

GLOBAL SOLUTIONS

VICTREX plc ANNUAL REPORT 2008

With 30 years of experience, Victrex is a global manufacturer of innovative, high performance polymers, including VICTREX® PEEK™ polymer. VICTREX PEEK is one of the highest quality thermoplastic materials in the world, offering a unique combination of properties to help processors and end users reach new levels of cost savings, performance and product differentiation.

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# CHAIRMAN'S STATEMENT

## In my first statement to shareholders as Chairman, I am pleased to report another good year for Victrex.

### Results and dividend

Profit before tax increased by 6% to a record level of £55.0m on revenue up 7.7% to £141.1m. This was achieved despite adverse exchange rates which had a negative impact of £6.1m on profit before tax compared to 2007. Underlying profit before tax, excluding this impact, increased by 18% on 2007. Basic earnings per share were up 6% at 47.8p and underlying earnings per share, at constant exchange rates, increased by 18%.

In recognition of this performance, the Directors are recommending a final dividend of 13.1p (2007: 12.6p) per ordinary share, making a total of 18.3p (2007: 17.3p) per ordinary share for the year, an increase of 6% over last year.

### Board changes

My predecessor, Peter Warry, stepped down as Chairman of Victrex on 30 September 2008. Peter made an invaluable contribution to the Board and the Company with more than nine years of service to Victrex as Chairman. He guided us through a period of significant development and investment. He has our very best wishes for the future.

I am delighted to welcome Patrick De Smedt and Lawrence Pentz to the Board as non-executive Directors. Patrick was until recently Chairman of Microsoft Europe, Middle East & Africa and serves on the boards of a number of European companies. Lawrence is a main Board Director of Johnson Matthey plc, currently Executive Director, responsible for their Emission Control Technologies business. With their breadth of international and industrial experience and their knowledge of market and geographical expansion, they are already contributing significantly to the Board.

### People

The success we achieved in 2008 was, once again, principally due to the skill, dedication and enthusiasm of our employees. I am delighted to be able to thank them formally for their outstanding contribution.

### Prospects

During 2008 we have continued to drive forward our product and market development activities, with a record number of new applications commercialised. We have successfully completed the major uprate of our supply chain with the construction of a second polymer plant and uprates of our

raw material production facilities and melt filtration plant. This provides a firm foundation for the future development of the business.

Looking ahead, as outlined in our trading update announced on 1 December 2008, it is clear that 2009 is going to be a challenging year. However, the Group remains in a strong financial position with a healthy balance sheet and good cash generation. Additionally, although the current economic climate is impacting sales in the short term, the underlying growth drivers remain in place across our end use markets and our development pipeline of potential new applications is strong. Accordingly, we remain committed to the key objective of growth through new application development. We will continue to generate new business in 2009 as we penetrate existing markets with new applications, pioneer innovative applications in new markets, and expand our geographic presence.

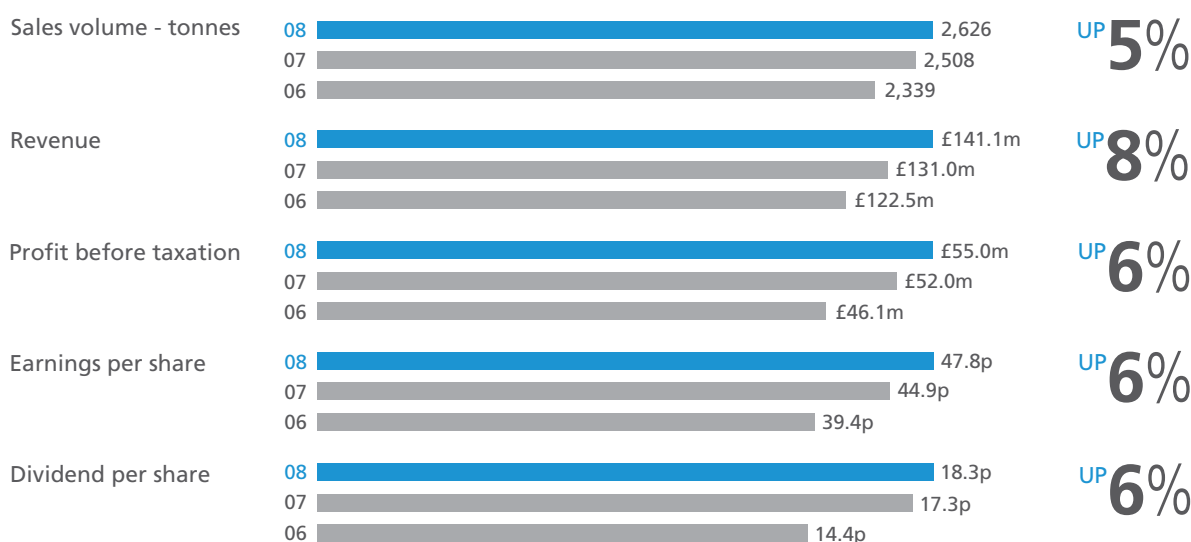


Anita Frew

Chairman

15 December 2008

## FINANCIAL HIGHLIGHTS



## ANNUAL BUSINESS REVIEW

# ABOUT OUR BUSINESS

With 30 years of experience, Victrex is a global manufacturer of innovative, high performance polymers, including VICTREX PEEK polymer. VICTREX PEEK is one of the highest quality thermoplastic materials in the world, offering a unique combination of properties to help processors and end users reach new levels of cost savings, performance and product differentiation.

### HOW WE WORK

Victrex works with end users and processors in a variety of markets such as electronics, industrial and transport.

End users specify VICTREX PEEK to reduce systems costs, improve part performance, exploit greater design freedom and create a differentiated application.

Invibio® is Victrex's biomaterials business, providing specialised solutions for medical device manufacturers.

### OUR PRODUCTS

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.

As part of the Group's commitment to ongoing product development, Victrex is focused on bringing customers new material solutions. Victrex has a wide range of products in its portfolio from high flow and high purity grades to films and coatings, and Invibio provides a range of biocompatible PEEK based polymers.

### OUR BRANDS



VICTREX PEEK polymer is a linear, aromatic, semi-crystalline polymer widely regarded as one of the highest performing thermoplastics in the world. It is highly versatile and is used by our customers in the design and manufacture of high performance applications to enable improved part performance, higher design freedom and system cost reduction.

The VICTREX PEEK polymer product family includes several different types of polyaryletherketones, as well as a wide range of blends and compounds to meet a variety of performance criteria.



Invibio is the provider of biocompatible PEEK based polymers to medical device manufacturers. Invibio offers an unparalleled combination of research and technology, technical support, medical device market expertise and a network of industry resources to help clients develop the best possible solutions, and to bring those solutions to market quickly.



APTIV™ films are produced from VICTREX PEEK polymer and provide all of the properties of VICTREX PEEK in a flexible format. APTIV films are the most versatile and high performing thermoplastic films available and have a proven track record of success in demanding applications in a broad range of industries and markets.



VICOTE® Coatings, based on VICTREX PEEK, offer exceptional scratch and wear resistance, high temperature performance, strength and durability. Eco-friendly VICOTE Coatings were developed to fill the performance gap found in many existing coating technologies today.

## 'THE WORLD'S LEADING MANUFACTURER OF POLYKETONES'

## OUR OPERATIONS

The Group's headquarters are based in the United Kingdom along with its expanding manufacturing, research and customer support facilities, such as the recently opened Applied Technology Centre. This is complemented by a growing international profile that includes a network of sales, distribution and technical centres serving more than 30 countries worldwide. Our team of dedicated market development, sales and technical support professionals work closely with customers around the world offering continued assistance in new application development, product performance data and processing support.

# 'SERVING MORE THAN 30 COUNTRIES WORLDWIDE'

## OUR PRODUCT PROPERTIES

### Inherent purity

Extremely low levels of organic, inorganic and ionic impurities

### Exceptional hydrolysis resistance

At elevated temperatures and pressures when continually conditioned in steam or water

### High strength to weight ratio

Stronger and lighter than many metals and alloys and performs in tough environments

### Electrical performance

Over a wide frequency and temperature range whether conductive or non-conductive

### Exceptional wear resistance

Over wide ranges of pressure, velocity, temperature and counterfacial roughness

### Exceptional chemical resistance

To most chemicals, solvents and sterilisation processes in aggressive environments

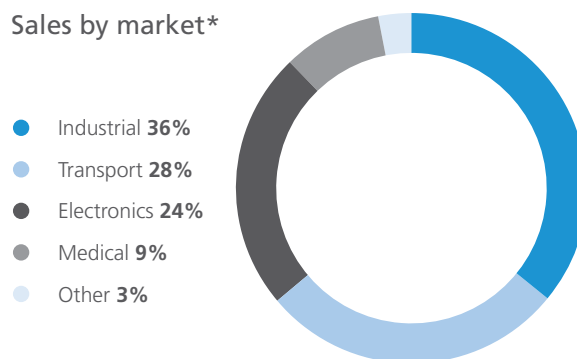
### Fire, smoke and toxicity performance

No flame retardant additives and generates extremely low smoke and toxic gas emissions

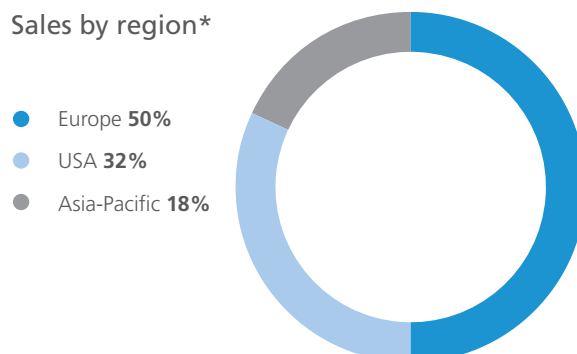
### Temperature performance

Retains a high degree of mechanical properties in extremely high and low temperatures

## Sales by market\*



## Sales by region\*



\*based on sales volume for year ended 30 September 2008



## ANNUAL BUSINESS REVIEW CONTINUED

# MARKET SEGMENTS



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

Industrial applications include cable insulation, seals, back up rings and down-hole/sub-sea connectors.



### ELECTRONICS

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

Higher performance, portability, wireless/high frequency, longer life and more stringent environmental concerns are shaping the way electronic parts are designed.

In semiconductor fabrication, migration towards larger wafer sizes and smaller chips with narrow line widths and feature sizes requires higher performance from wafer handling and processing materials. High purity and chemical resistance help VICTREX PEEK polymer meet these needs.

## TRANSPORT

VICTREX PEEK polymer delivers an excellent combination of properties that make it the material of choice in a wide range of transportation applications.

VICTREX PEEK polymer has successfully displaced metals, traditional composites and other plastics in a growing number of automotive and aerospace applications.

Increased performance requirements such as resistance to the extremes of temperature, weight and size reduction and demands for lower production costs continue to drive increased usage of VICTREX PEEK polymer.



## 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 performance and biocompatibility, making them the material of choice for leading medical device manufacturers.



ANNUAL BUSINESS REVIEW CONTINUED

## STRATEGY & 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 AND OPERATIONAL EFFICIENCY;**
- > **DESIGN, OPERATE AND MAINTAIN SAFE PLANTS IN ACCORDANCE WITH BEST SAFETY AND ENVIRONMENTAL PRACTICE AND ALL REGULATORY REQUIREMENTS;**
- > **CONDUCT ALL OUR ACTIVITIES WITH RESPECT FOR THE ENVIRONMENT, CONTINUOUSLY WORKING TO REDUCE OUR ENVIRONMENTAL IMPACT BY IMPROVING THE EFFICIENCY OF OUR OPERATIONS AND,**
- > **MAXIMISE EMPLOYEE MOTIVATION AND PERFORMANCE.**



# KEY PERFORMANCE INDICATORS

## FINANCIAL PERFORMANCE

KPI - FIVE YEAR COMPOUND ANNUAL GROWTH RATE IN BASIC EPS

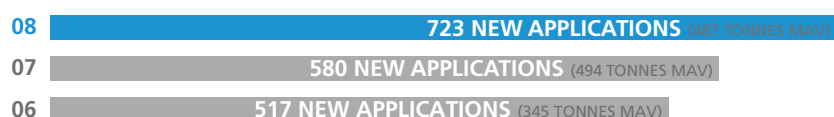
TARGET SUSTAINABLE EARNINGS GROWTH



## NEW APPLICATION DEVELOPMENT

KPI - COMMERCIALISED APPLICATIONS

TARGET DELIVERY OF SUFFICIENT NEW COMMERCIALISED APPLICATIONS TO UNDERPIN GROWTH



> Mature annualised volume ('MAV') represents the estimated annual volume from an application when it reaches maturity.

## SUPPLY CHAIN

KPI - CAPACITY

TARGET DELIVERY OF SUFFICIENT HIGH QUALITY CAPACITY TO MEET DEMAND



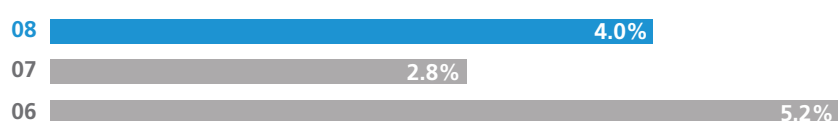
> The second VICTREX PEEK polymer powder plant, with the capacity to support a further 1,450 tonnes of sales, was completed at the beginning of the year.

> During the year we completed the uprate of the BDF supply chain to support this additional capacity.

## EMPLOYEES

KPI - VOLUNTARY STAFF TURNOVER

TARGET MINIMISE



## HEALTH AND SAFETY

KPI - REPORTABLE INJURIES

TARGET ZERO



> The single reportable injury in 2008 related to back strain suffered by an operator.

## ENVIRONMENT

KPI - NOTIFIABLE EVENTS

TARGET ZERO



> On one occasion during prescribed routine monitoring of air emissions at our Rotherham plant, the amount of emission measured (oxides of nitrogen) exceeded agreed limits.

> No observable environmental impact resulted from this event.

## ANNUAL BUSINESS REVIEW CONTINUED

# BUSINESS OVERVIEW

### Financial results

Revenue for the year grew by 8% to £141.1m (2007: £131.0m). Underlying revenue (at constant exchange rates) was up 11% on 2007. Gross profit increased by 8% to £91.6m (2007: £84.5m), representing a gross margin of 64.9% of turnover (2007: 64.5%).

Sales, marketing and administrative expenses increased by 11% to £37.0m (2007: £33.2m), primarily reflecting ongoing investment in sales and marketing resources and the inclusion of local expenses in Victrex Japan, Inc since it became a wholly owned subsidiary with effect from 30 March 2007.

Effective exchange rates had an adverse impact of £6.1m on profit before tax, compared to 2007. In spite of this, profit before tax was £55.0m, 6% up on 2007 (£52.0m). Underlying profit at constant exchange rates was £61.1m, an increase of 18% over 2007.

Basic earnings per share were up 6% at 47.8p (2007: 44.9p). Underlying earnings per share, at constant exchange rates, were up 18%.

The overall effective tax rate (including deferred tax) was 29% (2007: 30%).

### Dividend

In recognition of another successful year and the Group's strong financial position, the Directors are recommending a final dividend of 13.1p (2007: 12.6p) per ordinary share, making a total of 18.3p (2007: 17.3p) per ordinary share for the year, an increase of 6% over last year. This represents dividend cover of 2.6 times (2007: 2.6 times).

### Cash flow

Cash flow generated from operations increased to £61.9m (2007: £50.7m) primarily as a result of increased operating profit and depreciation together with a lower increase in working capital compared with 2007.

Capital expenditure cash payments amounted to £25.0m (2007: £37.2m) principally reflecting the investment in additional supply chain capacity. Taxation paid was £15.7m (2007: £12.2m).

As at 30 September 2008, the Group had cash of £23.5m and no debt (2007: net cash £13.7m). The Group has a committed bank facility of £40m, all of which was undrawn at the year end. This facility expires in September 2012.

### Operational review

#### Markets

Sales volume for the year grew by 5% to 2,626 tonnes (2007: 2,508 tonnes). Second half sales volume of 1,332 tonnes was 9% up on the previous second half (1,222 tonnes) and 3% up on the first half (1,294 tonnes).

Transport sales volume was up 10% at 723 tonnes (2007: 658 tonnes) principally as a result of increased automotive sales in Japan and the United States. We also saw increased commercial aerospace sales in the United States and Europe. Second half sales volume of 367 tonnes was up 3% on the first half of 356 tonnes primarily as a result of increased commercial aerospace sales in the United States.

Industrial sales volume was up 7% at 945 tonnes (2007: 885 tonnes), largely due to increased demand from oil and gas customers, primarily in the United States. Second half volume was up 5% at 485 tonnes compared with the first half (460 tonnes).

Electronics sales volume for the year was down 3% at 625 tonnes (2007: 645 tonnes). The modest recovery in both semicon and consumer electronics sales since the second half of last year was sustained throughout this year, with second half volume (322 tonnes) up 6% on the first half (303 tonnes). However, as expected, sales were below the record levels seen in the first half of 2007.

Regionally, United States sales volume of 848 tonnes was 7% up on the previous year (791 tonnes) helped by growth in the oil and gas, automotive and commercial aerospace segments. Second half volume was up 3% at 430 tonnes, compared with 418 tonnes for the first half, primarily reflecting increased demand from commercial aerospace and oil and gas customers, partially offset by a softening in demand from semicon applications.

At 1,302 tonnes, European sales volume was 5% up on the previous year (1,243 tonnes) as a result of increased sales into all market segments, except semicon. Second half sales volume of 656 tonnes was 2% up on the first half of this year (646 tonnes).

Asia-Pacific sales volume of 476 tonnes was maintained in line with 2007 (474 tonnes) as increased sales to Japanese automotive customers were offset by reduced demand from semicon applications. The record second half sales volume of 246 tonnes was 7% higher than the first half (230 tonnes) primarily due to increased demand from both consumer electronics and automotive customers in Japan.

#### Invivio

Invivio, our biomaterials business, continued to grow strongly with revenue of £24.9m, an increase of 29% over 2007 (£19.3m). Underlying revenue (at constant exchange rates) was up 34% on 2007. This reflects further sales growth to existing customers, coupled with successful development of new business across a broad range of end use markets.

During the year Invivio entered into a record 49 additional PEEK-OPTIMA polymer long-term supply assurance agreements with implantable medical device manufacturers. We continued to make good progress in further developing strategic markets including arthroscopy, orthopaedics and cranial maxillofacial, while ongoing success in the spinal market was sustained with developments in new areas including motion preservation and dynamic stabilisation.

#### Product and market development

We continued to successfully generate new business in 2008. During the year we commercialised a record 723 new applications (2007: 580) having an estimated mature annualised volume ('MAV') of 487 tonnes (2007: 494 tonnes). At the year end, the pipeline contained 2,978 developments (2007: 2,411) with an estimated MAV of 2,910 tonnes (2007: 2,949 tonnes) if all of the developments were successfully commercialised.

As the automotive industry pursues fuel efficiency, performance and safety, VICTREX PEEK is in demand to provide solutions in these areas. New applications include advanced exhaust treatments, sensors and safety systems. The aerospace market continues to specify VICTREX PEEK for structural and electrical applications in next generation passenger aircraft. The use of VICTREX PEEK to replace metal is providing a significant weight advantage while utilising mechanical properties at elevated temperatures and outstanding flame and smoke emission properties.

The oil and gas industry is increasingly using VICTREX PEEK in new ways in umbilical hoses, which convey power and other utilities to sub-sea wells. During the year a novel umbilical hose system was commercialised to replace metal and thereby reduce the weight and improve the lifetime and efficiency of these highly technical applications. In addition, we continued our penetration of existing applications in areas such as connectors, seals and sensors as the drilling environments continue to become more severe.

Other initiatives in the energy sector included the launch of a dedicated website as well as the development and commercialisation of several new application areas in the wind and nuclear sectors where our momentum in alternative energy solutions continues to grow.

An intensive focus on the industrial machinery markets has yielded an array of new applications replacing metals and other materials in both the textile machinery and food processing markets.

Electronics application development continues to be driven by the need for higher performance materials which maintain mechanical properties through lead-free solder temperatures. New applications commercialised this year include high performance radio frequency identification systems, high performance connectors for flexible printed circuit boards and mobile phones, as well as data storage systems.

### VERSATILITY AND HIGH PERFORMANCE APTIV FILMS

APTIV films are produced from VICTREX PEEK polymer and provide all of its inherent properties in a flexible format. They are the most versatile and high performing thermoplastic films available. APTIV films are a technology enabler for processors, designers and end users in a broad range of industries and markets providing a high performance solution to facilitate meeting demands for reduced systems cost and improved product performance. The increased design freedom offered by using APTIV films, and the ease of processing, allows customers and end users to enhance their own products' performance and differentiation.



### STRENGTH AND DURABILITY VICOTE COATINGS

VICOTE Coatings, powder and liquid dispersions based on VICTREX PEEK polymer, offer exceptional scratch and wear resistance, high temperature performance, strength and durability. Whether applied to industrial, automotive, food processing, semiconductor, electronics or pharmaceutical parts, eco-friendly VICOTE Coatings are a great choice for engineers looking to improve the wear performance and life of the coated part in their applications.



## ANNUAL BUSINESS REVIEW CONTINUED

# BUSINESS OVERVIEW CONTINUED

APTIV films, a range of high performance thermoplastic films based on VICTREX PEEK, are making significant inroads into many key markets. The unique acoustic and mechanical-thermal properties of APTIV films are leading to specification and significant penetration in audio components across a broad range of speaker applications, and APTIV films are currently being used by many of the world's leading mobile phone manufacturers. In addition, APTIV films are qualified as a lighter weight option for thermal acoustic insulation blankets in aircraft, as well as passing more stringent burn-through standards required by the Federal Aviation Authority after 2009. As a result, leading commercial aircraft customers are actively evaluating and specifying APTIV films in these applications. In other markets, the unique properties of APTIV films are leading to developments in circuit substrates, batteries and other electronic and industrial components.

### Supply chain and capital expenditure

We have now successfully completed the major programme to increase our supply chain capacity that we commenced in 2005. At the beginning of the year we completed construction of the second VICTREX PEEK polymer powder plant on our main UK site at a capital cost of £32m. The plant has the capacity to support a further 1,450 tonnes per annum of VICTREX PEEK sales in addition to the first plant's existing capacity of 2,800 tonnes and is fully operational.

We have also completed the uprate of the BDF supply chain to support this additional polymer capacity at a capital cost of approximately £22m (compared with an estimated cost of £23m). In addition, we have completed an uprate of our melt filtration plant to increase production capacity of our purified, granular product from 1,800 to 3,450 tonnes per annum at a capital cost of approximately £6m (compared with an estimated cost of approximately £8m).

Total fixed asset additions amounted to £24.2m for the year (2007: £34.3m). The additions principally related to the BDF and melt filtration plant uprates. Following completion of this major supply chain capacity uprate, we expect capital expenditure for 2009 to amount to approximately £10m, subject to phasing of projects. This will be funded from the Group's cash resources.

### Current trading

Sales volume remained strong in October at 218 tonnes, in line with average run rates achieved for the year ended 30 September 2008 (annual sales volume – 2,626 tonnes). Sales volume continued at this level in the early part of November. However, we have since experienced a slowdown in orders as our customers have responded to the deteriorating global economic climate. Accordingly, November sales volume amounted to 118 tonnes.

In contrast to our VICTREX PEEK business, Invibio, our biomaterials business, continued to move ahead in line with our expectations, with revenues for both October and November at higher levels than the average run rate we achieved in 2008 (annual sales revenue – £24.9m).

### Outlook

Traditionally, December sales run at seasonally low levels as our customers look to their year end shutdowns. As a result we do not expect December sales volume to show an improvement over November. However, we believe that this current reduction in sales is, to some extent, caused by customers reducing inventories due to the uncertain global economic outlook. We anticipate having a clearer view of the likely level of ongoing demand for 2009 when we have seen January sales volume, which we will report on in February.

While still fully committed to driving forward the growth of the business, we are currently progressing a full review of our cost base in the light of current trading to ensure our resources are prioritised and focused on maximising volume from new business.

### Currency impact and gross margin

As previously reported, trading results for 2009 will be positively affected by the weakening of Sterling against our key trading currencies. Based on our forecast sales volume, current hedging already in place and spot exchange rates as at 25 November 2008, we currently estimate the following average rates will apply:

	Year to 30 September 2008 Actual	Year to 30 September 2009 Estimate
US Dollar	1.99	1.87
Euro	1.47	1.36
Yen	229	227

As a result of these improved rates, we expect to see a significant increase in effective Sterling average selling price which will have a positive impact on revenues and profit. However, this will be partially offset by increased input costs, additional depreciation on our new plants and higher effective fixed costs per tonne as a result of reduced production and therefore we expect Group gross margin to be similar to 2008.

### Risks, trends, factors and uncertainties

Victrex's business and share price may be affected by a number of risks, trends, factors and uncertainties, 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 22.

Sections of this Annual Report contain forward-looking statements, including statements relating 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, trends, factors and uncertainties (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 interest and exchange rates; changes in global, political, economic, business, competitive and market forces; changes in raw material pricing and availability; 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. Further information on financial risk management is set out in note 15.

#### 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 Safety, Health and Environment ('SHE') department to assist line management and to provide expert guidance. Further information on SHE matters is set out in the Corporate Responsibility section on page 13.

We hold significant stocks of raw materials and finished goods which should 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.



### VICTREX CELEBRATES 30 YEARS OF VICTREX PEEK POLYMER INNOVATION

The 19th of November marked the 30th anniversary of VICTREX PEEK polymer. Since the product's inception, Victrex and its customers have helped revolutionise the plastics market with this high-temperature, high-performance polyketone.

Since 1978, the use of VICTREX PEEK polymer quickly spread around the world, first into Western Europe and the United States to address customers' needs in the automotive and transportation sector. As businesses became global, Victrex successfully moved into Japan and then during the past decade, has delivered this unique polymer into China and the rest of Asia. Today, Victrex continues expansion into high-growth markets such as India, Russia and Brazil.

Having a proactive supply chain strategy is critical because it has a direct impact on product quality and provides control and stability over the materials Victrex produces. Victrex is vertically integrated, following the acquisition of operations owned by a subsidiary of Degussa AG relating to the manufacture of BDF in 2005, and the previous acquisition of the primary manufacturing stage of BDF in 1999. This gives Victrex control over its BDF raw material supply chain.

Victrex also offers the most comprehensive polyketone product portfolio in the world. This means that its customers have the flexibility to choose from a wide range of materials to help solve their performance challenges. In addition, Victrex continues to focus on VICTREX PEEK polymer research and development, and is committed to maintaining a product portfolio that is fresh and active. Victrex offers a product range that has more than doubled in recent years including the launch of APTIV films and VICOTE Coatings based on VICTREX PEEK polymer.

Victrex's leadership position in the high performance materials market has been formally recognised. The Company is a multiple winner of The Queen's Award for Enterprise in 1987, 1997, 2002 and 2006. It attained the Royal Society for the Prevention of Accidents ('RoSPA') President's Award (awarded for winning 10 consecutive RoSPA Gold Awards) in 2007 and 2008 in recognition of sustained occupational health and safety achievement.



## ANNUAL BUSINESS REVIEW CONTINUED

# BUSINESS OVERVIEW CONTINUED

### 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 their requirements.

### 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. Inivbio PEEK-OPTIMA polymer is additionally manufactured within the requirements of ISO 13485:2003, 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 negatively impact the 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. Primarily, 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 22.

### Relationships with customers and suppliers

We have essential relationships with our customers, suppliers, employees, shareholders and the environment. All our relationships are managed in accordance with the Group's global ethics policies described on pages 14 and 15. Relationships with our customers and suppliers are described in further detail below:

#### Customers

Our customers are a combination of polymer processors and end users located worldwide. We have long-term supply assurance agreements in place with all of the implantable medical device manufacturers that comprise Inivbio's PEEK-OPTIMA polymer customers. These agreements guarantee the specification of and production methods for the biomaterials over the term of the agreements. We also have supply agreements in place with some major processing customers and supply to other customers on an order by order basis in accordance with the Group's applicable terms and conditions of sale. The loss of a major processing customer or a worsening of commercial terms could have a material impact on the Group's results, accordingly we devote significant resources to supporting our customer global ethics policies, including maintaining regular contact with major customers and undertaking surveys of customer satisfaction.

#### Suppliers

In 2005 we completed the purchase of the operations of Degussa AG relating to the manufacture of BDF (the key raw material from which VICTREX PEEK is produced). The provision of other key raw materials and services remain essential to the operation of our various manufacturing facilities and we seek to maintain appropriate contracts, where available, with suppliers for the supply of key raw materials. In addition to the steps taken to manage the risk of operational disruption caused by a shortage of key raw materials as described on page 11, we devote significant resources to maintaining our supplier relationships to ensure they continue to operate satisfactorily, including regular audits of and performance reviews with key suppliers.



### DEEP FOCUSED TECHNICAL EXPERTISE

Victrex provides a wide range of services from material specification and testing to research and application development.

The Applied Technology Centre in the UK provides extensive material formulation, specification and testing services. The Centre houses state-of-the-art processing facilities to support customer trials on-site.

We can contribute to the optimisation of a customer's design, optimise manufacturing parameters and carry out an extensive set of relevant analytical and application-related tests to confirm the real-world feasibility of a part.

The UK Technology Centre complements the Victrex Asia Innovation and Technology Center located in Shanghai, China. Based on the similarly advanced services, this facility is dedicated to helping customers with applications and related testing. Customers enjoy local-language staff, technical seminars, process and troubleshooting support, materials data, moulds validation, as well as part prototyping.

#### Research and Development

We have organic and polymer chemists, physicists and materials scientists, as well as process, mechanical and design engineers.

These teams are intimately networked with a range of industrial and academic collaborators, laboratories and service providers around the world, which enables us to leverage additional specialised resources focused on solving our customers' toughest technical challenges.

# CORPORATE RESPONSIBILITY

As noted on page 19, the Board considers that the management of safety, health, environmental, social and ethical matters forms a key element of effective corporate governance which in turn supports the long-term performance and sustainability of the business. These areas are managed in conjunction with all other business risks and are covered by the internal control systems and procedures outlined on page 21.

A review of the Group's policies relating 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 only one over-3-day reportable injury during the year, when an operator suffered back strain. The Group again received the Royal Society for the Prevention of Accidents ('RoSPA') President's Award in 2008 in recognition of sustained occupational health and safety achievement after winning 10 consecutive RoSPA Gold Awards.

Again, there have 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 regulated by Environmental Permitting legislation and, as such, are subject to close monitoring of environmental emissions. During the year there was one notifiable event when, during prescribed routine air emission

monitoring at our Rotherham plant, the amount of emission measured (oxides of nitrogen) exceeded agreed limits. No observable environmental impact resulted from this event.

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.

We are constantly striving to improve efficiency in all areas of our operations, including energy use (and therefore CO<sub>2</sub> emissions), water consumption and quantities of hazardous waste produced. This is achieved by implementing many procedures and projects, large and small, across the business.

Increases in 2008 in energy usage and CO<sub>2</sub> generation per tonne of product sold were expected and were principally due to commissioning and optimisation of the new polymer manufacturing plant at our main UK site. To a lesser extent, our film manufacturing facility, the BDF uprate and expanded technical facilities have also increased energy usage.

## REACH

The REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) Regulations came into force on 1 June 2007. Although polymers are outside the scope of the regulations, the Company is working to ensure full REACH compliance for all raw materials and products which do require registration. Actions are in place to ensure that all relevant materials are pre-registered on target.

## Environmental impacts per tonne of VICTREX PEEK sold

	2005	2006	2007	2008
Victrex PEEK sales volume tonnes	1,972	2,339	2,508	2,626
Energy use GJ	206	181	168	196
Water use m <sup>3</sup>	224	210	189	148
CO <sub>2</sub> emissions tonnes equivalent	10.5	9.4	8.6	9.8
Hazardous waste (post treatment) tonnes	3.0	0.2	0.2	0.0

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.

## ANNUAL BUSINESS REVIEW CONTINUED

# CORPORATE RESPONSIBILITY CONTINUED

Full implementation of the regulations takes place in a phased manner from 1 June 2008 to 31 May 2018 and we have a project team in place to manage this process. We do not anticipate any disruption to the supply of products arising from the regulations. Although we cannot precisely quantify the cost of implementing the regulations, we do not expect it to be material for Victrex.

### 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 2008, approximately 85% (2007: 87%) 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 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, 4.0% in 2008 (2007: 2.8%).

### 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:

### 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 products 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 whistleblowing (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.

### Social and community

The Group participates in a range of activities within the local communities where we operate, from charitable giving, offering apprenticeships and supporting science education and awareness in schools, to sponsorship of undergraduates and the advancement of research work at universities.

In the UK, a proportion of the charitable donations budget is distributed by the Staff Committee mainly to local charities chosen from nominations made by employees. National or overseas charities are supported where there is strong employee involvement. The Group made charitable donations of £15,454 (2007: £17,706) during the year of which £3,667 (2007: £6,688) were in the UK. In addition, old computer equipment is given to either local schools or charities chosen by the Staff Committee.

## OUR PEOPLE

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.

We have a culture of clear communication, accountability and pro-active employment practices throughout the organisation.

The Company supports employee share ownership and, where practical, offers the opportunity to participate in share schemes.



## DISTRIBUTION

The Group's headquarters is located in the UK where its manufacturing facilities are based. To complement our global sales and technical centres that serve more than 30 countries worldwide we have a dedicated logistics team who maintain the highest commitment to our customers' needs. Our freight partners share our commitment to our customers and ensure an exceptional service.

All activities, including product distribution, are managed with the environment in mind and we continuously work to reduce our impact on the environment by improving the efficiency of our operations.

# BOARD OF DIRECTORS

## Chairman

## Non-executive Directors



Anita Frew (51)  
BA MPhil  
**Chairman** \*

Appointed in 2000.  
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 (49)  
BA ACA  
**Non-executive Director** \* † #

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

Jonathan Azis (51)  
MA Solicitor  
**Non-executive Director** \* † #

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

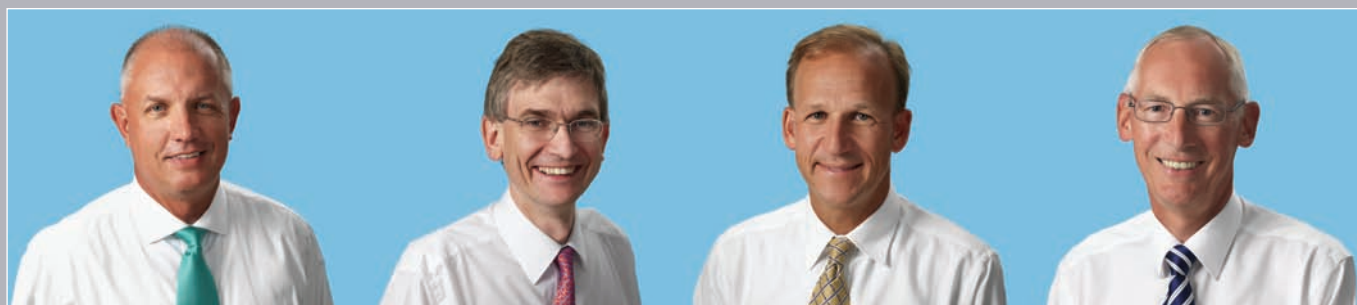
Patrick De Smedt (53)  
BCEng MBA  
**Non-executive Director** \* † #

Appointed in 2008.  
Currently a non-executive Director of Telindus N.V. (Belgacom, Belgium), PNO Group B.V. (Netherlands), Inventive Designers N.V. (Belgium) and Option N.V. (Belgium). He was formerly Chairman of Microsoft Europe, Middle East & Africa.

Lawrence Pentz (53)  
BS ChE MBA  
**Non-executive Director** \* † #

Appointed in 2008.  
Currently an executive Director of Johnson Matthey Plc responsible for their Emission Control Technologies business. He was formerly executive Director, Process Catalyst and Technologies of Johnson Matthey.

## Executive Directors



David Hummel (50)  
BSc  
**Chief Executive** \*

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

Michael Peacock (50)  
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 (45)  
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 (60)  
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.



# DIRECTORS' REPORT

The Directors present their Annual Report and Accounts to shareholders for the year ended 30 September 2008.

## Principal activity

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

## 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 2008, 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 2 to 15.

## Results and dividends

Group profit after tax for the year was £39.1m (2007: £36.4m).

The Directors recommend the payment of a final dividend of 13.1p per share, on 27 February 2009, to all shareholders on the register on 13 February 2009. This makes a total dividend of 18.3p per share for the year (2007: 17.3p per share).

## Share capital

Details of the Company's share capital and reserve for own shares are given in note 19.

During the year 669,822 shares were issued in respect of options exercised under employee share schemes. Details of these schemes are summarised in note 18.

## Rights and obligations attaching to shares

The holders of ordinary shares are entitled to receive dividends when declared, the Company's report and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

There are no restrictions on transfer or limitations on the holding of ordinary shares and no requirements to obtain prior approval to any transfer except where the Company has exercised its right to suspend their voting

rights, withhold a dividend or prohibit their transfer following failure by the member or any other person appearing to be interested in the shares to provide the Company with information requested under section 793 of the Companies Act 2006. The Directors may, in certain circumstances, also refuse to register the transfer of a share in certified form which is not fully paid up, where the instrument of transfer does not comply with the requirements of the articles of association, or if entitled to do so under the Uncertificated Securities Regulations 2001. No ordinary shares carry any special rights with regard to control of the Company and there are no restrictions on voting rights except that a shareholder has no right to vote in respect of a share unless all sums due in respect of that share are fully paid. There are no known agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights and no known arrangements under which financial rights are held by a person other than the holder of the shares.

Shares acquired by employees under employee share schemes rank equally with the other shares in issue and have no special rights.

## Own shares held

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

At the 2008 Annual General Meeting ('AGM'), shareholders renewed the Company's authority to make market purchases of up to 8,224,710 of its own ordinary shares (representing 10% of the issued share capital of the Company as at 7 December 2007). No market purchases of the Company's own shares were made during the year. At the forthcoming AGM the Board will again seek shareholders' approval to renew the annual authority for the Company to make purchases of its own shares through the market.

## AGM

The notice of the 2009 AGM of the Company is given on page 64.

## Directors

Details of the Directors of the Company are given on page 16. Details of Directors' interests in shares are provided in the Report on Directors' Remuneration on pages 23 to 28.

At the forthcoming AGM, resolutions will be proposed for the re-election of Mr P J M De Smedt, Mr L C Pentz, Dr T J Walker and Mr G F B Kerr.

## Appointment and replacement of Directors

The current and proposed new Articles of Association of the Company provide that the number of Directors shall be not more than ten and not less than two, unless otherwise determined by the Company by Ordinary Resolution. Directors may be appointed by an Ordinary Resolution of the members or by a resolution of the Directors. A Director appointed by the Directors must retire at the next following AGM and offer himself for re-election.

A Director may be removed by an Extraordinary Resolution of the Company. In addition, a Director must automatically cease to be a Director if (i) he ceases to be a Director by virtue of any provision of the Companies Acts or he becomes prohibited by law from being a Director, or (ii) he becomes bankrupt or makes any arrangement or composition with his creditors generally, or (iii) he is suffering from a mental disorder, or (iv) he resigns from his office by notice in writing to the Company, or in the case of an executive Director, his appointment is terminated or expires and the Directors resolve that his office be vacated, or (v) he is absent for more than six consecutive months without permission of the Directors from meetings of the Directors and the Directors resolve that his office be vacated or (vi) he is requested in writing, or by electronic form, by all the other Directors to resign.

# DIRECTORS' REPORT CONTINUED

## Powers of the Directors

The powers of the Directors are determined by the Company's Memorandum and Articles of Association, the Companies Act 1985 and Companies Act 2006 and any directions given by the Company in general meeting. The Directors have been authorised by the Articles of Association to issue and allot ordinary shares and to make market purchases of shares. These powers are referred to shareholders at the AGM for renewal. Any shares purchased may be cancelled or held as treasury shares.

## Employment policies

The Group's employment policies, including its policy regarding the employment of disabled people, are set out on page 14.

## Major interests in shares

The Company has been notified of the following interests in 3% or more of its issued share capital as at 12 December 2008:

	Number of ordinary shares	
Schroders plc	10,306,929	12.43%
Legal and General Group Plc	4,389,243	5.29%
F&C Asset Management plc	4,228,620	5.10%
BlackRock Investment Management (UK) Limited	4,182,740	5.05%
Standard Life Investments Ltd	4,101,202	4.95%
AXA S.A.	3,729,607	4.50%
AEGON UK Group of Companies	3,117,663	3.76%

## Change of control

With the exception of the service agreement of Blair Souder as set out on page 24, none of the Directors' or employees' service contracts contain provisions providing for compensation for loss of office or employment that occurs because of a takeover bid.

## Combined Code

A statement on corporate governance is set out on pages 19 to 22.

## Financial instruments

Details of financial risk management are given in note 15.

## Donations

Details of charitable donations made in the year are set out on page 15. No political donations were made (2007: £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 had trade creditors outstanding at the year end representing 21 days (2007: 22 days) of purchases. The Company did 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 2008 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.

## 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.

## Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

## Auditor

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  
15 December 2008

# CORPORATE GOVERNANCE

The Directors have reviewed the Group's compliance with the Combined Code on Corporate Governance issued by the Financial Services Authority in June 2006 (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. Until 28 July 2008, the Group had not strictly complied with this requirement as there were four executive Directors and only three independent non-executive Directors, although the Board also considered the Chairman, Peter Warry to be independent. However, with effect from 28 July 2008, the Group has complied with this provision following the appointment of two further independent non-executive Directors.

Subject to the above point, 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, four other non-executive Directors and four executive Directors. All of the Directors served throughout the year with the exception of Patrick De Smedt and Lawrence Pentz who were appointed on 28 July 2008. Both were considered by the Board to be independent on appointment. Peter Warry retired as non-executive Chairman and as a Director of the Company with effect from 30 September 2008, and was succeeded by Anita Frew. 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 was the Senior Independent Director until 30 September 2008 when she was succeeded by Giles Kerr.

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 as required, 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. There was full attendance at all meetings, with the exception of Giles Kerr, who was unable to attend one meeting. During the year, the Chairman met with the other non-executive Directors without the executive Directors present on one occasion, 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 the Company's website ([www.victrex.com](http://www.victrex.com)) and, in paper form 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.

# CORPORATE GOVERNANCE CONTINUED

## Nominations Committee (Chairman – Anita Frew)

The Nominations Committee was chaired by Peter Warry until his retirement with effect from 30 September 2008.

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 Patrick De Smedt and Lawrence Pentz. The external search consultants used were Hanson Green.

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 – Jonathan Azis)

The Remuneration Committee was chaired by Anita Frew until her appointment as non-executive Chairman which took effect from 1 October 2008.

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 Chairman and executive Directors are responsible for the agreement of non-executive Directors' remuneration. During the year the Committee sought advice on executive Directors' remuneration from Hewitt New Bridge Street.

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. The Committee also reviews the Group's whistleblowing policy.

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 the firm.

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 external auditor 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 three 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 Group Financial Controller and the External Audit Engagement Director 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 23 November 2007, the Committee reviewed the Company's preliminary announcement of its results for the financial year ended 30 September 2007 and the draft Annual Report and Accounts for that year. The external auditor reported to the Committee on the conduct of its audit, its review of the 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. The Committee carried out the annual appraisal of the external auditor (including reviewing non-audit fees) and the effectiveness of the audit process.

At its meeting on 9 May 2008, the Committee reviewed the Company's interim results announcement and draft Half-yearly Financial Report. The external auditor reported to the Committee on its review. The Committee also considered the results of regular internal control reviews.

On 22 September 2008, the external auditor presented its proposed fees and scope for the audit for the year ended 30 September 2008. The Committee also carried out its annual performance appraisal and terms of reference review.

At its meeting on 24 November 2008, the Committee reviewed the Company's preliminary announcement of its results for the financial year ended 30 September 2008 and the draft Annual Report and Accounts for that year. The external auditor reported to the Committee on the conduct of its audit, its review of the accounts, including policies and areas of judgement, and commented on risk management and control matters. The results of internal control matters were also considered. The Committee carried out the annual appraisal of the external auditor (including reviewing non-audit fees) and the effectiveness of the audit process.

#### Disclosure Committee (Chairman – Anita Frew, 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 auditor 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, understands 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 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 2008 (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.



# CORPORATE GOVERNANCE CONTINUED

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 below) 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 is chaired by the Production and Technical Director, and comprises two further executive Directors and senior executives from the operational, commercial and finance functions. It 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 is chaired by the Chief Executive, and comprises two further executive Directors and senior finance executives. It 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 primarily 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 15 and 26 to 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 with account taken of the time and responsibility involved in each role.

The Remuneration Committee consists entirely of non-executive Directors, as set out on page 20, and is chaired by Jonathan Azis. The Remuneration Committee has access to independent advice where it considers it appropriate. This year, the Committee has continued to use the services of Hewitt New Bridge Street (which it has previously appointed) for executive Directors' remuneration. Neither Hewitt New Bridge Street (nor Hewitt Associates, its parent company) provide any other services to the Company, save in respect of those relating to other senior executive remuneration and administration of share schemes.

## 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 one third of total remuneration, one third annual bonus and one third LTIP (excluding pension provision). In formulating remuneration policy, full consideration has been given to the principles set out in Section B of the Combined Code.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee will ensure that the incentive structure for executive Directors and senior management will not raise environmental, social or governance ('ESG') risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Committee which prevents it from taking into account ESG matters.

## 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 selected on the basis of market capitalisation and turnover. Individual salary amendments take into account each executive Director's performance against agreed objectives and the Group's financial needs as well as comparing each executive Director's basic salary to senior management in the Group and relative to the external market. The Committee used the services of Hewitt New Bridge Street to provide comparative data.

## Annual cash bonus

Each executive Director was eligible to receive an annual cash bonus of up to 100% of basic salary for the year ended 30 September 2008. This was determined by reference to performance targets based on the Group's financial results (up to 80% 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 2008 was 51.5% of basic salary. This comprised 37% based on performance against budgeted Group profit before tax and 14.5% 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 eligible to 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 have normally become exercisable between the fifth and tenth anniversaries of the grant date, subject to continued employment and 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 has been exercisable is dependent on two independent 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 excluding investment trusts 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.

# REPORT ON DIRECTORS' REMUNERATION CONTINUED

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 Hewitt New Bridge Street whilst the Group's EPS growth is derived from the audited financial statements.

The existing LTIP expires in 2009, so the Company is seeking approval at the forthcoming AGM for a replacement plan (the '2009 LTIP'). The key features of the 2009 LTIP will remain largely unchanged from the existing structure, with the exception of some relatively minor amendments. Full details of the proposed 2009 LTIP are set out in the accompanying letter from the Chairman.

The decision to seek shareholder approval for the establishment of the 2009 LTIP was taken as part of the Committee's annual review of the Company's incentive programs, the purpose of which is to ensure that these programs take due account of market practice, best practice and the particular circumstances of the Company.

## Share options

Executive Directors do not participate in the Victrex 2005 Executive Share Option Plan (which is the primary share incentive arrangement for below Board executives).

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 USA, can participate in the Victrex 2005 Employee Stock Purchase Plan on the same basis as other USA employees.

## Pension arrangements

Michael Peacock and Tim Walker 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,
- if a member dies whilst in pensionable service, a surviving spouse and dependants are entitled to a pension subject to the scheme rules.

David Hummel and Blair Souder participate in a defined contribution scheme and a life assurance plan operated in respect of USA 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. It is expected that the initial appointment will be for an initial period of three years. Following this the appointment is reviewed annually.

The Auditor is required to report on the information contained from here to page 27 inclusive.

Directors' remuneration for the year ended 30 September 2008 was as follows:

	Date of service contract	Basic salary <sup>(1)</sup> £	Pension/other supplements <sup>(2)</sup> £	Bonus £	Benefits in kind £	Total 2008 £	Total 2007 £
<b>Executive Directors</b>							
D R Hummel	6 Dec 95	274,854	47,172	157,461	–	<b>479,487</b>	439,021
M W Peacock	1 Feb 00	218,000	38,488	112,270	6,158	<b>374,916</b>	351,248
B V Souder	16 Sept 02	186,524	31,295	106,900	13,383	<b>338,102</b>	310,823
T J Walker	1 May 99	195,000	32,738	100,425	5,927	<b>334,090</b>	319,911
<b>Chairman</b>							
P T Warry (retired 30 September 2008)	1 Oct 01	107,000	–	–	–	<b>107,000</b>	100,000
<b>Non-executive Directors</b>							
A M Frew (appointed Chairman 1 October 2008)	1 Oct 08	58,000	–	–	–	<b>58,000</b>	40,000
J G A Azis	22 Sept 03	38,000	–	–	–	<b>38,000</b>	35,000
G F B Kerr	1 Aug 06	41,000	–	–	–	<b>41,000</b>	38,000
P J M De Smedt (appointed 28 July 2008)	28 July 08	6,818	–	–	–	<b>6,818</b>	–
L C Pentz (appointed 28 July 2008)	28 July 08	6,818	–	–	–	<b>6,818</b>	–
<b>Total remuneration</b>		<b>1,132,014</b>	<b>149,693</b>	<b>477,056</b>	<b>25,468</b>	<b>1,784,231</b>	<b>1,634,003</b>

The total payments (including pension contributions) made to the highest paid Director, D R Hummel, were £494,967 (2007: £452,767).

<sup>(1)</sup> The basic salaries of D R Hummel and B V Souder are paid in US Dollars. The equivalent US Dollar amounts are \$545,000 (2007: \$500,000) and \$370,000 (2007: \$340,000) respectively.

<sup>(2)</sup> In accordance with the policy outlined on page 24, D R Hummel and B V Souder received an additional salary supplement of £41,228 and £18,652 respectively with regards to the shortfall in the promised level of pension benefit which cannot be provided through the appropriate approved scheme and £5,944 and £1,863 respectively with regards to the shortfall in the promised levels of life and disability insurance.

M W Peacock and T J Walker received additional salary supplements of £25,700 and £19,950 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 each received an additional salary supplement of £12,788 in lieu of a company car.

#### Pensions

	Age at 30/09/08	Accrued benefit at 30/09/07 £	Change in accrued benefit due to inflation £	Change in accrued benefit due to other factors £	Accrued benefit at 30/09/08 £	Transfer value at 30/09/07 £	Directors' contributions £	Increase in transfer value net of Directors' contributions £	Transfer value at 30/09/08 £
M W Peacock	50	16,124	770	2,085	<b>18,979</b>	138,010	5,580	178,581	<b>322,171</b>
T J Walker	60	17,701	845	2,089	<b>20,635</b>	233,150	5,580	251,755	<b>490,485</b>

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 £29,819 and £44,059 respectively.

The cost of pension contributions payable and accrued under defined contribution arrangements for D R Hummel and B V Souder amounted to £15,480 (2007: £13,746) and £13,600 (2007: £13,681) respectively.

# REPORT ON DIRECTORS' REMUNERATION

CONTINUED

## Directors' shares

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

	30/09/08 Beneficial	30/09/08 Non-beneficial	30/09/07 Beneficial	30/09/07 Non-beneficial
<b>Executive Directors</b>				
D R Hummel	3,660,080	179,000	3,660,080	179,000
M W Peacock	38,146	–	38,146	–
B V Souder	48,703	–	10,000	–
T J Walker	78,188	–	88,817	–
<b>Chairman</b>				
P T Warry (retired 30 September 2008)	–	113,679	57,067	–
<b>Non-executive Directors</b>				
A M Frew (appointed Chairman 1 October 2008)	9,184	–	9,184	–
J G A Azis	1,125	–	1,125	–
G F B Kerr	2,500	–	–	–
P J M De Smedt (appointed 28 July 2008)	–	–	–	–
L C Pentz (appointed 28 July 2008)	–	–	–	–

Between 30 September 2008 and 12 December 2008, the beneficial shareholding for T J Walker increased by 43 shares.

The Directors' share options at 30 September 2008 under the Victrex 1995 Executive Share Option Scheme were as follows:

	30/09/08	30/09/07	Exercise price <sup>(1)</sup>	Normal exercise period
B V Souder	–	31,000	214.0p	2005-2012

<sup>(1)</sup> The exercise price equates to the market value of the shares on the date of grant.

On 17 December 2007 B V Souder exercised 31,000 share options at an option price of 214.0p per share when the market price was 675.2p per share.

The mid-market price of Victrex plc shares at 30 September 2008 was 715.0p (2007: 660.0p). The range in the financial year was 580p to 829p (2007: 640.0p to 828.0p).

The Directors' Sharesave options at 30 September 2008 were as follows:

	30/09/08	30/09/07	Exercise price <sup>(1)</sup>	Normal exercise period
T J Walker	1,791	1,791	522p	2009

<sup>(1)</sup> 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.



### Long Term Incentive Plan

The Long Term Incentive Plan ('LTIP') commenced on 26 January 1999. The Directors' contingent interests in shares at 30 September 2008, as set out below, were as follows:

	30/09/07	Granted in year	Exercised in year	Lapsed in year	30/09/08
D R Hummel	270,067	39,166	–	–	309,233
M W Peacock	188,041	31,640	–	–	219,681
B V Souder	171,462	26,589	51,740	–	146,311
T J Walker	180,011	28,301	56,748	–	151,564
	809,581	125,696	108,488	–	826,789

The market value of the shares granted in the year was 677p per share on the date of the grant.

On 17 December 2007 B V Souder and T J Walker exercised 51,740 and 56,748 share options respectively at an option price of nil p per share when the market price was 675.2p per share.

It is the Company's policy to acquire sufficient shares to meet the Directors' contingent interests in shares under the LTIP and to hold such shares in employee trusts. As at 30 September 2008, 826,790 shares (2007: 809,582) were held in trust as further described in note 19.

Outstanding option awards granted annually under the LTIP:

Granted in year	2001	2002	2003	2004	2005	2006	2007	2008	30/09/08
D R Hummel	100	10,044	81,490	62,140	47,038	37,905	31,350	39,166	309,233
M W Peacock	–	5,778	50,970	44,151	35,849	26,814	24,479	31,640	219,681
B V Souder	–	–	–	41,289	31,255	25,860	21,318	26,589	146,311
T J Walker	–	–	–	41,743	33,893	25,351	22,276	28,301	151,564
	100	15,822	132,460	189,323	148,035	115,930	99,423	125,696	826,789

LTIP performance period – three years ending	30/09/03	30/09/04	30/09/05	30/09/06	30/09/07	30/09/08	30/09/09	30/09/10
Total Shareholder Return <sup>(1)</sup>	27th	108th	46th	35th	48th	41st	n/a <sup>(3)</sup>	n/a <sup>(3)</sup>
EPS growth <sup>(2)</sup>	7.6%	4.8%	19.0%	22.3%	17.8%	12.8%	n/a <sup>(3)</sup>	n/a <sup>(3)</sup>
Exercisable rate (% of grant)	74.88%	14.40%	100%	100%	100%	100%	n/a <sup>(3)</sup>	n/a <sup>(3)</sup>

<sup>(1)</sup> Victrex plc's Total Shareholder Return ranked relative to companies in the FTSE 250 as at the start of the period.

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

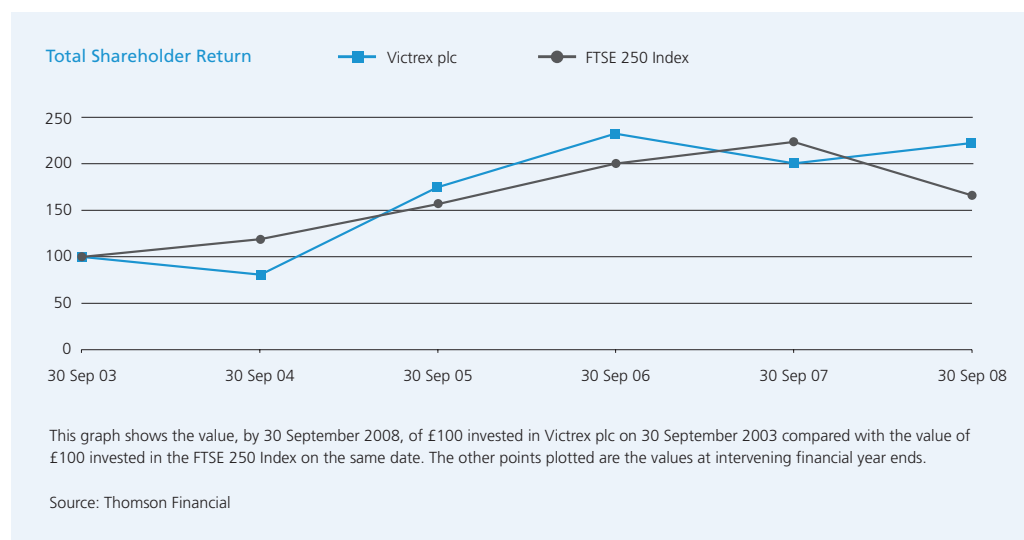
<sup>(3)</sup> The three year performance periods in respect of the awards granted in 2007 and 2008 are not yet complete and hence the exercisable rate has yet to be determined.

The performance conditions applicable to these option awards are outlined on page 23.

# REPORT ON DIRECTORS' REMUNERATION CONTINUED

## 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.



**Jonathan Azis**

Chairman of the Remuneration Committee

15 December 2008

# RESPONSIBILITY STATEMENT OF THE DIRECTORS

## Responsibility of Directors for the preparation of the Annual Report and Accounts

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

The Group and Parent Company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group and the Parent Company. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRS as adopted by the EU and,
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

## Responsibility Statement of the Directors in respect of the Annual Report and Accounts

The Directors confirm that to the best of their knowledge:

- The Group and Parent Company's financial statements, prepared in accordance with applicable UK law and in conformity with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and,
- The management report, which comprises the Directors' Report and the Annual Business Review, includes a fair review of the development and performance of the business and position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and the uncertainties they face.

The Directors of Victrex plc are detailed on page 16.

By order of the Board



**Michael Peacock**

Finance Director

15 December 2008

# 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 2008 which comprise the Consolidated 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 Expense 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 Report on Directors' Remuneration 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 29.

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 2006 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 2008 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 2008;
- 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*

**KPMG Audit Plc**

Chartered Accountants  
Registered Auditor  
Manchester, M2 6DS  
15 December 2008

# ACCOUNTS

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# CONSOLIDATED INCOME STATEMENT

For the year ended 30 September	Note	2008 £000	2008 £000	2007 £000	2007 £000
Revenue	2		141,117		131,025
Cost of sales	3		(49,495)		(46,552)
Gross profit			91,622		84,473
Sales, marketing and administrative expenses	3		(37,041)		(33,237)
Operating profit	2		54,581		51,236
Financial income	5	577		702	
Financial expenses	6	(127)		(105)	
Net financing income			450		597
Share of profit of Japanese joint venture			–		196
Profit before tax			55,031		52,029
Income tax expense	7		(15,959)		(15,609)
Profit for the year attributable to equity shareholders of the parent			39,072		36,420
Earnings per share					
Basic	8		47.8p		44.9p
Diluted	8		47.4p		44.4p
Dividend per share					
Interim	19		5.2p		4.7p
Final	19		13.1p		12.6p
	19		18.3p		17.3p

A final dividend in respect of 2008 of 13.1p per share has been recommended by the Directors for approval at the Annual General Meeting in February 2009.

# BALANCE SHEETS

As at 30 September		Group 2008	Group 2007	Company 2008	Company 2007 restated
	Note	£000	£000	£000	£000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	9	129,909	112,787	–	–
Intangible assets	10	10,873	11,483	–	–
Investments	11	–	–	13,665	13,665
Deferred tax assets	12	8,078	5,753	–	–
		148,860	130,023	13,665	13,665
<b>Current assets</b>					
Inventories	13	31,675	27,867	–	–
Current income tax assets		244	416	244	293
Trade and other receivables	14	18,195	15,887	45,336	55,483
Derivative financial instruments	15	855	2,137	–	–
Cash and cash equivalents		23,532	17,120	19	23
		74,501	63,427	45,599	55,799
<b>Total assets</b>		<b>223,361</b>	<b>193,450</b>	<b>59,264</b>	<b>69,464</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Deferred tax liabilities	12	(14,651)	(12,666)	–	–
Retirement benefit obligations	16	(6,378)	(7,110)	–	–
		(21,029)	(19,776)	–	–
<b>Current liabilities</b>					
Derivative financial instruments	15	(10,455)	(1,464)	–	–
Short-term borrowings		–	(3,419)	–	–
Current income tax liabilities		(8,263)	(11,077)	–	–
Trade and other payables	17	(16,820)	(16,231)	(4,804)	(3,949)
		(35,538)	(32,191)	(4,804)	(3,949)
<b>Total liabilities</b>		<b>(56,567)</b>	<b>(51,967)</b>	<b>(4,804)</b>	<b>(3,949)</b>
<b>Net assets</b>		<b>166,794</b>	<b>141,483</b>	<b>54,460</b>	<b>65,515</b>
<b>Equity</b>					
Share capital		829	822	829	822
Share premium		20,723	18,148	20,723	18,148
Translation reserve		470	(628)	–	–
Hedging reserve		(5,570)	39	–	–
Retained earnings		150,342	123,102	32,908	46,545
<b>Total equity attributable to equity shareholders of the parent</b>	19	<b>166,794</b>	<b>141,483</b>	<b>54,460</b>	<b>65,515</b>

These financial statements were approved by the Board of Directors on 15 December 2008 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		Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
	Note				
<b>Cash flows from operating activities</b>					
Cash generated from operations	20	61,858	50,690	12,805	12,733
Interest and similar charges paid		(176)	(309)	–	–
Interest received		577	702	–	–
Tax paid		(15,703)	(12,177)	–	–
<b>Net cash flow from operating activities</b>		<b>46,556</b>	<b>38,906</b>	<b>12,805</b>	<b>12,733</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment	9	(25,014)	(37,189)	–	–
Purchase of business including acquisition costs	22	–	(1,036)	–	(2,364)
Dividends received		–	–	–	921
<b>Net cash flow from investing activities</b>		<b>(25,014)</b>	<b>(38,225)</b>	<b>–</b>	<b>(1,443)</b>
<b>Cash flows from financing activities</b>					
Issue of ordinary shares exercised under option	19	7	5	7	5
Premium on issue of ordinary shares exercised under option	19	2,575	1,599	2,575	1,599
Purchase of own shares held	19	(858)	(821)	(858)	(821)
(Decrease)/increase in short-term borrowings		(4,207)	1,264	–	–
Dividends paid	19	(14,533)	(12,069)	(14,533)	(12,069)
<b>Net cash flow from financing activities</b>		<b>(17,016)</b>	<b>(10,022)</b>	<b>(12,809)</b>	<b>(11,286)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>4,526</b>	<b>(9,341)</b>	<b>(4)</b>	<b>4</b>
Exchange differences on net investment translation of foreign operations		1,886	(399)	–	–
Cash and cash equivalents at beginning of year		17,120	26,860	23	19
<b>Cash and cash equivalents at end of year</b>		<b>23,532</b>	<b>17,120</b>	<b>19</b>	<b>23</b>

## Components of net cash

As at 30 September		Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
	Note				
Cash and cash equivalents		23,532	17,120	19	23
Short-term borrowings		–	(3,419)	–	–
<b>Net cash</b>	23	<b>23,532</b>	<b>13,701</b>	<b>19</b>	<b>23</b>

# STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 30 September		Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
	Note				
Net change in fair value of cash flow hedges:					
Transferred to equity		(14,509)	2,871	–	–
Transferred to income statement		6,719	(4,710)	–	–
Exchange differences on net investment translation of foreign operations	19	1,098	(399)	–	–
Actuarial gains on defined benefit plans	16	867	5,729	–	–
Tax on items taken directly to or transferred from equity	12	3,238	(2,058)	–	–
Net (expense)/income recognised directly in equity		(2,587)	1,433	–	–
Profit for the year		39,072	36,420	119	796
Total recognised income and expense for the year attributable to equity shareholders of the parent	19	36,485	37,853	119	796

# 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 2008 comprise the Company and its subsidiaries (together referred to as the 'Group').

The Company is listed on the London Stock Exchange.

These consolidated financial statements have been approved for issue by the Board of Directors on 15 December 2008.

### Basis of preparation

Both the consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS') and on the historical cost basis except that derivative financial instruments are measured at their fair value.

On publishing the Company financial statements here together with the consolidated financial statements, the Company is taking advantage of s230(4) of the Companies Act 1985 not to present its individual income statement and related notes that form part of the approved financial statements.

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. Details of significant estimates and assumptions are set out in note 25.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The accounting policies have been consistently applied by Group entities.

IFRS 7 – Financial Instruments: Disclosures and Amendment to IAS 1 – Capital Disclosures were adopted during the year. As these standards are concerned only with disclosures, their adoption had no impact on the balance sheets or the consolidated income statement.

IFRIC 11 – IFRS 2: Group and Treasury Share Transactions was also adopted during the year. There was no change in accounting policy and no effect on current or prior year results or net assets of the Group. In the Company the cost of share-based payments is recognised in equity and recharged to those subsidiaries benefitting from the service of the employees to whom options are granted. This recharge is accounted for by the subsidiaries as an expense in the income statement.

IFRIC 8 – Scope of IFRS 2 was adopted by the Company during the year. As a result the Company has restated its comparatives for the year ended 30 September 2007 resulting in an increase in equity of £3.8m.

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.

IFRS 8 - Operating Segments is effective for accounting periods commencing on or after 1 January 2009 and therefore the Group plans to adopt IFRS 8 for the first time in the year ending 30 September 2010. The application of IFRS 8 in the year ended 30 September 2008 would not have impacted the balance sheets or consolidated income statement.

Amendment to IFRS 2 – Share-based Payment: Vesting Conditions and Cancellations is effective for accounting periods commencing on or after 1 January 2009. The application of the amendment to IFRS 2 is not expected to have a significant impact on the balance sheets or consolidated income statement.

IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction is effective for accounting periods commencing on or after 1 January 2008. Whilst the Group is currently assessing the impact, the application of IFRIC 14 is not expected to have a significant impact on the balance sheets or consolidated income statement.

### Investments

In the Company's accounts, investments in subsidiary undertakings 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 were governed by a joint venture agreement between the Company and Mitsui Chemicals, Inc. Certain key management decisions required the co-operation of both parties. The Group's share of profits less losses of the Japanese joint venture was included in the consolidated income statement on the equity accounting basis until it became a wholly owned subsidiary with effect from 30 March 2007.

### 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.

## 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 have 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 costs 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:

Buildings	30 years
Plant and machinery	10-30 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. Any impairment provisions that arose during impairment testing would not be reversed.

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. Should any impairment provisions arise during annual impairment testing, these would also be deducted from the carrying value of other intangible assets. Other intangible assets are tested annually for impairment, to the extent that they are considered to have an indefinite useful economic life.

### 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.

### Impairment

The carrying amount of the Group's non-financial assets, other than inventories and current and deferred tax, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amounts of the relevant assets are determined.

### Goodwill

Goodwill is tested annually for impairment by reference to the estimated future cash flows of the relevant cash generating unit ('CGU'), discounted to their present value using risk adjusted discount factors to give its value in use. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

Impairment losses are recognised if the carrying amount of the goodwill exceeds its value in use and are recognised in the income statement. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit or group of units on a pro rata basis. Impairment losses in respect of goodwill are not reversed.

### Other assets

For other assets subject to impairment reviews, an impairment loss is recognised if the carrying amount of the asset exceeds its recoverable amount. Impairment losses recognised in previous periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 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, in which case it is recognised 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.

Deferred 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 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.

Rebates are accounted for as sales are made throughout the period. Volume rebates are accrued based on the maximum amount due to customers based on annualised sales, unless it is clear that rebate conditions will not be met in a particular period.

## 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 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 with a corresponding increase in equity. Share-based payment transactions are recharged from the Company to those subsidiaries benefitting from the service of the employees to whom options are granted.

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. Provisions are determined by discounting the expected future cash flows.

## 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 2008 £000	USA 2008 £000	Asia-Pacific 2008 £000	Group 2008 £000	Europe 2007 £000	USA 2007 £000	Asia-Pacific 2007 £000	Group 2007 £000
Total segment sales	68,824	89,200	34,386	192,410	65,421	77,529	26,511	169,461
Less inter-segment sales	(76)	(38,483)	(12,734)	(51,293)	(88)	(32,484)	(5,864)	(38,436)
<b>Revenue from external sales</b>	<b>68,748</b>	<b>50,717</b>	<b>21,652</b>	<b>141,117</b>	<b>65,333</b>	<b>45,045</b>	<b>20,647</b>	<b>131,025</b>
 Segment operating profit	 31,529	 21,357	 5,534	 58,420	 29,904	 18,136	 6,926	 54,966
Unallocated central costs				(3,839)				(3,730)
<b>Operating profit</b>				<b>54,581</b>				<b>51,236</b>
Net financing income				450				597
Share of profit of Japanese joint venture				–				196
<b>Profit before tax</b>				<b>55,031</b>				<b>52,029</b>
Income tax expense				(15,959)				(15,609)
<b>Profit for the year attributable to equity shareholders of the parent</b>				<b>39,072</b>				<b>36,420</b>

#### Other information

Segment assets	201,565	12,385	9,411	223,361	172,557	11,086	9,807	193,450
Segment liabilities	44,623	11,079	865	56,567	39,779	8,174	4,014	51,967
Capital expenditure	23,673	68	447	24,188	33,806	206	272	34,284
Depreciation	6,688	94	282	7,064	5,402	50	125	5,577
Amortisation	610	–	–	610	609	–	–	609

### Secondary business segments

	2008 £000	2007 £000
<b>Sales</b>		
VICTREX PEEK	116,217	111,732
Invibio	24,900	19,293
	<b>141,117</b>	<b>131,025</b>
<b>Total assets</b>		
VICTREX PEEK	210,193	179,849
Invibio	13,168	13,601
	<b>223,361</b>	<b>193,450</b>
<b>Capital expenditure</b>		
VICTREX PEEK	23,828	31,735
Invibio	360	2,549
	<b>24,188</b>	<b>34,284</b>

### Analysis of sales by category

	2008 £000	2007 £000
Product sales	136,409	126,390
Royalty and other income	4,708	4,635
	<b>141,117</b>	<b>131,025</b>



# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 3. Expenses by nature

	Note	2008 £000	2007 £000
Staff costs	4	29,138	26,311
Depreciation of property, plant and equipment	9	7,064	5,577
Amortisation of knowhow	10	610	609
Operating lease rentals	9	1,177	1,037
Other costs of manufacture		33,874	32,737
Other sales and marketing costs		7,898	6,589
Other administrative costs		3,151	3,357
Other research and development costs		3,624	3,572
		86,536	79,789

Auditor's remuneration is as follows:

	2008 £000	2007 £000
Audit services relating to:		
Victrex plc Annual Report and Accounts	34	31
The Company's subsidiaries, pursuant to legislation	76	73
Tax services	2	24
Other services	34	14
	146	142

## 4. Staff costs

	Note	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Wages and salaries		22,752	19,961	258	213
Social security costs		2,115	2,017	29	25
Defined contribution pension plans		1,279	1,076	–	–
Defined benefit pension plans	16	1,357	1,792	–	–
Equity-settled share-based payment transactions	18	1,635	1,465	–	–
	3	29,138	26,311	287	238

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

	Group 2008	Group 2007	Company 2008	Company 2007
Operations	236	220	–	–
Technical	86	78	–	–
Commercial	129	118	–	–
Administration	55	51	4	4
	506	467	4	4

## 5. Financial income

	2008 £000	2007 £000
Bank interest receivable	577	702

**6. Financial expenses**

	2008 £000	2007 £000
Bank interest and similar charges payable	127	105

**7. Income tax expense**

	Note	2008 £000	2007 £000
<b>Current tax</b>			
Current tax		9,782	13,010
UK corporation tax adjustments relating to prior years		(585)	158
Foreign tax on profits for the year		3,846	2,488
		13,043	15,656
<b>Deferred tax</b>			
Origination and reversal of temporary differences	12	2,916	(47)
<b>Total tax expense in income statement</b>		<b>15,959</b>	<b>15,609</b>

**Reconciliation of effective tax rate**

	2008 %	2008 £000	2007 %	2007 £000
Profit before tax		55,031		52,029
Tax expense using UK tax rate	29.0	15,959	30.0	15,609
Expenses not deductible for tax purposes		258		481
Higher rates of tax on overseas earnings		1,255		481
UK research and development tax credits and other allowances		(824)		(218)
UK corporation tax adjustments relating to prior years		(585)		158
Effect of differences between current and deferred tax rates		(104)		(902)
<b>Effective tax rate</b>	<b>29.0</b>	<b>15,959</b>	<b>30.0</b>	<b>15,609</b>

A reduction in the UK tax rate from 30% to 28% occurred with effect from 1 April 2008. In accordance with IAS 12 – Income Taxes, the deferred tax liabilities and assets have been calculated using a rate of 28% (2007: 28%).

**8. Earnings per share**

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).

	2008	2007
<b>Earnings per share</b> – basic	<b>47.8p</b>	<b>44.9p</b>
– diluted	47.4p	44.4p
<b>Profit for the financial year</b>	<b>£39,072,000</b>	<b>£36,420,000</b>
Weighted average number of shares used:		
Issued ordinary shares at beginning of year	82,227,271	81,740,045
Effect of own shares held	(823,922)	(793,012)
Effect of shares issued during the year	298,232	200,069
<b>Basic weighted average number of shares</b>	<b>81,701,581</b>	<b>81,147,102</b>
Effect of share options	653,722	898,177
<b>Diluted weighted average number of shares</b>	<b>82,355,303</b>	<b>82,045,279</b>

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 9. Property, plant and equipment

	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
<b>Cost</b>						
At 1 October 2006	7,846	77,018	5,281	596	21,777	112,518
Additions	1,685	2,276	517	220	29,586	34,284
Acquisitions through business combinations	32	3	–	36	–	71
Disposals	–	–	(13)	(24)	–	(37)
Reclassification	4,796	7,223	43	153	(12,215)	–
At 30 September 2007	14,359	86,520	5,828	981	39,148	146,836
Additions	1,672	1,676	619	246	19,975	24,188
Disposals	–	–	(10)	(2)	–	(12)
Reclassification	1,090	40,089	–	–	(41,179)	–
<b>At 30 September 2008</b>	<b>17,121</b>	<b>128,285</b>	<b>6,437</b>	<b>1,225</b>	<b>17,944</b>	<b>171,012</b>
<b>Depreciation</b>						
At 1 October 2006	920	23,746	3,518	325	–	28,509
Disposals	–	–	(13)	(24)	–	(37)
Depreciation charge	350	4,314	822	91	–	5,577
At 30 September 2007	1,270	28,060	4,327	392	–	34,049
Disposals	–	–	(10)	–	–	(10)
Depreciation charge	470	5,476	933	185	–	7,064
<b>At 30 September 2008</b>	<b>1,740</b>	<b>33,536</b>	<b>5,250</b>	<b>577</b>	<b>–</b>	<b>41,103</b>
<b>Carrying amounts</b>						
<b>At 30 September 2008</b>	<b>15,381</b>	<b>94,749</b>	<b>1,187</b>	<b>648</b>	<b>17,944</b>	<b>129,909</b>
At 30 September 2007	13,089	58,460	1,501	589	39,148	112,787

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 £1,177,000 (2007: £1,037,000) 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
<b>Cost</b>			
At 1 October 2006	10,566	6,100	16,666
Additions	2,688	–	2,688
At 30 September 2007	13,254	6,100	19,354
Additions	–	–	–
<b>At 30 September 2008</b>	<b>13,254</b>	<b>6,100</b>	<b>19,354</b>
<b>Amortisation</b>			
At 1 October 2006	3,144	4,118	7,262
Amortisation charge	–	609	609
At 30 September 2007	3,144	4,727	7,871
Amortisation charge	–	610	610
<b>At 30 September 2008</b>	<b>3,144</b>	<b>5,337</b>	<b>8,481</b>
<b>Carrying amounts</b>			
<b>At 30 September 2008</b>	<b>10,110</b>	<b>763</b>	<b>10,873</b>
At 30 September 2007	10,110	1,373	11,483

**Goodwill**

Goodwill has arisen as follows:

	£000	Associated CGU
Acquisitions associated with the supply of our key raw material BDF:		
December 1999	3,475	Victrex
April 2005	3,947	Victrex
Acquisition of 49% share of Japanese joint venture from Mitsui Chemicals, Inc in March 2007 (note 22)	2,688	Japanese operations
	<b>10,110</b>	

Goodwill arising on acquisitions is allocated to the cash generating unit ('CGU') that is expected to benefit. The recoverable amount of each CGU is determined using value in use calculations of the performance over a period of 10 years reflecting the Directors' best estimate of the cash flows. For the period beyond specific forecasts, growth rates similar to historical growth rates are used. Risk adjusted discount factors have been used to discount the cash flow projections.

BDF is a key raw material for the vast majority of our products and associated downstream activities. The carrying value of goodwill arising on the associated acquisitions is measured against the discounted future cash flow projections of the Victrex business as a whole.

The goodwill associated with the acquisition in March 2007 of the remaining 49% share in Victrex-MC, Inc is measured against the discounted future cash flow projections of our Japanese operations.

The value in use calculations are based on cash flows arising from operating results set out in approved budgets and forecasts, using a risk adjusted discount factor of 8%.

As at 30 September 2008, based on the valuations performed, the Directors concluded that the recoverable amount of the cash generating units significantly exceeded their respective carrying values and as such no impairment provision has been made.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. It is not considered that a reasonably possible change in the assumptions used would generate a different impairment test outcome.

**Knowhow**

The knowhow arose on the acquisition in December 1999 associated with the supply of our key raw material BDF. It is being amortised over its estimated useful economic life and has approximately one year remaining to be charged. The charge is recognised within cost of sales in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 11. Investments

### Company

#### Investments

	Share in Japanese joint venture £000	Shares in Group undertakings £000	Total £000
<b>Cost and carrying value</b>			
At 1 October 2006	131	11,120	11,251
Addition (see note 22)	–	2,414	2,414
Reclassification	(131)	131	–
<b>At 30 September 2007 and 30 September 2008</b>	<b>–</b>	<b>13,665</b>	<b>13,665</b>

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
<b>Subsidiary undertakings</b>				
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%
Invio Limited	Great Britain	Manufacture and sale of polymers	Ordinary	100%
Victrex Japan, Inc	Japan	Sale of polymers	Ordinary	100%



**12. Deferred tax assets and liabilities**

	Property, plant and equipment 2008 £000	Employee benefits 2008 £000	Inventories 2008 £000	Other 2008 £000	Total 2008 £000	Property, plant and equipment 2007 £000	Employee benefits 2007 £000	Inventories 2007 £000	Other 2007 £000	Total 2007 £000
Deferred tax assets	–	2,907	2,480	2,691	8,078	–	3,243	1,985	525	5,753
Deferred tax liabilities	(14,651)	–	–	–	(14,651)	(12,651)	–	–	(15)	(12,666)
<b>Net tax assets/(liabilities)</b>	<b>(14,651)</b>	<b>2,907</b>	<b>2,480</b>	<b>2,691</b>	<b>(6,573)</b>	<b>(12,651)</b>	<b>3,243</b>	<b>1,985</b>	<b>510</b>	<b>(6,913)</b>

	Note	Property, plant and equipment £000	Employee benefits £000	Inventories £000	Other £000	Total £000
<b>Movement in net provision</b>						
At 1 October 2006		(11,817)	5,250	1,708	(325)	(5,184)
Recognised in income statement	7	(834)	604	277	–	47
Recognised in equity		–	(2,611)	–	553	(2,058)
Recognised in goodwill	22	–	–	–	282	282
At 30 September 2007		(12,651)	3,243	1,985	510	(6,913)
Exchange difference		–	18	–	–	18
Recognised in income statement	7	(2,000)	470	495	(1,881)	(2,916)
Recognised in equity		–	(824)	–	4,062	3,238
<b>At 30 September 2008</b>		<b>(14,651)</b>	<b>2,907</b>	<b>2,480</b>	<b>2,691</b>	<b>(6,573)</b>

**13. Inventories**

	2008 £000	2007 £000
Raw materials and consumables	9,417	9,055
Work in progress	2,250	937
Finished goods	20,008	17,875
	<b>31,675</b>	<b>27,867</b>

**14. Trade and other receivables**

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 restated £000
Trade receivables	17,013	14,670	–	–
Amounts owed by subsidiary undertakings	–	–	45,336	55,483
Prepayments	837	713	–	–
Other	345	504	–	–
	<b>18,195</b>	<b>15,887</b>	<b>45,336</b>	<b>55,483</b>

# NOTES TO THE FINANCIAL STATEMENTS

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## 15. Financial risk management

The Group's activities expose it to a variety of financial risks including the following:

### Currency risk

#### Company

Victrex plc is an investment holding company and is not exposed to currency risk. The Company has no forward exchange contracts.

#### Group

The Group currently exports 97% of sales from the UK, and also makes raw material purchases overseas. In addition, the Group includes a number of foreign subsidiaries. As a result of these factors, the Group's financial statements are exposed to currency fluctuations. The currencies giving rise to this risk are primarily US Dollar, Euro and Yen.

The impact of a 5% movement in the average Sterling/US Dollar, Sterling/Euro and Sterling/Yen rates on profits for 2008 is £5m.

Forward exchange contracts are used to manage this exposure to fluctuations in foreign exchange rates.

The Group hedges a proportion of sales, and occasionally purchases, denominated in a foreign currency. The Board is responsible for setting the hedging policy which is detailed on page 22. 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 notional contract amount, carrying amount and fair value of the Group's forward exchange contracts and swaps designated as cash flow hedges are as follows:

	Notional contract amount 2008 £000	Carrying amount and fair value 2008 £000	Notional contract amount 2007 £000	Carrying amount and fair value 2007 £000
Current assets	22,594	855	49,234	2,137
Current liabilities	111,966	(10,455)	75,944	(1,464)
	134,560	(9,600)	125,178	673

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.

The following tables indicate the periods in which cash flows associated with the maturity date of the forward foreign exchange contracts are expected to occur:

	Expected cash flows 2008 £000	6 months or less 2008 £000	6 to 12 months 2008 £000	12 to 18 months 2008 £000	Expected cash flows 2007 £000	6 months or less 2007 £000	6 to 12 months 2007 £000	12 to 18 months 2007 £000
Forward exchange contracts								
Assets	22,594	(13,724)	19,646	16,672	49,234	22,373	21,257	5,604
Liabilities	111,966	62,796	39,448	9,722	75,944	28,781	31,111	16,052
	134,560	49,072	59,094	26,394	125,178	51,154	52,368	21,656

The Group occasionally enters into forward exchange contracts and swaps for which no hedge accounting is applied. However, these items are not material to the Group. Any change in the fair value of these items is recognised in the income statement.

## Credit risk

### Company

The only trade receivables of the Company are amounts owed by subsidiary undertakings.

### Group

The Group manages exposure to credit risk at many levels ranging from Board approval being required for the credit limits of larger customers, to the use of letters of credit and cash in advance where appropriate. Internal procedures require regular due consideration of credit ratings, payment history, aged items and proactive debt collection.

The Board receives a detailed breakdown every month of all significant credit limits, amounts due and amounts overdue across the Group and, in the case of the latter, the relevant action being taken.

Trade receivables can be analysed as follows:

	Group 2008 £000	Group 2007 £000
Amounts neither past due nor impaired	14,202	11,748
Amounts past due but not impaired		
Less than 30 days	1,616	2,151
30 – 60 days	617	531
More than 60 days	578	240
Total past due but not impaired	2,811	2,922
Amounts impaired	663	426
Impairment allowances	(663)	(426)
Carrying amount of impaired receivables	–	–
<b>Trade receivables net of allowances</b>	<b>17,013</b>	<b>14,670</b>

Trade receivables are considered to be impaired when the amount is in dispute, customers are believed to be in financial difficulty or if any other reason exists which implies that there is a doubt over the recoverability of the debt. No provision has been made in respect of the amounts shown as past due but not impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable in full.

Movements in the allowance for impairments were:

	2008 £000	2007 £000
At beginning of year	426	303
Charge for the year	192	138
Exchange adjustments	45	(15)
At end of year	663	426

The credit risk in respect of cash and cash equivalents and derivative financial instruments is limited because the counterparties with significant balances are established, international banks. As at 30 September 2008, the maximum exposure with a single bank for deposits was £9.4m (2007: £9.4m) for the Group, whilst the largest mark to market exposure for gains on forward foreign exchange contracts to a single bank was £0.7m (2007: £1.7m) for the Group. The amounts on deposit at the year end represent the Group's maximum exposure to credit risk on cash and deposits.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## Liquidity risk

The Group's objective in terms of funding capacity is to ensure that it always has sufficient short-term and long-term funding available, either in the form of the Group's cash resources or committed bank facilities. The Group has sufficient funds available in order to meet its current funding requirements for both revenue and capital expenditure. In order to further manage liquidity risk to an acceptable level, the Group has a committed bank facility of £40m, all of which was undrawn at the year end. This facility was renewed in 2007 and expires in September 2012.

As at 30 September 2008 the Group had a cash and cash equivalents balance of £23,532,000.

## Interest rate risk

The Group has no short-term borrowings at the balance sheet date.

Although the Group does hold substantial cash balances its exposure to interest rate risk is not considered to be significant.

## Price risk

The Group's products contain a number of key raw materials and its operations require energy, notably electricity and natural gas. Any increase or volatility in prices and any significant decrease in the availability of raw materials or energy could affect the Group's results. Victrex strives to obtain the best prices and uses contractual means to benefit where appropriate and possible. The Group has a significant degree of control over its supply chain which enables it to effectively manage the risk in this area.

## Capital management

The Group defines the capital that it manages as the Group's total equity. Its policy for managing this capital is to maintain a strong balance sheet to ensure that the Group always has sufficient resources to be able to invest in future growth.

The Group's capital and equity ratio is as follows:

	2008 £000	2007 £000
Total equity	166,794	141,483
Total assets	223,361	193,450
Equity ratio	75%	73%

## 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

	At 30 September 2008	At 30 September 2007
Discount rate	7.05%	5.84%
Expected return on schemes' assets <sup>(1)</sup>	7.00%	7.00%
Future salary increases	5.50%	5.00%
Future pension increases	3.70%	3.25%
Mortality tables	PA92mc	PA92mc
Life expectancy from age 62 of current pensioners:		
Male	25.4 yrs <sup>(2)</sup>	24.7 yrs <sup>(3)</sup>
Female	28.8 yrs <sup>(2)</sup>	27.7 yrs <sup>(3)</sup>
Life expectancy from age 62 of active and deferred members:		
Male	27.2 yrs <sup>(4)</sup>	25.8 yrs <sup>(5)</sup>
Female	30.7 yrs <sup>(4)</sup>	28.6 yrs <sup>(5)</sup>

<sup>(1)</sup> The future expected return on assets of 7.0% (2007: 7.0%) per annum has been derived from assumed returns of 7.5% (2007: 7.5%) per annum from equity assets, 5.0% (2007: 5.0%) per annum from bonds and 4.5% (2007: 5.5%) per annum from cash, applied to the proportion of each asset class held by the scheme as at 30 September.

<sup>(2)</sup> Life expectancy from age 62 for members aged 62 in 2008.

<sup>(3)</sup> Life expectancy from age 62 for members aged 62 in 2007.

<sup>(4)</sup> Life expectancy from age 62 for members aged 45 in 2008.

<sup>(5)</sup> Life expectancy from age 62 for members aged 45 in 2007.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## Amounts recognised in the balance sheet

	At 30 September 2008 £000	At 30 September 2007 £000	At 30 September 2006 £000	At 30 September 2005 £000	At 30 September 2004 £000
Present value of funded obligations	(24,027)	(26,218)	(28,590)	(21,598)	(18,690)
Fair value of schemes' assets	17,649	19,108	16,431	13,786	10,506
Net liability before deferred taxation	(6,378)	(7,110)	(12,159)	(7,812)	(8,184)
Related deferred taxation asset	1,786	1,991	3,648	2,344	2,455
<b>Net liability after deferred taxation</b>	<b>(4,592)</b>	<b>(5,119)</b>	<b>(8,511)</b>	<b>(5,468)</b>	<b>(5,729)</b>
Experience adjustments arising on schemes' liabilities	4,509	5,185	(4,778)	(705)	152
Experience adjustments arising on schemes' assets	3,642	544	728	1,517	400

It is not practical to produce figures for 2004 in accordance with IAS 19. The figures included for this year 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

	2008 £000	2007 £000
Defined benefit obligation at beginning of year	(26,218)	(28,590)
Exchange difference	(121)	(26)
Service cost	(1,275)	(1,588)
Interest cost	(1,555)	(1,448)
Actuarial gains	4,509	5,185
Benefits paid	633	249
<b>Defined benefit obligation at end of year</b>	<b>(24,027)</b>	<b>(26,218)</b>

The Group expects to contribute £3,786,000 to its defined benefit pension schemes during the year ending 30 September 2009, which includes normal contributions together with the first of three deficit funding contributions of £2,555,000.

## Changes in the fair value of the schemes' assets

	2008 £000	2007 £000
Fair value of schemes' assets at beginning of year	19,108	16,431
Exchange difference	57	10
Expected return	1,353	1,129
Actuarial (losses)/gains	(3,642)	544
Contributions by employer	1,286	1,128
Contributions by employee	120	115
Benefits paid	(633)	(249)
<b>Fair value of schemes' assets at end of year</b>	<b>17,649</b>	<b>19,108</b>
Actual return on schemes' assets	(2,289)	1,700



## Major categories of schemes' assets

	At 30 September 2008 £000	At 30 September 2007 £000
UK equities	4,254	7,190
Non UK equities	6,030	7,550
Bonds	4,853	3,176
Cash	1,929	767
Insurance policies	583	425
Fair value of schemes' assets at end of year	17,649	19,108

## Amounts recognised in the income statement

	Note	2008 £000	2007 £000
Current service cost		(1,275)	(1,588)
Contributions by employee		120	115
Interest on obligations		(1,555)	(1,448)
Other finance income and expenditure		1,353	1,129
Total included in 'staff costs'	4	(1,357)	(1,792)

## Gross amounts of actuarial gains and losses recognised in the statement of recognised income and expense

	2008 £000	2007 £000
Cumulative amount at beginning of year	(5,693)	(11,422)
Movement in year	867	5,729
Cumulative amount at end of year	(4,826)	(5,693)

## 17. Trade and other payables

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Trade payables	4,652	5,452	4	4
Amounts owed to Group undertakings	—	—	4,793	3,934
Accruals	11,733	10,449	1	1
Other	435	330	6	10
	16,820	16,231	4,804	3,949

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 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 – First-time Adoption of International Financial Reporting Standards. 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 ten years.

#### Outstanding options as at balance sheet date

Grant date	2008 Number of options	2007 Number of options
June 1999	7,841	7,841
January 2000	750	2,200
June 2000	–	2,642
July 2001	5,000	9,487
June 2002	1,712	2,489
October 2002	–	31,000
December 2002	–	4,309
April 2003	25,000	25,000
June 2003	12,423	45,878
December 2003	2,431	14,912
July 2004	101,968	219,863
October 2004	–	25,000
December 2004	4,573	49,596
	<b>161,698</b>	<b>440,217</b>

### 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 ten years.

#### Outstanding options as at balance sheet date

Grant date	2008 Number of options	2007 Number of options
February 2005	1,021	6,741
June 2005	200,991	489,094
December 2005	50,112	50,987
June 2006	301,198	310,410
December 2006	56,660	60,405
June 2007	356,601	361,042
December 2007	73,562	–
May 2008	342,029	–
	<b>1,382,174</b>	<b>1,278,679</b>

### Sharesave Scheme

The 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	2008 Number of options	2007 Number of options
March 2004	Five years of service and saving	34,351	34,955
March 2005	Three years of service and saving	–	89,769
March 2005	Five years of service and saving	12,648	15,265
		<b>46,999</b>	<b>139,989</b>

### 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	2008 Number of options	2007 Number of options
March 2006	Three years of service and saving	94,609	100,444
March 2006	Five years of service and saving	46,673	52,222
March 2007	Three years of service and saving	43,025	66,626
March 2007	Five years of service and saving	20,687	24,965
March 2008	Three years of service and saving	101,779	–
March 2008	Five years of service and saving	30,984	–
		<b>337,757</b>	<b>244,257</b>

### 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 (2007: nil).

### Victrex Long Term Incentive Plan ('LTIP')

Each year executive Directors can be eligible to be awarded options to acquire, at no cost, market purchased shares in the Company up to a maximum equivalent of 100% of basic salary. The awards have normally become exercisable between the fifth and tenth anniversaries of the grant date, subject to continued employment and 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 has been exercisable is dependent on two independent 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 excluding investment trusts 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.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## Outstanding options as at balance sheet date

Grant date	2008 Number of options	2007 Number of options
January 2001	100	100
December 2001	15,822	21,600
December 2002	132,460	235,170
December 2003	189,323	189,323
April 2005	148,035	148,035
December 2005	115,930	115,930
December 2006	99,423	99,423
December 2007	125,696	–
	<b>826,789</b>	<b>809,581</b>

## 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	548p	1,718,896	471p	384,246	–	–	nil p	809,581
Granted during the year	727p	417,230	555p	140,173	620p	13,845	nil p	125,696
Forfeited during the year	614p	(27,354)	590p	(48,586)	–	–	–	–
Exercised during the year	393p	(564,900)	306p	(91,077)	620p	(13,845)	nil p	(108,488)
Expired during the year	–	–	–	–	–	–	–	–
<b>Outstanding at end of year</b>	<b>652p</b>	<b>1,543,872</b>	<b>525p</b>	<b>384,756</b>	<b>–</b>	<b>–</b>	<b>nil p</b>	<b>826,789</b>
Range of exercise prices	171p-757.5p		262p-658p		–		nil p	
Weighted average contractual life (years)	8.1		2.4		4.5		6.5	
Exercisable at end of year	396p	363,710	–	–	–	–	nil p	148,382

## Fair value of share options and assumptions

The fair value of services received in return for share options granted is 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	203p	238p	207p	365p
Share price at grant	662p	689p	739p	498p
Exercise price	656p	525p	n/a	nil p
Expected volatility	28%	27%	33%	29%
Option life	10 yrs	4 yrs	5 yrs	10 yrs
Expected dividends	2.1%	2.0%	2.3%	2.2%
Risk-free interest rate	4.9%	4.4%	4.9%	4.5%

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 share-based payment transactions

	Note	2008 £000	2007 £000
ESOS and ESOP		842	748
Sharesave Scheme and Plan		233	206
Stock Purchase Plan		25	27
LTIP		535	484
	4	1,635	1,465

## 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 2006		817	16,549	(229)	1,325	94,989	113,451
Total recognised income and expense		–	–	(399)	(1,286)	39,538	37,853
Share options exercised	18	5	1,599	–	–	–	1,604
Equity-settled share-based payment transactions	18	–	–	–	–	1,465	1,465
Purchase of own shares held		–	–	–	–	(821)	(821)
Dividends to shareholders		–	–	–	–	(12,069)	(12,069)
At 30 September 2007		822	18,148	(628)	39	123,102	141,483
Total recognised income and expense		–	–	1,098	(5,609)	40,996	36,485
Share options exercised	18	7	2,575	–	–	–	2,582
Equity-settled share-based payment transactions	18	–	–	–	–	1,635	1,635
Purchase of own shares held		–	–	–	–	(858)	(858)
Dividends to shareholders		–	–	–	–	(14,533)	(14,533)
At 30 September 2008		829	20,723	470	(5,570)	150,342	166,794

## Company

	Note	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
At 30 September 2006		817	16,549	–	–	54,860	72,226
Changes in accounting policy	1	–	–	–	–	2,314	2,314
At 1 October 2006 (restated)		817	16,549	–	–	57,174	74,540
Total recognised income and expense		–	–	–	–	796	796
Share options exercised	18	5	1,599	–	–	–	1,604
Equity-settled share-based payment transactions	18	–	–	–	–	1,465	1,465
Purchase of own shares held		–	–	–	–	(821)	(821)
Dividends to shareholders		–	–	–	–	(12,069)	(12,069)
At 30 September 2007 (restated)		822	18,148	–	–	46,545	65,515
Total recognised income and expense		–	–	–	–	119	119
Share options exercised	18	7	2,575	–	–	–	2,582
Equity-settled share-based payment transactions	18	–	–	–	–	1,635	1,635
Purchase of own shares held		–	–	–	–	(858)	(858)
Dividends to shareholders		–	–	–	–	(14,533)	(14,533)
At 30 September 2008		829	20,723	–	–	32,908	54,460

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## Share capital

	2008 Number	2008 £000	2007 Number	2007 £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	82,227,271	822	81,740,045	817
Issued for cash	669,822	7	487,226	5
At end of year	82,897,093	829	82,227,271	822

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 2008 was 826,790 (2007: 809,582). 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 2008 £000	Year ended 30 September 2007 £000
Year ended 30 September 2006		
final dividend paid March 2007 at 10.2p per share	–	8,255
Year ended 30 September 2007		
interim dividend paid July 2007 at 4.7p per share	–	3,814
final dividend paid March 2008 at 12.6p per share	10,273	–
Year ended 30 September 2008		
interim dividend paid July 2008 at 5.2p per share	4,260	–
	14,533	12,069

A final dividend in respect of 2008 of £10,751,00 (13.1p per share) has been recommended by the Directors for approval at the Annual General Meeting in February 2009. These financial statements do not reflect this dividend payable.



**20. Reconciliation of profit to cash generated from operations**

	Note	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Profit after tax for the year		39,072	36,420	119	(125)
Income tax expense	7	15,959	15,609	49	26
Share of profit of Japanese joint venture		–	(196)	–	–
Net financing income		(450)	(597)	–	–
Operating profit		54,581	51,236	168	(99)
Adjustments for:					
Depreciation	9	7,064	5,577	–	–
Amortisation	10	610	609	–	–
Increase in inventories		(3,808)	(2,774)	–	–
(Increase)/decrease in trade and other receivables		(2,308)	(4,511)	11,782	12,060
Increase/(decrease) in trade and other payables		1,466	(1,881)	855	772
Equity-settled share-based payment transactions	18	1,635	1,465	–	–
Japanese joint venture profit in stock adjustment		–	269	–	–
Changes in fair value of derivative financial instruments		2,483	20	–	–
Retirement benefit obligations charge less contributions		135	680	–	–
<b>Cash generated from operations</b>		<b>61,858</b>	<b>50,690</b>	<b>12,805</b>	<b>12,733</b>

**21. Operating leases**

Non-cancellable operating lease rentals are payable as follows:

	Group 2008 £000	Group 2007 £000
Not later than one year	1,102	877
Later than one year but not later than five years	1,509	1,572
Later than five years	3,581	3,772
	<b>6,192</b>	<b>6,221</b>

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 22. Acquisition of subsidiary

On 30 March 2007 Victrex plc acquired from Mitsui Chemicals, Inc their 49% shareholding in Victrex-MC, Inc, the Group's Japanese joint venture, which is responsible for VICTREX PEEK sales in Japan. As a result, Victrex-MC, Inc became a wholly owned subsidiary with effect from that date and was renamed Victrex Japan, Inc.

Net assets acquired were as follows:

	Book value of 49% share acquired £000	Fair value adjustment £000	Fair value £000
Property, plant and equipment	35	–	35
Deferred tax assets	–	282	282
Inventories	1,981	(940)	1,041
Trade and other receivables	1,138	–	1,138
Cash and cash equivalents	651	–	651
Short-term borrowings	(1,056)	–	(1,056)
Trade and other payables	(2,365)	–	(2,365)
Net identifiable assets/(liabilities)	384	(658)	(274)
Goodwill on acquisition			2,688
Total purchase price comprising consideration of £2,310,000 and legal fees of £104,000			2,414
Less total cash acquired			(1,328)
Less accrued legal fees			(50)
<b>Net cash outflow on acquisition</b>			<b>1,036</b>

The net cash outflow on acquisition for the Company excludes the total cash acquired of £1,328,000 and is therefore equivalent to £2,364,000. The fair value adjustment represents the elimination of profit in stock, and the related deferred tax asset, on the stock acquired as part of the transaction.

There were no significant identifiable intangible assets acquired as part of the transaction and hence the difference between consideration and the fair value of net assets acquired has been designated as goodwill. The carrying value is justified based on the discounted future cash flow projections of our Japanese operations.

## 23. Reconciliation of net cash to movements in net cash

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Increase/(decrease) in cash and cash equivalents in year	4,526	(9,341)	(4)	4
Exchange differences on net investment translation of foreign operations	1,098	(399)	–	–
Movement in short-term borrowings	4,207	(3,419)	–	–
Movement in net cash in year	9,831	(13,159)	(4)	4
Net cash at beginning of year	13,701	26,860	23	19
<b>Net cash at end of year</b>	<b>23,532</b>	<b>13,701</b>	<b>19</b>	<b>23</b>

## 24. Related party transactions

### Identity of related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and so are only disclosed for the Company's accounts. As described in note 22, on 30 March 2007 Vitrex plc acquired from Mitsui Chemicals, Inc their 49% shareholding in Vitrex-MC, Inc, the Group's Japanese joint venture. As a result, Vitrex-MC, Inc became a wholly owned subsidiary with effect from that date and was renamed Vitrex Japan, Inc. Amounts shown below in relation to the Japanese joint venture for 2007 include only transactions up to, or balances as at, 30 March 2007.

	Group 2008	Group 2007	Company 2008	Company 2007 restated
	£000	£000	£000	£000
<b>Trading transactions with Japanese joint venture</b>				
Sale of finished goods	–	6,288	–	–
Amounts receivable from Japanese joint venture	–	3,082	–	–
<b>Financing transactions with Japanese joint venture</b>				
Dividend received from Japanese joint venture	–	–	–	879
<b>Trading transactions with subsidiaries</b>				
Administrative expenses paid on Company's behalf by subsidiary	–	–	453	571
Management charge to subsidiaries	–	–	2,256	1,837
Amounts receivable from subsidiaries	–	–	40,544	51,548
<b>Financing transactions with subsidiaries</b>				
Dividends received from subsidiaries	–	–	–	42
Cash transfers received from subsidiaries	–	–	15,363	19,046
Cash transfers made to subsidiaries	–	–	2,550	5,131

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 23 to 28.

Directors of the Company control 5% of the voting shares of the Company, details of which are given on page 26.

Details of Directors' indemnities are given on page 18.

## 25. Accounting estimates and judgements

The preparation of the 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 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 for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Group hedging policy is to defer the impact on profits of currency movements by hedging a proportion of projected transaction exposures. Forward exchange contracts are used to manage the exposure to fluctuations in foreign exchange rates. These forward contracts are entered into on the basis of forecasts of future trading and the valuation of these contracts is calculated using forward exchange market rates.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The valuation of pension scheme liabilities is calculated in accordance with Group policy. The valuation is prepared by independent qualified actuaries but significant judgements are required in relation to the assumptions for future salary and pension increases, inflation, the discount rate applied, investment returns and member longevity which underpin the valuations. Note 16 contains information about the assumptions relating to retirement benefit obligations.

The charge for share-based payment transactions is calculated in accordance with Group policy. The option valuation models used require subjective assumptions to be made including the future volatility of the Group's share price, expected dividend yields, risk free interest rates and expected staff turnover. The Directors draw upon a variety of external sources to aid the determination of the appropriate data to use in such calculations. Note 18 contains information about the assumptions relating to share-based payment transactions.

In relation to the Company's property, plant and equipment, useful economic lives and residual values of assets have been established using historical experience and an assessment of the nature of the assets involved. Assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to a potential impairment of the carrying value of such assets. No circumstances have been identified to suggest that this is the case.

Goodwill is reviewed annually to assess the requirement for impairment. Other intangible assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to the conclusion that the carrying value of such assets is not supportable. Impairment testing on goodwill is carried out in accordance with the analyses described earlier. Such calculations require judgement relating to the appropriate discount factors and long-term growth prevalent in particular markets as well as short-term business performance. The Directors also draw upon experience in making these judgements. Note 10 contains information about the assumptions relating to impairment testing.

## 26. Exchange rates

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

	Year ended 30 September 2008 Average	Year ended 30 September 2008 Closing	Year ended 30 September 2007 Average	Year ended 30 September 2007 Closing
US Dollar	1.99	1.78	1.83	2.04
Euro	1.47	1.27	1.45	1.43
Yen	229	189	202	234

# FIVE YEAR FINANCIAL SUMMARY

For the year ended 30 September	UK GAAP 2004 £m	IFRS 2005 £m	IFRS 2006 £m	IFRS 2007 £m	IFRS 2008 £m
<b>Results</b>					
Revenue	86.6	100.9	122.5	131.0	141.1
Profit before tax	28.5	35.3	46.1	52.0	55.0
<b>Balance sheet</b>					
Fixed assets	56.3	73.9	93.8	124.3	140.8
Inventories	18.8	19.9	23.0	27.9	31.7
Net cash	17.0	15.7	26.9	13.7	23.5
Trade receivables and other assets	10.6	18.9	22.9	24.1	27.4
Retirement benefit obligations	n/a	(7.8)	(12.2)	(7.1)	(6.4)
Trade payables and other liabilities	(28.8)	(28.4)	(40.9)	(41.4)	(50.2)
Equity shareholders' funds	73.9	92.2	113.5	141.5	166.8
<b>Cash flow</b>					
Net cash flow from operating activities	32.3	27.9	43.1	38.9	46.6
Capital expenditure	(9.5)	(6.0)	(21.5)	(37.2)	(25.0)
Acquisitions	–	(17.7)	–	(1.0)	–
Interest, dividends, taxation and other items	(11.8)	(5.3)	(10.2)	(10.0)	(17.1)
Net increase/(decrease) in cash and cash equivalents	11.0	(1.1)	11.4	(9.3)	4.5
<b>Ratios</b>					
Earnings per ordinary share – basic	23.9p	29.9p	39.4p	44.9p	47.8p
Dividend per ordinary share	8.6p	12.0p	14.4p	17.3p	18.3p
<b>Sales volume</b>					
Tonnes	1,802	1,972	2,339	2,508	2,626

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

The Group converted to IFRS from UK GAAP at 1 October 2004. Accounting for the following was affected:

- Foreign currency and financial instruments;
- Goodwill amortisation;
- Share-based payments;
- Borrowing costs;
- Japanese joint venture;
- Deferred taxation;
- Pensions and,
- Dividend recognition.

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the sixteenth Annual General Meeting of Victrex plc ('the Company') will be held at 11.00am on 10 February 2009, at the London Chamber of Commerce, Thames Suite, 33 Queen Street, London, EC4R 1AP, to transact the following business:

## Ordinary Business

1. To approve the Report on Directors' Remuneration for the year ended 30 September 2008.
2. To receive the Company's Annual Report and Accounts for the year ended 30 September 2008, together with the reports of the Directors and the Auditor.
3. To approve the payment of a final dividend of 13.1p per share on the Company's ordinary shares of 1p in respect of the year ended 30 September 2008.
4. To re-elect Mr P J M De Smedt 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 L C Pentz who, having been appointed as a Director after the last Annual General Meeting of the Company, retires and offers himself for re-election.
6. To re-elect Dr T J Walker, who retires by rotation.
7. To re-elect Mr G F B Kerr, who retires by rotation.
8. 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 10 to the passing of Resolution 9) pass the following resolutions, which (in the case of Resolutions 9 and 13) will be proposed as Ordinary Resolutions and (in the case of Resolutions 10 to 12) will be proposed as Special Resolutions:

9. That the Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for all subsisting authorities) to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £271,029, which authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, 10 February 2010) 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.
10. That the Directors of the Company be and are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of said Act) for cash pursuant to the authority conferred upon the Directors in accordance with the previous resolution 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 £41,448; 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 10 February 2010), 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.



11. 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 Companies Act 1985) of its ordinary shares of 1p each provided that:
- a) the maximum number of ordinary shares which may be acquired is 8,289,709;
  - 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 10 February 2010) 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.
12. That the rules of the Vixtrex 2009 Long Term Incentive Plan (the '2009 LTIP') referred to in the Chairman's letter to shareholders dated 15 December 2008 which accompanies this Annual Report and are produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman, be approved and the Directors be authorised to:
- a) make such modifications to the 2009 LTIP as they may consider appropriate to take account of the requirements of best practice and for the implementation of the 2009 LTIP and to adopt the 2009 LTIP as so modified and to do all such other acts and things as they may consider appropriate to implement the 2009 LTIP and,
  - b) establish further plans based on the 2009 LTIP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the 2009 LTIP.
13. That the Articles of Association produced to the Meeting and initialled by the Chairman of the Meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By order of the Board



**M W Peacock**

Company Secretary  
15 December 2008

# NOTICE OF ANNUAL GENERAL MEETING CONTINUED

## Notes:

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this Annual Report.
2. To be valid any proxy form or other instrument appointing a proxy must be lodged with the Company's Registrars, Equiniti, not less than 48 hours before the start of the Annual General Meeting or any adjournment thereof.
3. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 9 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
5. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
6. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 6pm on Sunday 8 February 2009 (or, in the event of any adjournment, 48 hours before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
7. As at 12 December 2008 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 82,897,093 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 12 December 2008 are 82,897,093. There are no shares in treasury.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent Equiniti (ID RA19) by 11am on Sunday 8 February 2009. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
10. CREST members and, where applicable, their CREST sponsors or voting service providers, should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that (i) if a corporate shareholder has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the Meeting but the corporate shareholder has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
13. Copies of the following documents will be available for inspection at the Registered Office of the Company from the date of this notice until the time of the Annual General Meeting and at the Annual General Meeting location from 15 minutes before the Annual General Meeting until it ends:
- the executive Directors' service contracts;
  - letters of appointment of the non-executive Directors;
  - deeds of indemnity in favour of the Directors;
  - the proposed new Articles of Association of the Company and a copy of the existing Articles of Association and,
  - the proposed 2009 LTIP.

## 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 23 to 28.

#### 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 Auditor 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 13.1p per ordinary share payable on 27 February 2009 has been recommended by the Directors for the year ended 30 September 2008. In accordance with the requirements of HM Revenue & Customs, all dividends are declared and paid net of income tax at the standard rate.

#### Resolutions 4, 5, 6 and 7 – [Re-election of Directors](#)

In accordance with the Articles of Association Mr P J M De Smedt and Mr L C Pentz (who were appointed as Directors after the last Annual General Meeting of the Company) are required to retire as Directors. They will, however, seek re-election by the shareholders. In addition Dr T J Walker and Mr G F B Kerr 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 16. With regard to the non-executive Directors seeking re-election, the Board considers that Patrick De Smedt, Lawrence Pentz and Giles Kerr have added breadth and perspective to the Board's deliberations. Specifically, Patrick De Smedt and Lawrence Pentz each bring a breadth of international and industrial experience, with knowledge of market and geographical development. Giles Kerr brings a wide range of recent and relevant financial experience to his role as Chairman of the Audit Committee.

#### Resolution 8 – [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.

# NOTICE OF ANNUAL GENERAL MEETING CONTINUED

## Special Business

### Resolution 9 – [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 of the Company or 10 February 2010, if sooner.

The resolution will provide for the Directors to be able to allot shares up to a nominal amount of £271,029. 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 10 – [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 £41,448, 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 Board confirms its intention that not more than 7.5% of the issued ordinary share capital will be allotted on a non pre-emptive basis in any rolling three year period, in compliance with the guidelines issued by investors' bodies.

The authority will lapse at the earlier of the next Annual General Meeting of the Company or 10 February 2010, if sooner.

### Resolution 11 – [Authority to purchase own shares](#)

In certain circumstances, it might be advantageous to the Company to purchase its own shares. Resolution 11 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 either be cancelled and the number of shares in issue will be reduced accordingly, or be held as treasury shares. Shares held as treasury shares can in the future be cancelled, re-sold or used to provide shares for employee share schemes.

As at 12 December 2008, options over a total of 1,863,252 ordinary shares were outstanding and not exercised. That number of ordinary shares represents 2.25% of the Company's issued ordinary share capital at 12 December 2008. It would represent 2.50% of the issued ordinary share capital if the authority to buy the Company's own shares had been used in full at that date.

### Resolution 12 – [Approval of the 2009 LTIP](#)

Explanations for Resolution 12 are contained in the Chairman's letter to shareholders dated 15 December 2008 which accompanies this Annual Report.

### Resolution 13 – [Adoption of new Articles of Association](#)

It is proposed in Resolution 13 to adopt new Articles of Association (the 'New Articles') in order to update the Company's current Articles of Association (the 'Current Articles') primarily to take account of changes in English company law brought about by the Companies Act 2006. The Company is also proposing changes to its Current Articles to incorporate dispute resolution provisions all as detailed in the Appendix.

The principal changes introduced in the New Articles are summarised in the following Appendix. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted in the Appendix. The New Articles showing all the changes to the Current Articles are available for inspection, as noted above.

## Recommendation

The Directors consider that all the proposed resolutions set out in this Notice of Annual General Meeting are in the best interests of the Company and of its shareholders as a whole and they unanimously recommend that you vote in favour of them, as the Directors intend to do in respect of their own beneficial holdings of shares in the Company.

# APPENDIX TO NOTICE OF ANNUAL GENERAL MEETING

(Explanatory Notes of Principal Changes to the Company's Articles of Association)

## 1. Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

## 2. Form of resolution

The Current Articles enable members to act by written resolution and to pass extraordinary resolutions. Under the Companies Act 2006 public companies can no longer pass written resolutions and the concept of an extraordinary resolution has not been retained. These provisions have therefore been removed in the New Articles.

## 3. Convening extraordinary and annual general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being removed in the New Articles because the relevant matters are provided for in the Companies Act 2006. In particular an extraordinary general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

## 4. Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. The New Articles give the Directors discretion when calculating the time limits, to exclude weekends and bank holidays. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect all of these new provisions.

## 5. Age of Directors on appointment

The Current Articles contain a provision limiting the age at which a Director can be appointed. Such provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

## 6. Conflicts of interest

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

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

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at Board Meetings and availability of board papers to protect a Director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

# APPENDIX TO NOTICE OF ANNUAL GENERAL MEETING CONTINUED

(Explanatory Notes of Principal Changes to the Company's Articles of Association)

## 7. Notice of board meetings

Under the Current Articles, when a Director is abroad he can request that notice of Directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a Director who is abroad. It has been replaced with a more general provision that a Director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

## 8. Records to be kept

The provision in the Current Articles requiring the Board to keep accounting records has been removed as this requirement is contained in the Companies Act 2006.

## 9. Distribution of assets otherwise than in cash

The Current Articles contain provisions dealing with the distribution of assets in kind in the event of the Company going into liquidation. These provisions have been removed in the New Articles on the grounds that a provision about the powers of liquidators is a matter for insolvency law rather than the articles and that the Insolvency Act 1986 confers powers on the liquidator which would enable it to do what is envisaged by the Current Articles.

## 10. Electronic and web communications

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

## 11. Directors' indemnities and loans to fund expenditure

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify Directors and to fund expenditure incurred in connection with certain actions against Directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a Director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a Director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

## 12. Directors' fees

The Current Articles limit the total fees paid to Directors per year to £250,000 (or such higher amount as determined by ordinary resolution of the Company). The New Articles increase this limit to £400,000 but maintain the provision allowing the Company to pay a higher amount if such amount is determined by ordinary resolution. This change has been made to take account of market trends and inflation since the provision in the Current Articles was adopted in 1999.

## 13. General

Generally the opportunity has been taken to bring clearer language into the New Articles.



# FINANCIAL CALENDAR

Annual General Meeting	10 February 2009
Ex dividend date	11 February 2009
Record date*	13 February 2009
Payment of dividend	27 February 2009
Announcement of 2009 interim results	May 2009
Payment of interim dividend	July 2009

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

## **Victrex plc**

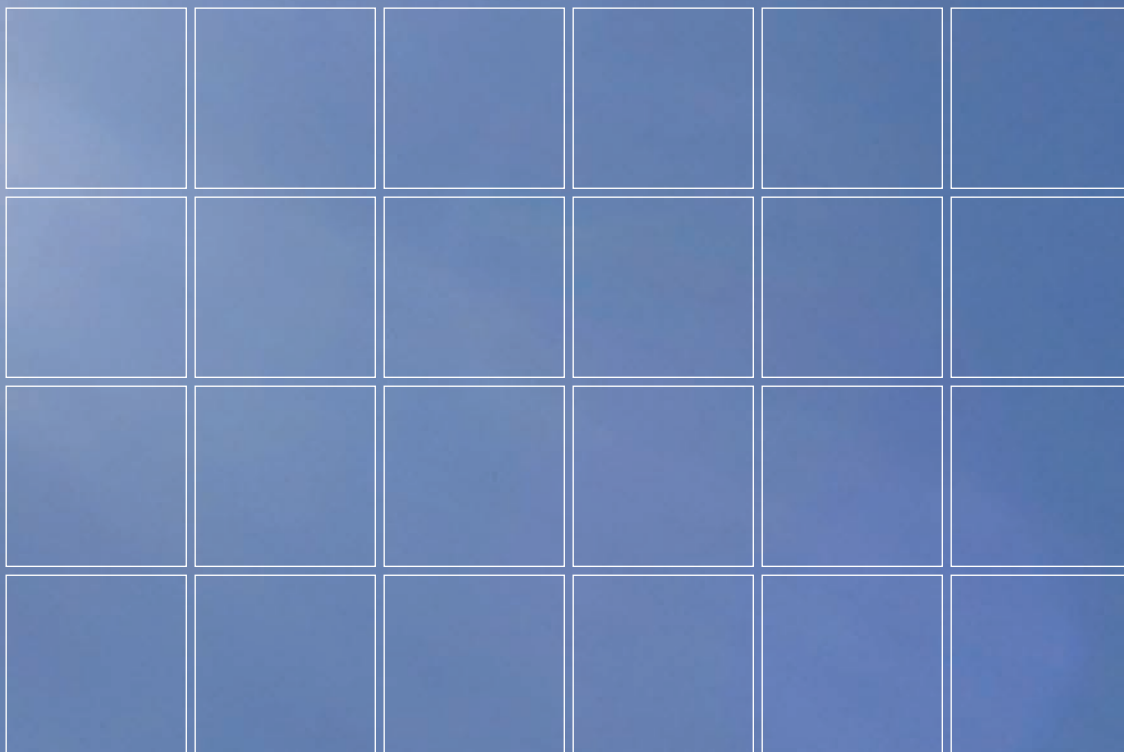
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# NOTES





### **Victrex plc**

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