £000
Cost			
At 1 October 2004	6,619	6,100	12,719
Additions	3,947	–	3,947
At 30 September 2005	10,566	6,100	16,666
Additions	–	–	–
At 30 September 2006	10,566	6,100	16,666
Amortisation			
At 1 October 2004	3,144	2,898	6,042
Amortisation charge	–	609	609
At 30 September 2005	3,144	3,507	6,651
Amortisation charge	–	611	611
At 30 September 2006	3,144	4,118	7,262
Carrying amounts			
At 30 September 2006	7,422	1,982	9,404
At 30 September 2005	7,422	2,593	10,015

The amortisation charge is recognised in the cost of sales line in the income statement. The remaining amortisation period for knowhow is 3 years. The Company has no intangible assets.

Notes to the Financial Statements continued

11 Investments

Group

Investment in Japanese joint venture

The investment in the Japanese joint venture represents the Group's share of the net assets of Victrex-MC, Inc, adjusted for unrealised profit in stock, resulting in a positive balance of £370,000 (2005: £80,000).

Company

Investments

Cost and carrying value	Share in Japanese joint venture £000	Shares in Group undertakings £000	Total £000
At beginning and end of year	131	11,120	11,251

The principal companies in which the Group's interest is more than 20%, all of which are held by VICTREX plc are:

	Country of registration and operation	Principal activity	Class of share held	Shares held
Subsidiary undertakings				
Victrex Manufacturing Limited	Great Britain	Manufacture and sale of polymers	Ordinary	100%
Victrex USA Inc	USA	Sale of polymers	Ordinary	100%
Victrex Europa GmbH	Germany	Sale of polymers	Ordinary	100%
Invibio Limited	Great Britain	Manufacture and sale of polymers	Ordinary	100%
Victrex Trading Limited	Great Britain	Manufacture and sale of polymers	Ordinary	100%
Syncserv Limited	Great Britain	Procurement and sale of chemical compounds	Ordinary	100%
Joint venture				
Victrex-MC, Inc	Japan	Sale of polymers	Ordinary	51%

12 Deferred tax assets and liabilities

	Property, plant and equipment 2006 £000	Employee benefits 2006 £000	Inventories 2006 £000	Other 2006 £000	Total 2006 £000	Property, plant and equipment 2005 £000	Employee benefits 2005 £000	Inventories 2005 £000	Other 2005 £000	Total 2005 £000
Deferred tax assets	–	5,250	1,708	243	7,201	–	2,980	943	243	4,166
Deferred tax liabilities	(11,817)	–	–	(568)	(12,385)	(9,593)	–	–	–	(9,593)
Net tax assets/(liabilities)	(11,817)	5,250	1,708	(325)	(5,184)	(9,593)	2,980	943	243	(5,427)

Movement in net provision	Note	Property, plant and equipment £000	Employee benefits £000	Inventories £000	Other £000	Total £000
At 1 October 2004		(8,027)	2,455	711	197	(4,664)
Recognised in income statement	7	(1,566)	769	232	46	(519)
Recognised in equity		–	(244)	–	–	(244)
At 30 September 2005		(9,593)	2,980	943	243	(5,427)
Recognised in income statement	7	(2,224)	440	765	–	(1,019)
Recognised in equity		–	1,830	–	(568)	1,262
At 30 September 2006		(11,817)	5,250	1,708	(325)	(5,184)

13 Derivative financial instruments

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Sterling. The currencies giving rise to this risk are primarily US Dollar, Euro and Yen. Forward exchange contracts are used to manage this exposure to fluctuations in foreign exchange rates.

The Group hedges, using forward exchange contracts, a proportion of sales denominated in a foreign currency. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date. The Group buys or sells foreign currency at spot where necessary to address any short-term imbalances.

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value.

The fair values have been calculated by applying (where relevant), for equivalent maturity profiles, the rate at which forward currency contracts with the same principal amounts could be acquired at the balance sheet date.

Changes in the fair value of forward exchange contracts for which no hedge accounting is applied are recognised in the income statement.

14 Inventories

	2006 £000	2005 £000
Raw materials and consumables	8,467	7,268
Work in progress	1,596	1,543
Finished goods	12,906	11,128
	22,969	19,939

Notes to the Financial Statements continued

15 Trade and other receivables

	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Trade receivables	9,618	8,664	–	–
Amounts owed by subsidiary undertakings	–	–	63,764	60,077
Amounts owed by Japanese joint venture	1,215	2,409	–	–
Prepayments	587	980	–	–
Other	719	760	–	–
	12,139	12,813	63,764	60,077

16 Retirement benefit obligations

The Group operates a number of pension schemes for its employees throughout the world. The majority of schemes outside the UK are defined contribution.

The principal scheme operated by the Group is a funded UK pension scheme in which certain employees of subsidiary undertakings participate. The scheme has two sections. One section provides benefits on a defined benefit basis with benefits related to final pensionable pay. The defined benefit section was closed to new members from 31 December 2001. From this date new employees have been invited to join the second section that provides benefits on a defined contribution basis.

IAS 19 disclosures relating to defined benefits are as follows:

Principal actuarial assumptions are:

	At 30 September 2006	At 30 September 2005
Discount rate	4.95%	4.95%
Expected return on schemes' assets[1]	6.90%	7.25%
Future salary increases	4.92%	4.63%
Future pension increases	3.17%	2.88%
Mortality tables	PA92mc	PA92 (C=2015)
Life expectancy from age 62 of current pensioners:		
Male	24.7 yrs[2]	21.7 yrs
Female	27.6 yrs[2]	24.6 yrs
Life expectancy from age 62 of active and deferred members:		
Male	25.7 yrs[3]	22.1 yrs
Female	28.6 yrs[3]	25.1 yrs

(1) The future expected return on assets of 6.90% per annum has been derived from assumed returns of 7.5% per annum from equity assets, 4.5% per annum from bonds and 4.0% per annum from cash, applied to the proportion of each asset class held by the scheme as at 30 September 2006.

(2) Life expectancy from age 62 for members aged 62 in 2006.

(3) Life expectancy from age 62 for members aged 45 in 2006.

The amounts recognised in the balance sheet are:

	At 30 September 2006 £000	At 30 September 2005 £000	At 30 September 2004 £000	At 30 September 2003 £000	At 30 September 2002 £000
Present value of funded obligations	(28,590)	(21,598)	(18,690)	(15,037)	(11,370)
Fair value of schemes' assets	16,431	13,786	10,506	8,508	6,839
Net liability before deferred taxation	(12,159)	(7,812)	(8,184)	(6,529)	(4,531)
Related deferred taxation asset	3,648	2,344	2,455	1,959	1,359
Net liability after deferred taxation	(8,511)	(5,468)	(5,729)	(4,570)	(3,172)
Experience adjustments arising on schemes' liabilities	(4,778)	(705)	152	(108)	52
Experience adjustments arising on schemes' assets	728	1,517	400	204	(1,334)

It is not practical to produce figures for 2002 to 2004 in accordance with IAS 19. The figures included for these years are as originally published and calculated under UK GAAP (FRS 17 - Retirement Benefits) which it is considered would not be materially different under IAS 19.

Changes in the present value of the funded obligation are:

	2006 £000	2005 £000
Defined benefit obligation at beginning of year	(21,598)	(18,690)
Service cost	(1,313)	(1,352)
Interest cost	(1,132)	(1,061)
Actuarial losses	(4,778)	(705)
Benefits paid	231	210
Defined benefit obligation at end of year	(28,590)	(21,598)

The Group expects to contribute £1,087,000 to its defined benefit pension schemes during the year ending 30 September 2007.

Changes in the fair value of the schemes' assets are:

	2006 £000	2005 £000
Fair value of schemes' assets at beginning of year	13,786	10,506
Expected return	974	834
Actuarial gains	728	1,517
Contributions by employer	1,066	1,033
Contributions by employee	108	106
Benefits paid	(231)	(210)
Fair value of schemes' assets at end of year	16,431	13,786
Actual return on schemes' assets	1,446	2,550

Notes to the Financial Statements continued

The major categories of schemes' assets are:

	At 30 September 2006 £000	At 30 September 2005 £000
UK equities	6,884	6,873
Non UK equities	6,116	5,788
Bonds	2,279	742
Cash	820	383
Insurance policies	332	–
Fair value of schemes' assets at end of year	16,431	13,786

The amounts recognised in the income statement are:

	Note	2006 £000	2005 £000
Current service cost		(1,313)	(1,352)
Contributions by employee		108	106
Interest on obligations		(1,132)	(1,061)
Other finance income and expenditure		974	834
Total included in 'staff costs'	4	(1,363)	(1,473)

The gross amounts of actuarial gains and losses recognised in the statement of recognised income and expense are:

	2006 £000	2005 £000
The cumulative amount at beginning of year	(7,372)	(8,184)
Movement in the year	(4,050)	812
The cumulative amount at end of year	(11,422)	(7,372)

17 Trade and other payables

	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Trade payables	5,981	3,268	4	5
Amounts owed by Group undertakings	–	–	3,113	2,345
Accruals	14,361	7,728	10	10
Other	372	493	–	–
	20,714	11,489	3,127	2,360

18 Share-based payments

Share option arrangements granted before 7 November 2002 exist. The recognition and measurement principles in IFRS 2 have not been applied to these grants in accordance with the transitional provisions in IFRS 1. All options are settled by the physical delivery of shares. The terms and conditions of all the grants are as follows:

Executive Share Option Scheme ("ESOS")

The Victrex 1995 Executive Share Option Scheme came to the end of its 10 year life in 2005. The exercise price of the granted options is equal to the market price of the shares on the date of grant. ESOS options are conditional on the employee completing three years service (the vesting period). These options are exercisable starting three years from date of grant only if the Group achieves EPS growth exceeding inflation by an average of at least 3% per annum over the three year vesting period. These options have a maximum term of 10 years.

Outstanding options as at balance sheet date:

Grant date	2006 Number of options	2005 Number of options
December 1997	–	20,436
June 1999	7,841	16,820
January 2000	3,700	6,200
June 2000	33,256	52,895
January 2001	–	5,756
July 2001	17,419	42,815
June 2002	23,477	51,140
October 2002	54,000	100,000
December 2002	4,309	47,282
April 2003	25,000	25,000
June 2003	106,028	225,090
December 2003	58,980	60,064
July 2004	420,232	420,232
October 2004	25,000	25,000
December 2004	51,012	59,335
	830,254	1,158,065

Notes to the Financial Statements continued

Executive Share Option Plan ("ESOP")

The Victrex 2005 Executive Share Option Plan replaced the ESOS in February 2005. All employees are eligible to participate in the Executive Plan. The Remuneration Committee currently excludes executive Directors from participating in this plan. Option awards are based on a percentage of basic salary, not exceeding 100% of salary. The exercise price of the options is equal to the market price of the shares on the date of grant. ESOP options are conditional on the employee completing three years service (the vesting period). These options are exercisable starting three years from date of grant. The level of awards vesting will vary depending on EPS growth. In order for awards to vest the Group must achieve EPS growth exceeding the Retail Prices Index by an average of at least 2%, 3% and 4% per annum, over the three year vesting period, for awards up to 33%, from 33% to 66% and from 66% to 100% of salary respectively. Straight line vesting will occur to the extent that EPS growth falls between these average annual EPS growth targets. These options have a maximum term of 10 years.

Outstanding options as at balance sheet date:

Grant date	2006 Number of options	2005 Number of options
February 2005	6,741	6,741
June 2005	496,729	501,169
December 2005	62,920	–
June 2006	318,669	–
	885,059	507,910

Sharesave Scheme

This Victrex 1995 Sharesave Scheme came to the end of its 10 year life in 2005. The exercise price of the granted Sharesave Scheme options was equal to the market price of the shares less 20% on the date of grant.

Outstanding options as at balance sheet date:

Grant date	Vesting conditions	2006 Number of options	2005 Number of options
March 2003	Three years of service and saving	–	182,371
March 2004	Three years of service and saving	84,251	85,659
March 2004	Five years of service and saving	34,955	34,955
March 2005	Three years of service and saving	91,645	92,707
March 2005	Five years of service and saving	16,792	18,427
		227,643	414,119

Sharesave Plan

The Victrex 2005 UK Sharesave Plan replaced the Sharesave Scheme during 2005. UK resident employees and full-time Directors of the Company or any designated participating subsidiary will be eligible to participate. The exercise price of the granted Sharesave Plan options is equal to the market price of the shares less 20% on the date of grant.

Outstanding options as at balance sheet date:

Grant date	Vesting conditions	2006 Number of options	2005 Number of options
March 2006	Three years of service and saving	105,601	–
March 2006	Five years of service and saving	58,390	–
		163,991	–

Stock Purchase Plan

US based employees (including executive Directors) are eligible to participate in the Victrex 2005 Employee Stock Purchase Plan. The price payable for each share shall be a price determined by the Board, provided that it shall not be less than 85% of the lower of the market value of a share on the date of grant or the date of purchase.

Awards may be granted over a number of shares determined by the amount employees have saved by the end of a one year savings period.

There are no outstanding options as at balance sheet date (2005: Nil).

Victrex Long Term Incentive Plan ("LTIP")

Each year the Victrex LTIP can award executive Directors options to acquire, at no cost, market purchased shares in the Company up to a maximum equivalent of 100% of basic salary. The awards normally become exercisable between the fifth and tenth anniversaries of the grant date subject to the Group's performance over the three year period commencing at the start of the financial year in which the grant is made.

The extent to which the award may become exercisable is dependent on two performance conditions with 50% determined by reference to the Company's Total Shareholder Return ("TSR") and 50% determined by reference to the Group's earnings per share ("EPS"):

- The Company's TSR element of an award will vest in full if the Company's TSR ranks in the upper quartile, as measured over the three year period, relative to the constituents of the FTSE 250 Index at the beginning of that period. This element of the award is reduced to 12.5% on a pro-rata basis for the median performance. Notwithstanding these provisions, no shares will vest under this performance condition unless, in the opinion of the Remuneration Committee, there has been a sustained improvement in the underlying financial performance of the Group over the relevant performance period;
- The Group's EPS element of an award will vest in full if EPS growth exceeds inflation, as measured by the Retail Prices Index, by an average of 12% per annum or more over the three year period. This element of the award is reduced to 10% on a pro-rata basis if EPS growth exceeds inflation by an average of 5% per annum over the period and is reduced to nil if EPS growth fails to exceed inflation by 5% per annum.

Outstanding options as at balance sheet date:

Grant date	2006 Number of options	2005 Number of options
January 2001	100	88,579
December 2001	21,600	21,600
December 2002	235,170	235,170
December 2003	189,323	189,323
April 2005	148,035	148,035
December 2005	115,930	–
	710,158	682,707

Notes to the Financial Statements continued

Number and weighted average exercise prices of share options

	ESOS and ESOP		Sharesave Scheme and Plan		Stock Purchase Plan		LTIP	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at beginning of year	357p	1,665,975	248p	414,119	–	–	nil p	682,707
Granted during the year	714p	391,705	522p	167,557	347p	13,141	nil p	115,930
Forfeited during the year	421p	(32,942)	387p	(8,129)	–	–	–	–
Exercised during the year	288p	(309,425)	206p	(181,913)	347p	(13,141)	nil p	(88,479)
Expired during the year	–	–	–	–	–	–	–	–
Outstanding at end of year	450p	1,715,313	382p	391,634	–	–	nil p	710,158
Range of exercise prices		171p - 728p		262p - 522p		–		nil p
Weighted average contractual life (years)		8.2		2.7		4.5		7.5
Exercisable at end of year	280p	275,030	–	–	–	–	nil p	100

Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Stochastic model. The contractual lives of the options and expectations of early exercise are incorporated into this model.

Fair value of share options and weighted average assumptions:

	ESOS and ESOP	Sharesave Scheme and Plan	Stock Purchase Plan	LTIP
Fair value at measurement date	148p	194p	177p	285p
Share price at grant	470p	525p	724p	382p
Exercise price	467p	382p	n/a	nil p
Expected volatility	30%	28%	22%	30%
Option life	10yrs	4yrs	5yrs	10yrs
Expected dividends	2.1%	1.9%	1.7%	2.3%
Risk-free interest rate	4.5%	4.5%	4.4%	4.4%

The expected volatility is based on historic volatility over the period prior to grant equal to the expected term.

All share options are granted under a service condition and for ESOS, ESOP and LTIP a non-market condition (EPS). Such conditions are not taken into account in the grant date fair value measurement of services received. In addition, the LTIP has a market condition (TSR), which was taken into account in the grant date measurement of fair value.

Staff costs - equity-settled transactions

	Note	2006 £000	2005 £000
ESOS and ESOP		562	355
Sharesave Scheme and Plan		169	109
Stock Purchase Plan		21	6
LTIP		370	224
	4	1,122	694

19 Share capital and reserves

Group	Note	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
At 1 October 2004		805	13,383	–	542	57,957	72,687
Total recognised income and expense		–	–	50	(314)	24,466	24,202
Share options exercised	18	7	1,860	–	–	–	1,867
Equity-settled transactions	18	–	–	–	–	694	694
Purchase of own shares held		–	–	–	–	(84)	(84)
Dividends to shareholders		–	–	–	–	(7,119)	(7,119)
At 30 September 2005		812	15,243	50	228	75,914	92,247
Total recognised income and expense		–	–	(279)	1,097	29,616	30,434
Share options exercised	18	5	1,306	–	–	–	1,311
Equity-settled transactions	18	–	–	–	–	1,122	1,122
Purchase of own shares held		–	–	–	–	(767)	(767)
Dividends to shareholders		–	–	–	–	(10,896)	(10,896)
At 30 September 2006		817	16,549	(229)	1,325	94,989	113,451

Company	Note	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
At 1 October 2004		805	13,383	–	–	47,875	62,063
Total recognised income and expense		–	–	–	–	12,538	12,538
Share options exercised	18	7	1,860	–	–	–	1,867
Equity-settled transactions	18	–	–	–	–	–	–
Purchase of own shares held		–	–	–	–	(84)	(84)
Dividends to shareholders		–	–	–	–	(7,119)	(7,119)
At 30 September 2005		812	15,243	–	–	53,210	69,265
Total recognised income and expense		–	–	–	–	13,313	13,313
Share options exercised	18	5	1,306	–	–	–	1,311
Equity-settled transactions	18	–	–	–	–	–	–
Purchase of own shares held		–	–	–	–	(767)	(767)
Dividends to shareholders		–	–	–	–	(10,896)	(10,896)
At 30 September 2006		817	16,549	–	–	54,860	72,226

Notes to the Financial Statements continued

Share capital

	2006 Number	2006 £000	2005 Number	2005 £000
Authorised ordinary shares of 1p each	110,000,000	1,100	110,000,000	1,100
Allotted, called up and fully paid shares of 1p each				
At beginning of year	81,235,566	812	80,515,000	805
Issued for cash	504,479	5	720,566	7
At end of year	81,740,045	817	81,235,566	812

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Reserve for own shares

The reserve for own shares consists of the cost of shares of VICTREX plc held by employee trusts which are administered by independent trustees. The total number of shares held in trust as at 30 September 2006 was 710,159 (2005: 681,666). Distribution of shares from the trusts is at the discretion of the trustees. Dividends attaching to these shares have been waived.

Translation reserve

The translation reserve comprises all foreign exchange differences, since 1 October 2004 (as permitted by IFRS 1), arising from the translation of the financial statements of foreign operations.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Dividends

	Year ended 30 September 2006 £000	Year ended 30 September 2005 £000
Year ended 30 September 2004		
final dividend paid March 2005 at 6.2p per share	–	4,949
Year ended 30 September 2005		
interim dividend paid August 2005 at 2.7p per share	–	2,170
final dividend paid March 2006 at 9.3p per share	7,494	–
Year ended 30 September 2006		
interim dividend paid July 2006 at 4.2p per share	3,402	–
	10,896	7,119

A final dividend in respect of 2006 of £8,265,000 (10.2p per share) has been recommended by the Directors for approval at the Annual General Meeting in February 2007. These financial statements do not reflect this dividend payable.

20 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2006 £000	2005 £000
Not later than one year	825	901
Later than one year but not later than five years	1,219	1,337
Later than five years	3,710	3,840
	5,754	6,078

21 Purchase of business

On 1 April 2005 the BDF material manufacturing operations were acquired from Degussa AG.

Net assets acquired	£000
Property, plant and equipment	12,900
Goodwill	2,500
Stock	900
	16,300
Associated acquisition costs including stamp duty	1,447
Total cash consideration	17,747

The resulting goodwill was capitalised.

The acquisition was funded from existing cash resources and borrowing facilities. No fair value adjustments were made in relation to the acquired assets.

22 Related party transactions

Identity of related parties

Transactions between the parent company and its subsidiaries, which are related parties, have been eliminated on consolidation and so are only disclosed for the parent company's accounts. The Group's Japanese joint venture, as described in note 11, is also a related party.

	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Trading transactions with Japanese joint venture				
Sale of finished goods	11,148	12,199	–	–
Amounts receivable from Japanese joint venture	1,215	2,409	–	–
Financing transactions with Japanese joint venture				
Dividend received from Japanese joint venture	–	–	126	136
Trading transactions with subsidiaries				
Administrative expenses paid on Company's behalf by subsidiary	–	–	(406)	(385)
Bank guarantee fee recharged to subsidiary	–	–	320	320
Amounts receivable from subsidiaries	–	–	57,344	54,018
Financing transactions with subsidiaries				
Dividends received from subsidiaries	–	–	13,247	12,450

The Group's post-employment plans are related parties and the Group's and Company's transactions with them are disclosed in note 16.

Transactions with key management personnel

The key management of the Group and Company consists of the Board of Directors. Details of Directors' remuneration, including non-cash benefits and contributions to post-employment defined benefit plans are given in the Remuneration Report on pages 18 to 23.

Directors of the Company control 5% of the voting shares of the Company, details of which are given on page 21.

Details of Directors' indemnities are given on page 13.

Notes to the Financial Statements continued

23 Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Note 13 contains information about the assumptions and risk factors relating to foreign exchange exposure.

Note 16 contains information about the assumptions relating to retirement benefit obligations.

Note 18 contains information about the assumptions relating to share-based payments.

24 Exchange rates

The most significant Sterling exchange rates used in the accounts under the Group's accounting policies are:

	Year ended 30 September 2006		Year ended 30 September 2005	
	Average	Closing	Average	Closing
US Dollar	1.82	1.87	1.77	1.77
Euro	1.43	1.47	1.44	1.47
Yen	188	221	187	201

25 Reconciliations from UK GAAP to IFRS

In preparing the opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). An explanation of how the transition from previous UK GAAP to IFRS has affected the Group and Company is explained in the following tables and accompanying notes.

Reconciliation of the consolidated income statement

	Year ended 30 September 2005		
	Previous UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Revenue	101,615	(702)	100,913
Cost of sales	(43,628)	14	(43,614)
Gross profit	57,987	(688)	57,299
Sales, marketing and administrative expenses	(23,733)	886	(22,847)
Operating profit before financing costs	34,254	198	34,452
Financial income	419	–	419
Financial expenses	(143)	12	(131)
Share of profit of Japanese joint venture	549	(23)	526
Profit before tax	35,079	187	35,266
Income tax expense	(11,401)	36	(11,365)
Profit for the year attributable to equity holders of the parent	23,678	223	23,901
Earnings per share			
Basic	29.3p		29.9p
Diluted	29.0p		29.5p

Reconciliation of cash flow statement

There are no material differences between the cash flow statement presented under UK GAAP and IFRS.

Reconciliations of the consolidated balance sheets

	Date of transition 1 October 2004			30 September 2005		
Assets	Previous UK GAAP £000	Effect of transition to IFRS £000	IFRS £000	Previous UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Non-current assets						
Property, plant and equipment	49,347	(2)	49,345	63,812	1	63,813
Goodwill	3,475	–	3,475	6,562	860	7,422
Other intangible assets	3,202	–	3,202	2,593	–	2,593
Investment in Japanese joint venture						
share of gross assets	2,089	(179)	1,910	2,291	(80)	2,211
share of gross liabilities	(1,800)	211	(1,589)	(2,266)	135	(2,131)
Deferred tax assets	197	3,166	3,363	243	3,923	4,166
	56,510	3,196	59,706	73,235	4,839	78,074
Current assets						
Inventories	18,833	–	18,833	19,936	3	19,939
Trade and other receivables	10,578	(562)	10,016	13,049	(236)	12,813
Derivative financial instruments	–	1,543	1,543	–	1,437	1,437
Cash and cash equivalents	17,004	(191)	16,813	15,821	(74)	15,747
	46,415	790	47,205	48,806	1,130	49,936
Total assets	102,925	3,986	106,911	122,041	5,969	128,010
Liabilities						
Non-current liabilities						
Deferred tax liabilities	(6,267)	(1,760)	(8,027)	(7,013)	(2,580)	(9,593)
Retirement benefit obligations	–	(8,184)	(8,184)	–	(7,812)	(7,812)
	(6,267)	(9,944)	(16,211)	(7,013)	(10,392)	(17,405)
Current liabilities						
Derivative financial instruments	–	(426)	(426)	–	(1,010)	(1,010)
Trade and other payables	(22,704)	5,117	(17,587)	(24,854)	7,506	(17,348)
	(22,704)	4,691	(18,013)	(24,854)	6,496	(18,358)
Total liabilities	(28,971)	(5,253)	(34,224)	(31,867)	(3,896)	(35,763)
Net assets	73,954	(1,267)	72,687	90,174	2,073	92,247
Equity						
Share capital	805	–	805	812	–	812
Share premium account	13,383	–	13,383	15,243	–	15,243
Translation reserve	–	–	–	–	50	50
Hedging reserve	–	542	542	–	228	228
Retained earnings	59,766	(1,809)	57,957	74,119	1,795	75,914
Total equity	73,954	(1,267)	72,687	90,174	2,073	92,247

Notes to the Financial Statements continued

Reconciliation of the parent company balance sheets

	Date of transition 1 October 2004			30 September 2005		
Assets	Previous UK GAAP £000	Effect of transition to IFRS £000	IFRS £000	Previous UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Non-current assets						
Investments	11,251	–	11,251	11,251	–	11,251
Current assets						
Trade and other receivables	52,833	–	52,833	60,077	–	60,077
Cash and cash equivalents	32	–	32	17	–	17
	52,865	–	52,865	60,094	–	60,094
Total assets	64,116	–	64,116	71,345	–	71,345
Liabilities						
Current liabilities						
Trade and other payables	(7,045)	4,992	(2,053)	(9,635)	7,555	(2,080)
Total liabilities	(7,045)	4,992	(2,053)	(9,635)	7,555	(2,080)
Net assets	57,071	4,992	62,063	61,710	7,555	69,265
Equity						
Share capital	805	–	805	812	–	812
Share premium account	13,383	–	13,383	15,243	–	15,243
Retained earnings	42,883	4,992	47,875	45,655	7,555	53,210
Total equity	57,071	4,992	62,063	61,710	7,555	69,265

Principal differences between UK GAAP and IFRS

There are no material differences between the cash flow statement presented under UK GAAP and IFRS.

Accounting for foreign currency and financial instruments

Victrex has a policy of taking out forward foreign currency contracts to cover forecast foreign currency income streams providing medium term predictability in its results.

Under UK GAAP, Victrex used the effective exchange rates from the forward contracts for translation of its foreign currency transactions and, where appropriate, the consolidation of its overseas entities.

Under IFRS, Victrex continues to hedge account (as defined by IAS 19 - Financial Instruments: Recognition and Measurement) resulting in largely unchanged profit and loss recognition. However, IAS did require changes to the mechanics of how this is achieved:

- Under IAS 21 - Effects of Changes in Foreign Exchange Rates, all transactions and consolidations are recognised using spot rates;
- Under IAS 39 the fair value of foreign currency contracts are recognised on the balance sheet. Victrex has adopted hedge accounting and therefore the movement in fair value is deferred in a hedging reserve until the associated transaction occurs at which point the cumulative movement is released to the income statement.

Whilst the above did not materially affect overall profitability, there were minor changes in categorisation within the detail with a reduction in revenue of £702,000 offset by a reduction in cost of sales £235,000 and indirect overheads of £384,000 in the year ended 30 September 2005.

The opening consolidated balance sheet as at 1 October 2004 recognises a financial asset of £1,543,000 and a financial liability of £426,000, which account for the fair value of derivative financial instruments (forward contracts). The corresponding hedging reserve is £542,000, which reflects the fair value of forward contracts relating to future transactions at the balance sheet date. These are offset by the effects of revaluing all balance sheet categories to closing spot rates.

The consolidated balance sheet at 30 September 2005 recognises a financial asset of £1,437,000, a financial liability of £1,010,000 and a corresponding hedging reserve of £228,000.

As a first time adopter, Victrex has taken advantage of the IFRS 1 - First time Adoption of International Financial Reporting Standards exemption to deem as zero at the date of transition to IFRS the cumulative translation differences for all foreign operations.

Goodwill amortisation

Under UK GAAP, goodwill is amortised by equal instalments over its estimated useful economic life. However, under IFRS 3 - Business Combinations, amortisation of goodwill is prohibited but is replaced by a requirement for annual impairment testing. Victrex has decided to take advantage of the IFRS 1 exemption whereby IFRS 3 can be applied prospectively from the date of transition, hence removing the need to restate the previous business combinations.

The carrying value of goodwill on the opening IFRS consolidated balance sheet has therefore been restricted to that £3,475,000 net carrying amount previously reported under UK GAAP.

The profit impact of this adjustment in the year ended 30 September 2005 is a credit of £662,000, being the reversal of amortisation previously charged under UK GAAP on the goodwill which arose on the acquisition of the DFDPM business from Laporte in 1999 (note that there is no change in the treatment of knowhow arising from that transaction).

On 1 April 2005 Victrex purchased certain operations from Degussa AG. This included the purchase of goodwill which, in accordance with IFRS, will not be amortised, but will be subject to annual impairment testing. The profit impact of this adjustment in 2005 is a credit of £198,000, being the reversal of amortisation previously charged under UK GAAP.

Share-based payments

Under UK GAAP, there is no charge to the profit and loss account relating to options granted under the Victrex 1995 Executive Share Option Scheme, the Victrex 2005 Executive Share Option Plan, the Victrex 1995 Sharesave Scheme, the Victrex 2005 UK Sharesave Plan or Stock Purchase Plan. As regards the LTIP, under UK GAAP, the profit and loss account is charged over the performance period with an amount equal to the market price on the date of the award, subject to meeting performance targets.

However, IFRS 2 - Share-based Payment, requires that the fair value of all such relevant instruments granted since 7 November 2002, which had not vested by 1 January 2005, be charged to the income statement over the relevant option vesting periods (adjusted for actual and expected levels). Fair values have been calculated using the recognised Stochastic options valuation model.

Victrex receives a tax credit, as appropriate, which relates to share options and awards when exercised, based on the gains the award holders make. A deferred tax asset representing an estimate of the future tax relief for this gain has to be recognised under IFRS and is based on the potential gains available to the option or award holders at the balance sheet date.

The profit impact of this adjustment in the year ended 30 September 2005 is a net charge of £139,000, offset by a deferred tax credit of £636,000. A corresponding deferred tax asset of £636,000 has been recognised at 30 September 2005.

Borrowing costs

Under IAS 23 - Borrowing Costs, unamortised borrowing costs have been written off.

Japanese joint venture

The Japanese joint venture continues to be included in the income statement on the equity accounting basis, but as a single line item of profit after tax under IFRS as opposed to the three lines of profit before interest and tax, interest and taxation under UK GAAP.

Notes to the Financial Statements continued

Deferred taxation

Under UK GAAP, the option to calculate deferred tax on a discounted basis was adopted by Victrex. However, under IAS 12 - Income Taxes, this discounted basis in not permitted and hence the deferred tax provision has to be stated at the gross amount.

The effect on the opening consolidated balance sheet is an increase in the deferred tax provision of £1,760,000. The impact on the year ended 30 September 2005 results is an increased deferred tax charge of £820,000 and the resulting adjustment to the closing consolidated balance sheet at 30 September 2005 is an increase in the deferred tax provision of £2,580,000.

In addition, IAS 12 requires separate recognition of deferred tax assets and liabilities on the Group balance sheet.

IAS 12 is also more prescriptive than UK GAAP and hence additional deferred tax assets of £711,000 and £943,000 have been recognised in the opening and 30 September 2005 consolidated balance sheets respectively. The impact on the year ended 30 September 2005 results is a decreased deferred tax charge of £232,000.

The specific deferred taxation impact of changes in accounting for share-based payments and pensions are set out in the respective notes.

Pensions

Under UK GAAP, Victrex has accounted for pensions in accordance with SSAP 24 - Accounting for Pension Costs, which spreads the costs of the defined benefit section of Victrex's principal scheme over the employees' working lives within the Group. Victrex has also made additional disclosures giving details of the pension fund deficit, liabilities and operating charges on the valuation methodologies in accordance with FRS 17 - Retirement Benefits.

IAS 19 - Employee Benefits requires the actuarial deficit arising under the defined benefit pension scheme to be recognised on the balance sheet based on the fair valuations of assets and liabilities at the balance sheet date. The movement in deficit as a result of current service cost, contributions and other finance expenditure has to be recognised in the income statement and Victrex has taken advantage of the option under IAS 19 to recognise actuarial gains and losses through the statement of recognised income and expense as opposed to the income statement. Note that similar adjustments would have been required under UK GAAP once FRS 17 becomes fully applicable.

Consequently, a deficit of £8,184,000 and a corresponding deferred tax asset of £2,455,000 have been recognised on the balance sheet at the date of transition. A deficit of £7,812,000 and a corresponding deferred tax asset of £2,344,000 have been recognised on the balance sheet at 30 September 2005.

Dividend recognition

Under UK GAAP, proposed dividends are recognised in the financial results for the period in which they relate, but under IFRS, a dividend can only be recognised if it has been formally declared during the accounting period being reported.

Retained earnings

The adjustments to retained earnings are as follows:

	Group 1 Oct 04 £000	Group 30 Sept 05 £000	Company 1 Oct 04 £000	Company 30 Sept 05 £000
Adoption of IAS 39, 32 & 21	25	(115)	–	–
Goodwill	–	860	–	–
Borrowing costs	(48)	(36)	–	–
Deferred taxation	(1,049)	(1,001)	–	–
Defined pension schemes	(5,729)	(5,468)	–	–
Dividend	4,992	7,555	4,992	7,555
	(1,809)	1,795	4,992	7,555

Five Year Financial Summary

For the year ended 30 September	UK GAAP 2002 £m	UK GAAP 2003 £m	UK GAAP 2004 £m	IFRS 2005 £m	IFRS 2006 £m
Results					
Revenue	59.1	71.5	86.6	100.9	122.5
Profit before tax	19.0	22.6	28.5	35.3	46.1
Balance sheet					
Fixed assets	48.8	50.7	56.3	73.9	93.8
Inventories	13.9	16.4	18.8	19.9	23.0
Net cash/(debt)	(1.7)	6.0	17.0	15.7	26.9
Trade receivables and other assets	8.2	9.4	10.6	18.9	22.9
Retirement benefit obligations	n/a	n/a	n/a	(7.8)	(12.2)
Trade payables and other liabilities	(17.8)	(21.4)	(28.8)	(28.4)	(40.9)
Equity shareholders' funds	51.4	61.1	73.9	92.2	113.5
Cash flow					
Net cash flow from operating activities	17.2	26.1	32.3	27.9	43.1
Capital expenditure	(8.8)	(6.5)	(9.5)	(6.0)	(21.5)
Acquisitions	–	–	–	(17.7)	–
Interest, dividends, taxation and other items	(11.1)	(11.9)	(11.8)	(5.3)	(10.2)
Net increase/(decrease) in cash and cash equivalents	(2.7)	7.7	11.0	(1.1)	11.4
Ratios					
Earnings per ordinary share - basic	16.2p	19.1p	23.9p	29.9p	39.4p
Dividend per ordinary share	7.0p	7.5p	8.6p	12.0p	14.4p
Sales volume					
Tonnes	1,205	1,481	1,802	1,972	2,339

The prior periods 2002 and 2003 have been restated to reflect UITF Abstract 38 Accounting for ESOP Trusts and a revision of UITF Abstract 17 Employee Share Schemes.

The prior period 2005 has been restated in accordance with International Financial Reporting Standards as adopted by the EU.

Notice of Annual General Meeting

Notice is hereby given that the fourteenth Annual General Meeting of VICTREX plc ("the Company") will be held at 10.00am on 6 February 2007, at The Great Eastern Hyatt Hotel (formerly The Great Eastern Hotel), Liverpool Street, London, EC2M 7QN, to transact the following business:

Ordinary Business

1 To approve the Report on Directors' Remuneration for the year ended 30 September 2006.

2 To receive the Accounts and Reports of the Directors and the Auditors for the year ended 30 September 2006.

3 To approve the payment of a final dividend of 10.2p per share on the Company's ordinary shares of 1p in respect of the year ended 30 September 2006.

4 To re-elect as a Director Mr G F B Kerr who having been appointed as a Director after the last Annual General Meeting of the Company retires and offers himself for re-election.

5 To re-elect Mr M W Peacock, who retires by rotation.

6 To re-elect Ms A M Frew, who retires by rotation.

7 To re-elect Mr D R Hummel, who retires by rotation.

8 To re-elect Mr J G A Azis, who retires by rotation.

9 To re-appoint KPMG Audit Plc as Auditor of the Company and to authorise the Directors to determine their remuneration.

Special Business

To consider and, if thought fit, (and subject in the case of Resolution 11 to the passing of Resolution 10) pass the following resolutions, which (in the case of Resolution 10) will be proposed as an Ordinary Resolution and (in the case of Resolutions 11 and 12) will be proposed as Special Resolutions:

10 That the Directors of the Company be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ("the Act") (in substitution for all existing authorities under the said section 80) to exercise all the powers of the Company to allot relevant securities (within the meaning of the said section 80) up to an aggregate nominal amount of £282,581, provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, 6 May 2008) and provided further that the Company may before such expiry make any offers or agreements which would or might require relevant securities to be allotted after such expiry.

11 That the Directors of the Company be and are hereby empowered pursuant to section 95(1) of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority conferred upon the Directors in accordance with section 80 of the Act on 6 February 2007 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

a) the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares (notwithstanding that, by reason of such exclusions or other arrangements as the Directors may deem necessary or desirable to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange, in any territory, the equity securities to be issued are not offered to all such holders in proportion to the number of ordinary shares held by each of them) and,

b) the allotment (otherwise than pursuant to paragraph a) above) of equity securities up to an aggregate nominal value of £40,870;

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, on 6 May 2008), save that the Company may before such expiry make any offers or agreements which would or might require equity securities to be allotted after such expiry.

12 That the Directors of the Company be authorised generally and unconditionally to exercise all powers of the Company to make market purchases (as defined in Section 163(3) of the Act) of its ordinary shares of 1p each provided that:

a) the maximum number of ordinary shares which may be acquired is 8,174,188;

b) the minimum price which may be paid for any such ordinary share is 1p and,

c) the maximum price which may be paid for any such ordinary share is an amount equal to 105% of the average of the middle market quotation for an ordinary share according to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is contracted to take place;

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, on 6 May 2008) but a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter and a purchase of shares may be made in pursuance of any such contract.

By order of the Board

M W Peacock
Company Secretary
4 December 2006

Notice of Annual General Meeting continued

Notes:

1 Members entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, vote on their behalf. A proxy need not be a member of the Company.

2 The register of Directors' interests in the Company's shares, copies of the Directors' service contracts and the Directors' Deeds of Indemnity will be available for inspection at the Registered Office of the Company during normal business hours (excluding Saturdays, Sundays and English public holidays) from the date of this notice until the date of the Meeting and at the place of the Meeting from fifteen minutes before the Meeting until its close.

3 In accordance with regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that only those shareholders registered in the Company's Register of Members at 7am on Monday 5th February 2007 will be entitled to attend or vote at the Meeting and that the number of votes which any such shareholder may cast, upon a poll, will be determined by reference to the number of shares registered in such shareholder's name at that time.

Explanatory Notes

Ordinary Business

Resolution 1 – Approval of the Report on Directors' Remuneration

This resolution is proposed to approve the Report on Directors' Remuneration as set out on pages 18 to 23.

Resolution 2 – Annual Report and Accounts

The Directors are under a duty in relation to each financial year to lay the Accounts and Reports of the Directors and Auditors before the Company in general meeting, giving shareholders the opportunity to ask questions on the contents.

Resolution 3 – Declaration of dividend

A final dividend of 10.2p per ordinary share payable on 1 March 2007 has been recommended by the Directors for the year ended 30 September 2006. In accordance with the requirements of the Inland Revenue, all dividends are declared and paid net of income tax at the standard rate.

Resolutions 4, 5, 6, 7 and 8 – Re-election of Directors

In accordance with the Articles of Association Mr G F B Kerr (who was appointed as a Director after the last Annual General Meeting of the Company) is required to retire as a Director. He will, however, seek re-election by the shareholders. In addition Mr M W Peacock, Ms A M Frew, Mr D R Hummel and Mr J G A Azis will retire by rotation as Directors and will seek re-election by the shareholders in accordance with the Articles of Association of the Company.

Biographical details of Directors seeking re-election are set out on page 12. With regard to the non-executive Directors seeking re-election, the Board considers that Giles Kerr, Anita Frew and Jonathan Azis have added breadth and perspective to the Board's deliberations. Specifically, Giles Kerr brings a wide range of recent and relevant financial experience to his role as Chairman of the Audit Committee. Anita Frew, who has been a Director since 2000, and who is the Senior Independent Director and Chairman of the Remuneration Committee, has made a significant contribution to the Group bringing a wide range of experience, particularly with regard to international marketing, corporate development and the City. Jonathan Azis, who has been a Director since 2003, has also made a significant contribution to the development of Victrex bringing a wide range of financial, legal and industrial experience from a large company background.

Resolution 9 – Re-appointment of Auditor/Auditor’s remuneration

This resolution proposes the re-appointment of KPMG Audit Plc as Auditor of the Company and authorises the Directors to determine their remuneration.

Special Business

Resolution 10 – Authority to allot shares

The authority of shareholders is required to enable Directors to allot shares. Accordingly, in line with the Company's usual procedure, which is also standard practice amongst other public companies, this resolution seeks authority for the Directors to issue shares (within the limits of the existing authorised share capital) until the conclusion of next year’s Annual General Meeting or 6 May 2008, if sooner.

The resolution will provide for the Directors to be able to allot shares up to a nominal amount of £282,581. This represents less than one third of the issued share capital plus the number of shares that the Company may be obliged to allot under its share option schemes. With the exception of shares to be issued in respect of share options exercised, the Directors have no current intention of exercising this authority.

Resolution 11 – Permission to allot a limited number of shares other than to existing shareholders

When shares are issued for cash, they normally have to be offered first to existing shareholders in proportion to their current shareholding. This resolution will enable the Directors to allot for cash up to a nominal amount of £40,870, representing approximately 5% of the current issued ordinary share capital, other than to existing shareholders in order to take advantage of these opportunities as and when they arise.

The authority will lapse at the earlier of the next Annual General Meeting of the Company or 6 May 2008, if sooner.

Resolution 12 – Authority to purchase own shares

In certain circumstances, it might be advantageous to the Company to purchase its own shares. Resolution 12 specifies the maximum number of shares which may be acquired (less than 10% of the Company’s issued ordinary share capital as at the date of this Notice) and the maximum and minimum prices at which shares may be bought.

The Directors intend to use the authority only if, in the light of market conditions prevailing at the time, they believe that the effect of such purchase will be in the best interests of the shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account in reaching such a decision. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly.

As at 1 December 2006, options over a total of 2,105,116 ordinary shares were outstanding and not exercised. That number of ordinary shares represents 2.58% of the Company’s issued ordinary share capital at 1 December 2006. It would represent 2.86% of the issued ordinary share capital if the authority to buy the Company’s own shares had been used in full at that date.

Financial Calendar

Ex dividend date	31 January 2007
Record date*	2 February 2007
Annual General Meeting	6 February 2007
Payment of dividend	1 March 2007
Announcement of 2007 interim results	June 2007
Payment of interim dividend	July 2007

*The date by which shareholders must be recorded on the share register to receive the dividend.

VICTREX plc

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