



**Victrex plc**  
Annual Report and Accounts  
**2012**



# Victrex is the world's leading manufacturer of high performance thermoplastic polymer solutions.

Victrex plc comprises two business units:

## VICTREX POLYMER SOLUTIONS



Our Victrex Polymer Solutions business unit focuses on our transport, industrial and electronics markets

## INVIBIO BIOMATERIAL SOLUTIONS



Our Invibio® Biomaterial Solutions business unit focuses on providing specialist solutions for medical device manufacturers

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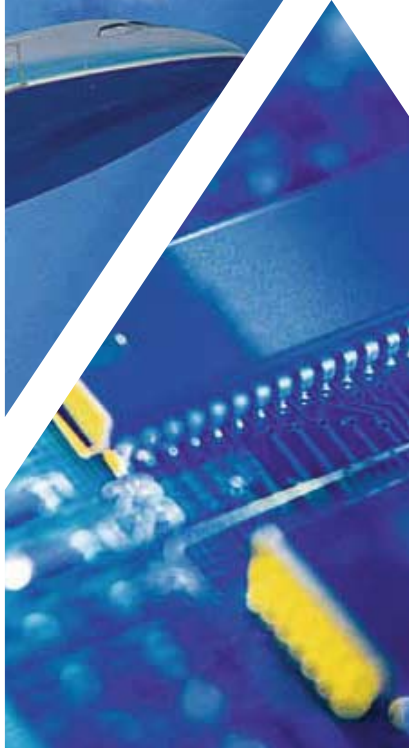
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relations site

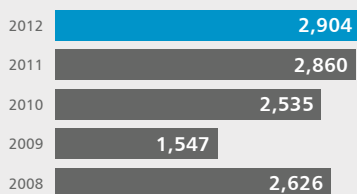


## Highlights

- ▶ Record performance
- ▶ Resilience in established markets
- ▶ Strong new business commercialisation
- ▶ Continued investment for growth
- ▶ Full year dividend up 15%

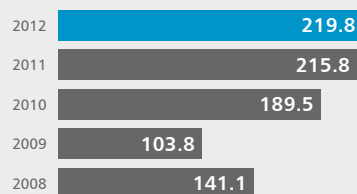
Group sales volume tonnes

**2,904** +1.5%



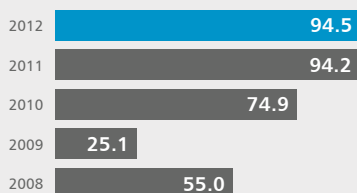
Group revenue £m

**219.8** +1.9%



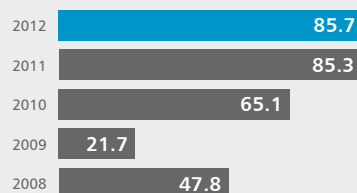
Group profit before tax £m

**94.5** +0.3%



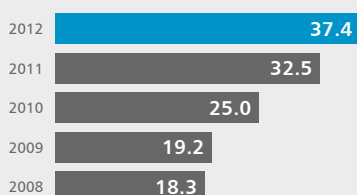
Earnings per share pence

**85.7** +0.5%



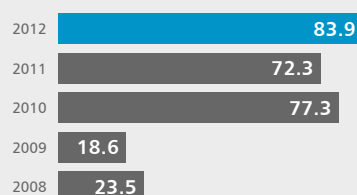
Dividend per share pence

**37.4** +15.1%



Cash £m

**83.9** +16.0%





# Our business at a glance

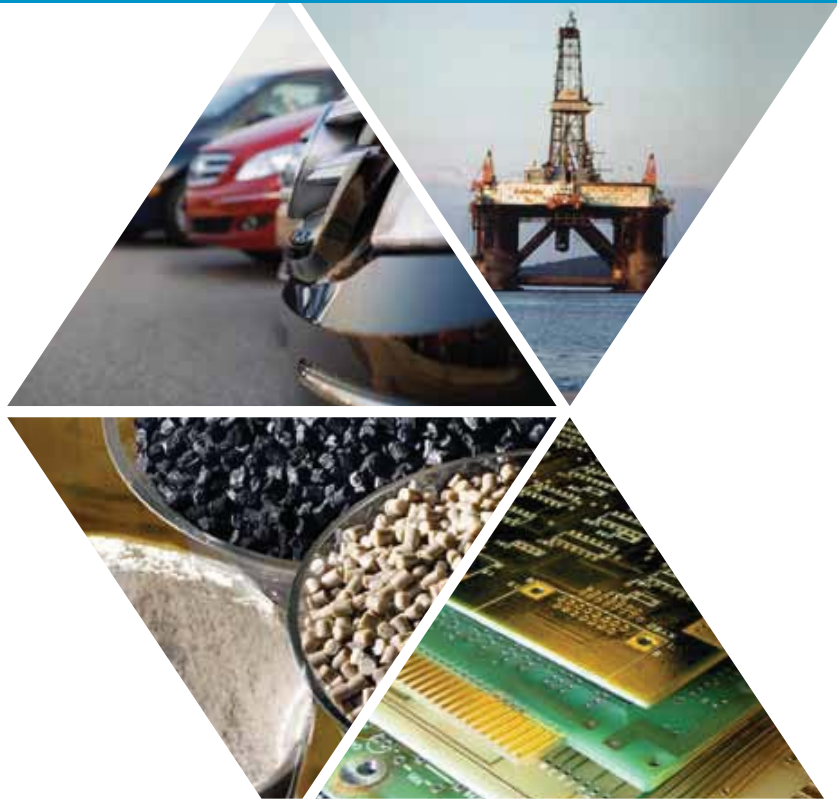
Our headquarters and manufacturing facilities are based in the UK. Technical and customer support facilities are located across our major geographical markets serving more than 40 countries worldwide.

## VICTREX POLYMER SOLUTIONS



Victrex Polymer Solutions ('VPS') is focused on developing our major industrial markets. We work with customers and end users to provide innovative and technical solutions that help them meet their most difficult design challenges. This enables them to benefit from the unique combination of properties and forms that our range of products provide.

We work directly with industry leading decision makers in our focus markets; from prototyping at end users to support at processors. Victrex delivers solutions to the needs of our markets.



## INVIBIO BIOMATERIAL SOLUTIONS



Invibio Biomaterial Solutions ('Invibio') is an established and proven worldwide leader in providing biomaterial solutions for the surgical and medical device markets. Invibio is committed to facilitating PEEK based device solutions in spine and developing medical markets. Our goal for both these areas is to deliver extensive, dependable resources to medical device manufacturers.





## OUR MARKETS

## OUR PRODUCTS' BENEFITS

### Industrial

In markets as diverse as energy exploration and food processing, VICTREX® PEEK polymer material based solutions help improve asset performance and utilisation.

### Transport

All modes of transport are touched by VICTREX PEEK; automotive, aerospace and mass transit all benefit from the unique performance benefits our materials and know-how provide.

### Electronics

VICTREX PEEK provides enabling solutions throughout the electronics value chain; from expanding the design horizons of mobile devices to driving yield in the manufacture of semiconductors.

Customers and end users specify VICTREX PEEK to leverage the **unique combination of performance properties which lead to application benefits such as:**

- ▶ Improved reliability and operational lifetime
- ▶ Reduced energy consumption
- ▶ Lightweighting via metal replacement
- ▶ Ease of complex component fabrication
- ▶ Extreme environment tolerance

#### ▶ OUR MARKETS AND MEGATRENDS P4-5

## OUR MARKETS

## OUR PRODUCTS' BENEFITS

### Spine

**Interbody fusion cages** – PEEK-OPTIMA® remains the surgeons' material of choice for spinal fusion procedures. Our materials lead to faster patient recovery and consequently reduced healthcare costs.

**Spinal rods in fusion** – PEEK-OPTIMA rods are emerging as a technology to optimise loading in the spine and reduce complications such as screw loosening.

### Developing markets

**Arthroscopy** – Firmly established in shoulder repair, PEEK-OPTIMA is now utilised in other commercialised arthroscopy devices such as knee meniscal repair and interference screws.

**Target markets** – The benefits of PEEK rods are being seeded and developed in dental, trauma, cardiovascular and orthopaedic applications.

#### Interbody fusion:

- ▶ More favourable to surrounding bone, especially in elderly patients
- ▶ Fewer complications such as subsidence

#### Spinal rods:

- ▶ Reduced complications such as screw loosening
- ▶ Optimised loading of the spine

#### Arthroscopy:

- ▶ Easier revision compared with metal anchors
- ▶ Fewer complications compared with resorbable suture anchors

#### Target markets

- ▶ Extended fatigue life in trauma devices
- ▶ Complements the trend to digitisation in dental manufacturing

#### ▶ OUR MARKETS AND MEGATRENDS P4-5

# Our markets and megatrends

Megatrends reach into every aspect of our lives, shaping the way the future unfolds. Across multiple industries the challenges that stem from megatrends create growth opportunities for Victrex.

## VICTREX POLYMER SOLUTIONS

## EXAMPLE MEGATRENDS

### INDUSTRIAL



### Natural resource depletion

Increasing demand for and depletion of existing resources drive exploration into uncharted territory.

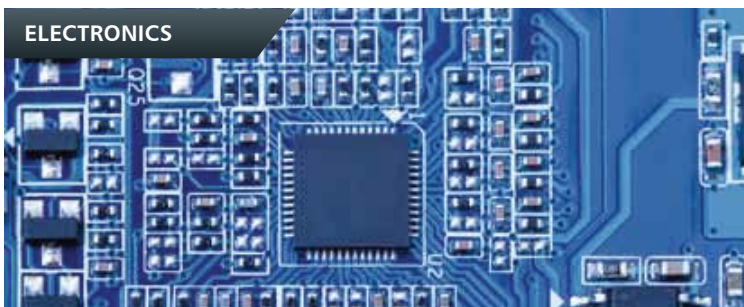
### TRANSPORT



### Energy efficiency

Regulatory controls on emissions, exploration in extreme environments and the need to support renewable energy all drive the spiralling cost of energy.

### ELECTRONICS



### Thinner, smaller, smarter

The need for instant access to communication and information on the move is driving trends for mobile devices.

## INVIBIO BIOMATERIAL SOLUTIONS

## EXAMPLE MEGATRENDS

### MEDICAL



### Ageing global population

People are living longer and have a strong desire to maintain their quality of life even in their elderly years.



## CONSEQUENCES

## OPPORTUNITIES

## Extreme environments

Deeper, hotter, higher pressure and chemically aggressive wells must be tapped to reach new reserves.

## High integrity mechanical and electrical sealing solutions

Reliable, safe and high yield operation are enabled using VICTREX PEEK based solutions in exploration and production tooling.

## Emissions reduction design challenges

Energy efficiency is a primary strategic imperative for the aerospace and automotive industries.

## Lightweight metal replacement

VICTREX PEEK enables aerospace lightweighting and reliability via metal replacement and is key to meeting the complex challenges of next generation automotive powertrain technology.

## Energy and thermal management challenges

Increased functionality and miniaturisation create challenges for mobile device performance as well as energy and thermal management.

## High durability thin film technology

Victrex materials, such as our APTIV® acoustic film technology, create design opportunities by virtue of their durability in today's thinner, smaller, smarter mobile devices.

## CONSEQUENCES

## OPPORTUNITIES

## Joint replacement and pain management

Extended life expectancy results in an increasing need to replace worn out body parts or to alleviate pain in order to resume normal activities. 9 out of 10 adults will experience back pain during their life.

## High performance materials which enable device innovation

Inbio provides materials for devices that alleviate back pain and can be used in a minimally disruptive manner, accelerating patient recovery. Our materials are also used to provide more durable devices in the repair of hip, knee and shoulder joints.



# Chairman's statement

Anita Frew



Chairman

On behalf of the Board, I am pleased to report that we have delivered another year of record performance in Victrex, despite the challenging global economic environment. Strong new business commercialisation in our VPS business and growth in the developing markets of our Invibio business have driven this year's success.

Profit before tax

**£94.5m**

Earnings per share

**85.7p**

Total dividend

**37.4p**

On behalf of the Board, I am pleased to report that we have delivered another year of record performance in Victrex, despite the challenging global economic environment. Strong new business commercialisation in our VPS business and growth in the developing markets of our Invibio business have driven this year's success.

During the year, we have continued to invest in innovation, new application development and growth programmes, quality, capacity and security of supply for customers. These initiatives will continue to build our business to meet the growing demand from our customers across our end user markets of oil and gas, automotive, aerospace, electronics and medical applications.

Victrex benefits from a number of underlying megatrends across industries which continue to drive fundamental demand for our world leading polymers. In this year's Annual Report, our business units give fuller and more detailed descriptions of what these trends mean for our customers and demonstrate how Victrex polymers create value across industries.

## Results

This year we have delivered record Group sales volume of 2,904 tonnes (2011: 2,860 tonnes) and Group revenue of £219.8m (2011: £215.8m) reflecting growth from both of our business units against an uncertain economic background. Strong new business commercialisation and growth in developing markets largely drove VPS and Invibio respectively. Second half volume of 1,527 tonnes was 7% ahead of the same period last year and 11% ahead of the first half, which reflected the de-stocking we reported in the first quarter of our financial year and an upturn in volumes as we moved through the year.

Full year gross margin remained strong and in line with expectations at 66.3% (2011: 67.8%). The reduction year on year reflects further investment in resources to increase available production capacity, underpinning security of supply for our customers, as well as increased raw material input costs. We have invested in new technical facilities in the UK and Japan and research and development expenditure in the year has increased to £13.1m (2011: £10.5m) representing 6% of revenue (2011: 5%).

Group profit before tax of £94.5m and basic earnings per share of 85.7p were both marginally ahead of the record results achieved last year. Cash generated from operations remained strong at £89.9m (2011: £91.2m). The resulting Group cash balance as at 30 September 2012 was £83.9m with no debt.

## Dividends

The Company paid an interim dividend of 9.0p per ordinary share on 3 July 2012, representing an increase of 13% over the prior year. Our continued confidence in the underlying strength and growth prospects for our business is reflected by our intent to provide a progressive and sustainable dividend policy. We are therefore recommending a final dividend of 28.4p (2011: 24.5p) per ordinary share. This results in a total dividend for the year of 37.4p (2011: 32.5p) per ordinary share representing an increase of 15% over the prior year.



The strength of our balance sheet and cash generation underpins our ability to invest in our business for future growth as well as maintaining our dividend policy. It also continues to provide reassurance to customers, suppliers and investors alike as we invest for the future whilst navigating the current uncertain economic and market conditions. We will continue to review our dividend policy in the light of our medium-term strategic investment plans and consider any potential additional return to shareholders as appropriate.

### Board composition and diversity

We have a strong and balanced Board with a broad range of skills and experiences. Over the last year, we have taken further steps to strengthen the executive representation on our Board.

Steve Barrow joined the Board in October 2011 as Finance Director. Steve has been a key member of the Victrex management team for many years and brings to the Board significant financial expertise and knowledge of Victrex.

Tim Cooper, Managing Director of VPS joined the Board in October 2012. Tim has shown exceptional leadership of our VPS business and brings to the Board many years of international commercial and operational experience.

I am also pleased to welcome Suzana Koncarevic as the Board's new Company Secretary. Suzana joined in April 2012 and is our General Counsel and Company Secretary, as well as a member of the executive management team.

We recognise the importance of diversity at Board level and our Board members comprise a number of different nationalities with a wide range of skills and experiences from a variety of business backgrounds, including international, industrial, marketing, corporate, strategic planning, medical and financial expertise. This diversity of thought and experience contributes significantly to the value, quality and depth of Board deliberations and decisions.

As previously reported, the Board also welcomed the publication last year of the Davies Review on Women on Boards. Our current female representation on the Board is 25%, already consistent with the recommended minimum representation level to be achieved by 2015.

### Board effectiveness

As Chairman I am responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. The Board is responsible for the Group's strategic development, monitoring achievement of its business objectives, oversight of risk and maintaining a system of effective corporate governance, which includes the responsibilities for health, safety, environmental, social and ethical matters.

Further description of the governance processes which are embedded at Board level and throughout the business are given in the corporate governance section of this report.

We undertook an independent external evaluation of the performance of the Board and its Committees in 2011. During 2012 we built on this with an internal evaluation of performance

of the Board and its Committees. This review concluded that the Board and its Committees remain effective in fulfilling their responsibilities appropriately and each Director continues to demonstrate a valuable contribution.

### Governance

The Board takes its responsibility to maintain sound governance very seriously and regards the continuing setting, maintenance and review of the highest standards of corporate governance as a key objective. The Board leads a strong governance framework throughout the business, supported by the Audit, Currency, Nominations, Remuneration and Risk Committees. Further detail can be found in the corporate governance section of this report.

We complied with all aspects of the UK Corporate Governance Code throughout the year ended 30 September 2012.

### People

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. The talent and focus of our employees underpins the strategy of our business and is at the core of our success.

On behalf of the Board, I would like to pay tribute to all our employees and thank them for their outstanding contribution to the record results this year. The passion, innovation and performance of our employees remain a key asset to our business and its success in the future.

### Outlook

The fundamental growth drivers for our business continue to be strong across all of our end markets.

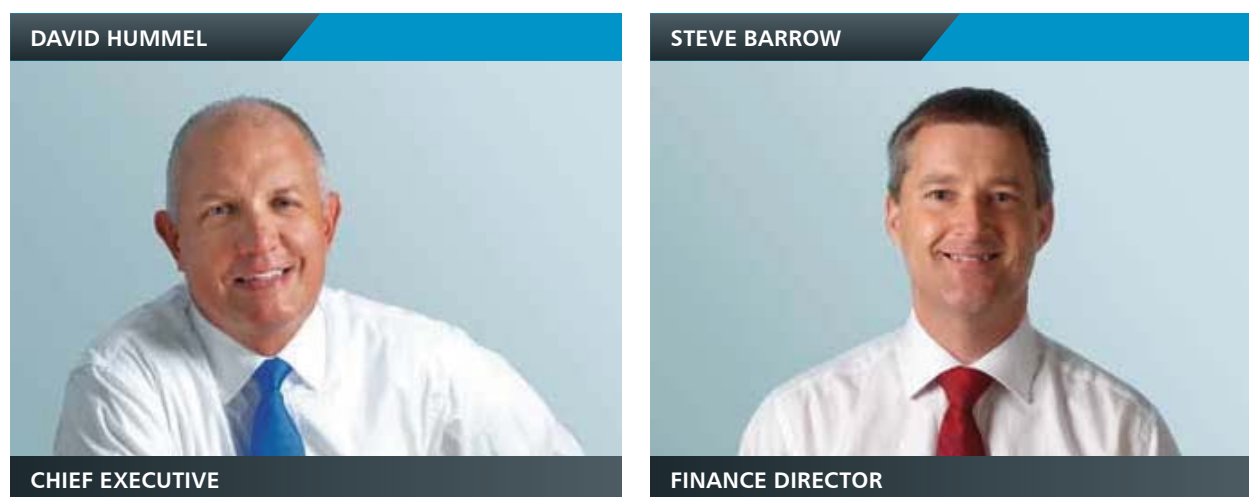
Sales volume in our VPS business is showing good growth relative to the comparative period last year, albeit at a lower run rate than the record second half of last financial year. Our Invisio business has had a steady start to the year despite the continuing challenges in the US medical device market.

Whilst it is early in the financial year, and a number of macro uncertainties remain, we are encouraged by the potential for growth in both VPS, driven by new application development, and Invisio, through innovation in the spine market and further progress in our developing markets. We remain committed to invest in application development, technical leadership, talent and capacity to ensure that we are the partner of choice for our customers and end users.

**Anita Frew**  
Chairman  
10 December 2012

# Our business model and strategy

Our strategy is well positioned both to maintain our global leadership position in high performance thermoplastic polymer solutions and to leverage these strengths in new areas, ultimately delivering sustainable earnings growth for our shareholders.



Victrex's strategic intent is to achieve sustainable earnings growth for our shareholders. This will be achieved through maintaining the Group's leadership in developing and growing the market for our products through:

- ▶ maximising growth by working closely with our customers to fulfil their needs and leverage our focused global organisation and infrastructure to build awareness and develop the market for our products;
- ▶ providing market, product, technical and regulatory leadership to the industries we serve helping end users and customers to innovate and gain competitive advantage by enhancing their products and processes with the use of Victrex products;
- ▶ seeking out and implementing, where appropriate, value added business opportunities;
- ▶ offering security of supply by optimising production capacity, key supplier relationships and inventory policy whilst continuously improving efficiency and product cost; and
- ▶ providing a safe and rewarding environment for our employees and operating our assets to appropriate environmental standards.

# Deliver sustainable earnings growth

## Focus on PEEK drives speed and agility

Since our inception we've been singularly focused on growing the use of PEEK based materials in their many different forms. Our focus has made us the leader in commercialising applications for our customers quickly, flexibly and successfully.

## Talent from markets to materials

Skills and expertise in manufacturing and developing PEEK materials continue to be the foundations on which Victrex are built. Our talents extend beyond materials with many Victrex people having direct experience in our end markets thereby helping to ensure we can develop solutions for our customers' needs.

## Delivering value to new and existing customer growth

Market insight, application testing, processing support and regulatory and test standard data help Victrex provide value far beyond our materials, making us a valued partner for new and existing customers.

## Proven track record of market innovation

Across multiple markets, where our materials have the potential to fulfil the needs of a market, Victrex has demonstrated a commitment to invest in technology, assets and market channels.



## Supply chain excellence and unrivalled manufacturing capabilities

Victrex is the only vertically integrated aromatic polyketone supplier in the world. This provides control over raw materials and security of supply for our customers. We have 30 years of experience in delivering exceptional product quality and consistency and due to our capacity we are unique in our ability to attract and deliver major development programmes.

## Identifying market needs and delivering on them

Everyday our businesses are focused on the needs and trends in our key markets. Our access and engagement with end users and OEMs allows us to maintain and drive the adoption of our materials. We have invested in ensuring we have organisational strength in our centres in Asia, Europe and the US to ensure our global talents meet local needs.

## Technology leadership providing innovation for customers

Our technology is focused on the combination of materials, material forms, processing and the deployment of these in innovative applications. Our talents in these areas have fostered the deployment of thin films to insulate batteries in today's tablet devices and the introduction of high strength composites to replace metals in treating bone fractures.

► VPS: HOW WE CREATE VALUE P20–21

► INVIBIO: HOW WE CREATE VALUE P24–25

# Business overview

We are pleased to report that we have achieved another record year despite challenging market conditions. This has been largely due to strong new business commercialisation and growth in our developing markets.

We are pleased to report that we have achieved another record year despite challenging market conditions. This has been largely due to strong new business commercialisation and growth in our developing markets. We have continued to invest in resources across the business to drive and support growth and remain confident in the future growth potential for our business. This confidence underpinned our decision to commence construction of a third PEEK plant which will be located at our Hillhouse site in Lancashire and will take our capacity to in excess of 7,000 tonnes by 2015.

## Group financial results

Group sales volume for the year increased by 2% to 2,904 tonnes (2011: 2,860 tonnes) reflecting strong new business commercialisation in VPS. Second half volume of 1,527 tonnes was 7% ahead of the same period last year (H2 2011: 1,426 tonnes) and 11% ahead of the first half (H1 2012: 1,377 tonnes) which reflected the de-stocking we reported in the first quarter of our financial year.

Full year revenue in Invibio increased to £50.5m (2011: £49.7m) largely driven by growth in developing markets, particularly arthroscopy. Spine revenues were broadly in line with the prior year with continued growth and innovation in the market being offset by inventory rationalisation at a select number of customers during the second half, reflecting the continuing challenges in the medical device industry.

Resulting Group revenue for the year was up 2% to £219.8m (2011: £215.8m).

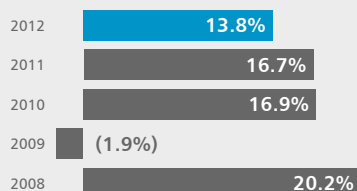
Full year gross margin remained strong and in line with expectations at 66.3% (2011: 67.8%). The anticipated reduction year on year reflects further investment in resources to increase available production capacity, underpinning security of supply for our customers, as well as increased raw material input costs.

We remain committed to working with customers and end users to understand their current needs and future opportunities.

## Key performance indicators

### Financial performance

Five year compound annual growth rate in basic EPS.

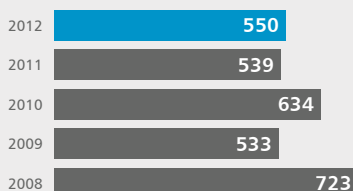


#### Analysis:

Our corporate strategic intent is to achieve sustainable earnings growth for our shareholders.

### New application development

The number of commercialised applications developed in the year.

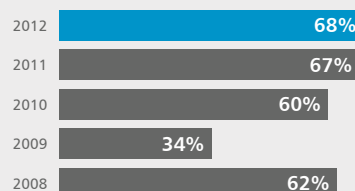


#### Analysis:

The ability of the Group to deliver sustainable growth is dependent on its ability to develop technological innovations.

### Production capacity utilisation

Sales volume as a percentage of production capacity.



#### Analysis:

Maintaining capacity in excess of demand is essential to ensure security of supply for our customers and to provide the industries we serve with confidence to invest in future application development.



This directs our investment in resources which are targeted to drive new application development, the key growth programmes for the future and the quality of our products and services. Innovation is key for growing the market for our products and is a critical differentiator for our business. We continue to invest in a broad range of activities including product and process improvements, proactive customer technical support and joint development programmes with customers and end users as we explore new applications and markets for our products. To this end we have invested in new technical facilities in the UK and Japan and research and development expenditure in the year has increased to £13.1m (2011: £10.5m) representing 6% of revenue (2011: 5%).

This continued investment in the business has, however, been more than offset by lower costs associated with elements of staff remuneration which are linked to underlying business performance. Resulting total sales, marketing and administrative expenses reduced by 2% to £51.7m (2011: £52.6m).

Group profit before tax of £94.5m (2011: £94.2m) and basic earnings per share of 85.7p (2011: 85.3p) were both marginally ahead of the record results achieved last year. Earnings also benefitted from an improvement in the effective tax rate to 23.9% (2011: 24.5%) predominantly reflecting the reduction in the UK corporation tax rate.

#### Balance sheet

Net assets at 30 September 2012 totalled £271.1m, an increase from £221.6m reported at 30 September 2011, primarily reflecting the profit generated by the business during the year.

We continue to manage our working capital carefully and in line with our strategic aims. Customer service excellence and security of supply are key differentiators for Victrex with existing and future potential customers and end users. With this in mind we have invested in inventory levels during the year increasing to £48.6m (2011: £45.0m). This is in part due to increased trading but also due to production of a number of special grade products which we manufacture on a periodic basis. Trade receivables increased in line with trading, with receivables which are either current or less than 30 days overdue at 93% (2011: 91%) reflecting the strong customer relationships we maintain. Trade creditor days remain consistent with prior year at 31 days with our commitment to our suppliers that we pay them within the agreed terms to maintain a strong working relationship and flexibility in the supply chain to meet our needs.

Retirement benefit obligations have reduced to £4.0m (2011: £6.2m) reflecting an additional deficit funding contribution of £0.9m paid during the year and favourable actuarial movements.

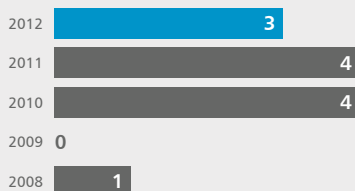
#### Cash flow

Cash generated from operations remained strong at £89.9m (2011: £91.2m).

Capital expenditure payments increased to £27.0m (2011: £9.0m), mainly as a result of investment in our new UK and Japanese Technology Centres together with investment in BDF production capacity (the main raw material for PEEK) which will be completed during 2013. We also recently commenced construction of our third PEEK plant which will be located at our Hillhouse site. The project is expected to cost £90m and will increase our PEEK production capacity from 4,250 tonnes to in excess of 7,000 tonnes and is due for completion in early 2015.

#### Environmental events

The number of notifiable environmental events in the year.



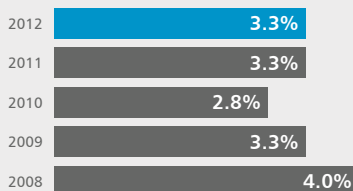
#### Analysis:

Managing our environmental impact is critical to full compliance with the Environmental Permitting legislation as well as our drive to continually reduce energy use, water consumption and quantities of hazardous waste produced.

As in previous years none of these events caused any environmental harm. There have been no prosecutions, fines or enforcement actions as a result.

#### Employee staff turnover

The number of employees who voluntarily left the business in the year.

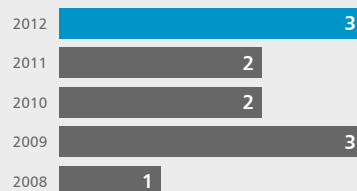


#### Analysis:

The Board recognises our talented and diverse workforce as a key business asset. Measuring staff turnover enables us to assess our ability in retaining our workforce which will help in driving business growth and performance.

#### Health and safety reportable injuries

The number of reportable injuries in the year.



#### Analysis:

We believe that all employees should be able to work safely in a healthy workplace and our activities should not harm the public or environment. We carefully monitor and assess potential health and safety hazards and implement control measures as appropriate.

# Business overview

## continued

### Group financial results continued

#### Cash flow continued



*Our new UK Technology Centre, opened July 2012.*

Taxation paid was £24.4m (2011: £25.7m) reflecting the reduction in the UK tax rate and the receipt of a refund following agreement of a number of prior year computations.

Total dividends paid during the year decreased to £28.0m from £63.8m in 2011 which included a special dividend in February 2011 of £41.6m.

The resulting Group cash balance as at 30 September 2012 was £83.9m with no debt (2011: £72.3m and no debt).

#### Proposed dividend

We remain committed to a progressive and sustainable dividend policy which reflects our underlying confidence in the growth prospects for our business, despite current economic and market challenges. We are therefore recommending an increase in the full year dividend of 15% to 37.4p (2011: 32.5p), resulting in a final dividend of 28.4p (2011: 24.5p) per ordinary share. Dividend cover is 2.3 times (2011: 2.6 times).

### Victrex Polymer Solutions

	2012 £m	2011 £m	Change %
Revenue	169.3	166.1	2%
Gross profit	101.1	102.5	(1%)
Operating profit	68.5	66.8	3%

VPS generated record revenue for the year of £169.3m (2011: £166.1m) as the business recovered strongly from the customer de-stocking reported in quarter one of our financial year. The recovery was driven by strong new application development as continued economic uncertainty remains.

As expected, gross margin decreased to 59.7% (2011: 61.7%) predominantly due to the increased cost of manufacturing. This reflects the further investment we have made in our production and engineering resources to increase available capacity together with increased raw material input costs.

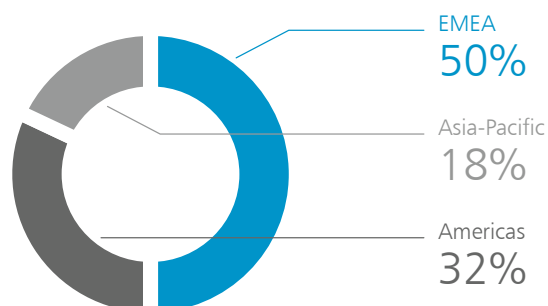
We have continued to invest during the period in resources targeted at growth initiatives around the business. However, this has been more than offset by lower costs associated with elements of staff remuneration which are linked to underlying business performance. Resulting sales, marketing and administrative expenses decreased by 9% to £32.6m (2011: £35.7m).

Operating profit was a new record at £68.5m (2011: £66.8m) reflecting an increase of 3% over the prior year.

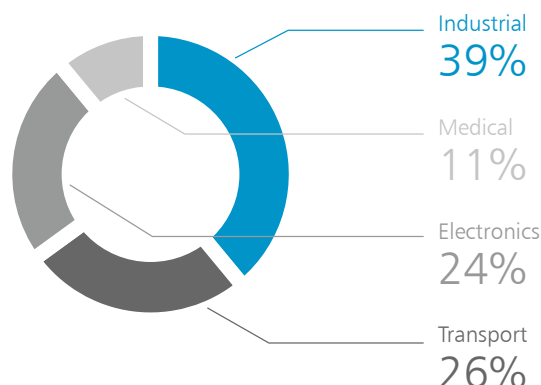
#### Major markets

Group sales volume in Europe recovered across all end use markets from the de-stocking we reported for the first quarter of our financial year. Second half sales volume of 747 tonnes, whilst not yet back to previous record levels, was 5% ahead of the first half of 710 tonnes and resulted in full year sales volume of 1,457 tonnes (2011: 1,576 tonnes). In the US strong sales and new business development, predominantly in oil and gas and consumer electronics, resulted in record sales volume of

#### Volume by region



#### Volume by industry



926 tonnes, 19% ahead of the previous year (2011: 778 tonnes). The second half was particularly strong with sales volume of 522 tonnes being 29% ahead of the first half (404 tonnes) predominantly due to the new business in consumer electronics. In Asia, sales volume of 521 tonnes was 3% ahead of the previous year (2011: 506 tonnes) driven by growth in semiconductor and consumer electronics applications. Year on year sales volume outside of Japan grew by 12% and now represents more than half of our sales into the region. Second half volume of 258 tonnes was broadly in line with the first half (263 tonnes).

Industrial sector sales volume in the second half of 569 tonnes was 3% ahead of the first half (552 tonnes) resulting in full year volume of 1,121 tonnes broadly in line with 2011 (1,144 tonnes). The oil and gas market showed growth during the year with continued investment in off-shore and down-hole exploration. However, this was broadly offset by the impact of de-stocking in the first quarter together with reduced sales into the industrial machinery and process equipment market reflecting cautious capital investment as a result of continued economic uncertainty.

Second half sales volume into the transport sector of 382 tonnes was 5% ahead of the first half (362 tonnes) and led to full year volume of 744 tonnes in line with the prior year (741 tonnes). Sales increased into aerospace applications following the launch of the Boeing 787 whilst automotive sales remained strong and in line with 2011, despite the de-stocking experienced in the first quarter.

Growth in new consumer electronics applications in the second half of the financial year led to a second half volume into the electronics sector of 404 tonnes, which was a 30% increase over the first half (310 tonnes). Resulting full year sales volume of 714 tonnes increased by 11% (2011: 646 tonnes). Sales into the semiconductor manufacturing sector have remained at a similar level to 2011 and reflect a continued shift in investment and production towards Asia.

Product and market development

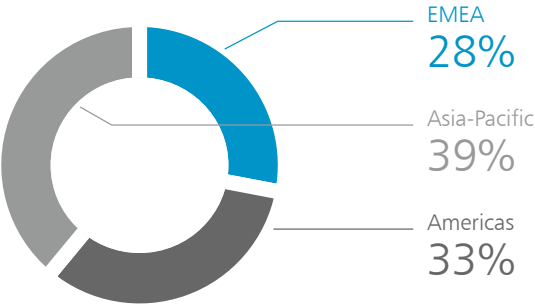
We continue to work closely with customers and end users to drive opportunities where our products can help to solve their problems and facilitate innovation.

New business commercialisation was very strong throughout the year across all sectors, but in particular in transport, with the commercialisation of a number of applications for use on the Boeing 787, and in electronics, with success particularly in the consumer electronics area. In total we commercialised 550 new VICTREX PEEK polymer applications with an estimated mature annualised volume ('MAV') of 683 tonnes compared with 539 commercialised applications with an estimated MAV of 309 tonnes in 2011.

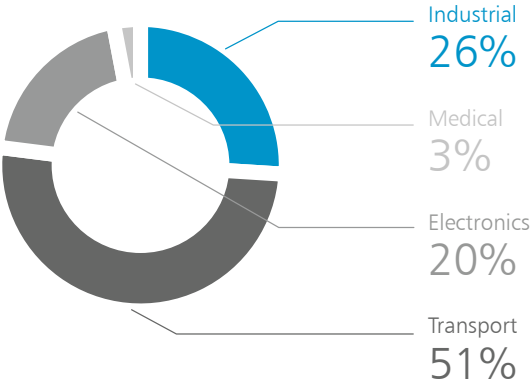
The development pipeline remains healthy with new opportunities being generated across all our markets and at the year end contained 1,908 potential developments (2011: 3,416) with an estimated MAV of 2,212 tonnes (2011: 2,328 tonnes) if all of the developments were successfully commercialised. The reduction in the overall pipeline reflects the particularly successful year we have had in closing new business. Overall the pipeline remains strong and diversified.

We continue to see significant growth potential for our business reflected in the development pipeline, but also in the number of potentially significant technical programmes we are working on with customers and end users for the future. The megatrends driving innovation in our markets, including lightweighting for fuel efficiency, miniaturisation and complexity of natural resource exploration, play to the strengths of our products and services and with our continued investment in talent, technology and capacity, we are well placed to take advantage of opportunities and play a leading role alongside our customers in growing the market.

Development pipeline by region



Development pipeline by industry



# Business overview

## continued

### Invio Biomaterial Solutions

	2012 £m	2011 £m	Change %
Revenue	50.5	49.7	2%
Gross profit	44.6	43.9	2%
Operating profit	29.2	30.3	(4%)

Invio generated record revenue of £50.5m, an increase of 2% over 2011 (£49.7m). This reflected strong growth in developing markets, particularly arthroscopy. However, spine revenues were broadly flat year on year with continued innovation and global expansion offset by de-stocking in the second half by a select number of customers in response to the ongoing challenges in that market.

Gross margins have remained strong and stable at 88.3% (2011: 88.4%).

Sales, marketing and administrative expenses increased by £1.8m to £15.4m reflecting investment in resources and projects that are targeted towards driving future growth programmes as well as continuing to improve our product and service offerings to our existing customers. Specifically we have recruited additional business development managers in emerging geographies as well as application specific leaders and regulatory expertise from the medical device industry to improve collaborations with our customers and to better understand surgeons' needs.

Resulting operating profit of £29.2m was marginally down on 2011 reflecting our commitment to continue investment for future growth.

### Major markets

The spine market was broadly in line with the prior year at £38.2m (2011: £38.6m). Innovation and growth in our established geographies of the US and Europe continues but as previously reported we have experienced some de-stocking in the second half at selected customers which reflects the continuing challenges in the medical device industry. Our growth strategy into Asia continues with revenues up 9% to £3.6m (2011: £3.3m).

Our developing markets outside of spine grew by 11% in 2012 dominated by the arthroscopy market which grew 29% to £6.2m (2011: £4.8m).

### Product and market development

Invio entered into 49 additional long-term supply assurance agreements with implantable medical device manufacturers during 2012. These agreements were with manufacturers based in the United States (15), Europe (14) and increasingly in emerging geographies (20).

Since its introduction over ten years ago Invio has entered into 454 long-term supply assurance agreements and more than 3 million devices containing Invio's PEEK-OPTIMA polymer have been implanted into patients.

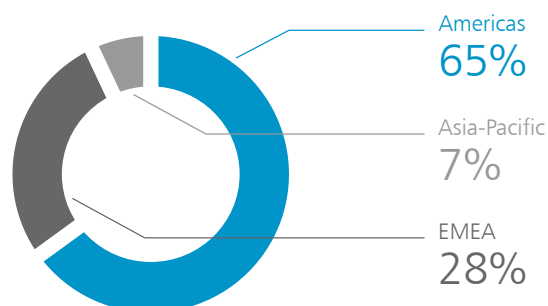
Invio continues to work closely with medical device manufacturers, surgeons and clinicians to drive awareness of our biomaterials and their benefits in new application areas. We support our customers in every step of their journey from initial concept through to market testing and acceptance, delivering sales growth for both ourselves and our customers.

As market growth rates in established Western geographies are forecast to be low or flat in upcoming years, more and more of our customers are looking to penetrate emerging geographies where growth rates are more appealing. In response to this trend, we have continued to strengthen our regulatory expertise on a global basis to support our customers as they seek entry into these emerging geographies.

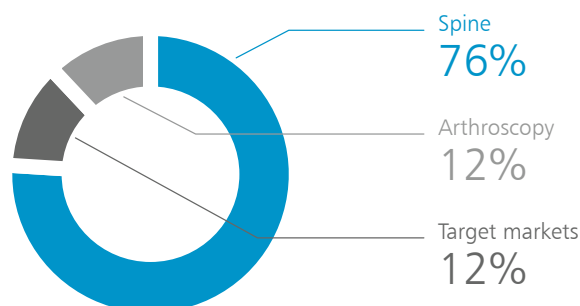
We continue to grow our scientific network through close partnerships with world class research groups and key opinion leaders to increase the pace and probability of successful innovation with our biomaterials.

Invio's application focus continues to be on maintaining and growing our success in spine and arthroscopy applications whilst accelerating the adoption of our biomaterials in developing areas such as removable dentures, trauma and orthopaedics.

Invio revenue by region



Invio revenue by industry





The growth potential in our existing markets, through innovation and global expansion, as well as technical programmes aligned with our developing markets, reinforce the growth opportunities for our business. Furthermore, the trends of an ageing global population wanting improved quality of life in later years and the desire for more cost effective treatments for patients play to the strengths of our products and services and will continue to provide growth opportunities for the future.

### 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 through the Risk Management Committee is set out in the Corporate Governance Report on page 40.

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 on pages 16 and 17. 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 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 13.

### 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 global ethics policy described on page 29.

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 Invibio's PEEK-OPTIMA polymer customers. These agreements guarantee the specification of, and production methods for, the biomaterial over the term of the agreements. We also have supply agreements in place with the majority of our 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 ensuring excellent customer service and to supporting our customer global ethics policies, including maintaining regular contact with major customers and undertaking surveys of customer satisfaction.

#### Suppliers

Victrex is self sufficient in 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 17, 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.

**David Hummel**  
Chief Executive  
10 December 2012

**Steve Barrow**  
Finance Director

# Principal risks

The Board is responsible for determining the strategic approach to risk, setting the risk appetite and establishing the structure for risk management. It is recognised that the Group's strategic objectives can only be achieved if risks are taken and managed effectively. On these pages are those risks considered to be principal to delivering our strategy and specific to the nature of our business, although there are other risks which may occur and impact on the Group's performance.

## External market factors

### Risk area and description

### Mitigation

#### Economic environment

The global economic environment and the levels of activity in the markets and territories in which the Group operates could adversely affect the Group's revenues, profitability and cash flow.

The diverse nature of the Group's markets, customers and the territories in which each business unit operates, together with appropriate contingency planning, help to mitigate the impact of a global economic downturn.

#### Currency exposure

The Group operates in several non-UK countries and currently 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 currencies could cause profit and balance sheet volatility.

The Group's hedging policy to mitigate the short-term currency risk is managed by the Currency Committee and is detailed in the Corporate Governance Report on page 40 and in note 13.

#### Competitor activity

The Group operates in competitive markets, both in terms of competitors offering directly comparable and alternative materials. The ability of the Group to compete is dependent on its ability to develop technological innovations and deliver high quality products and services. Demand for our products could be impacted if we fail to compete successfully as new technologies and materials are developed, causing loss of market share and margin erosion.

We continue to work closely with our customers as described on pages 15 and 29 and seek to always have the highest quality products and services available to meet our promised delivery schedules globally. We invest in resources to ensure that we remain at the leading edge of polyketone technology and seek to continuously improve the quality and the performance of our products. Through our technology centres in the UK, China and Japan we provide prompt technical support and advice so as to provide high quality applications solutions for our customers.

#### Technological change

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

To maintain and advance our technology skills and knowledge we invest in resources and employ polymer and applications specialists at our technology centres in the UK, China and Japan. This is complemented globally by office and field based commercial and technical specialists who work closely with our customers and end users. This enables us to develop new products and new applications for our products so that we maintain our position as the leading polymer solutions provider to designers and engineers at our customers and end users.

## Business specific factors

### Risk area and description

### Mitigation

#### 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.

We have implemented policies and procedures to efficiently and safely manage all our operations and to maintain our supply of products to our 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 27.

Additionally we continue to work closely with our suppliers as described on pages 15 and 29 to ensure that we maintain significant stocks of raw materials and finished goods which should enable us to maintain supplies to our customers during any short-term disruption.

Furthermore our two polymer manufacturing plants are able to operate independently, thereby reducing the impact of any operational disruption on our ability to continue manufacturing products.

#### 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.

VICTREX PEEK polymer is manufactured within a quality management system approved to ISO 9001:2008. Invibio 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 device manufacturers.

The quality management process is a process of continuous improvement which is overseen by a Quality Steering Committee which meets quarterly and comprises senior management from the quality assurance, SHE, operations, technology and commercial teams.

Additionally the Group maintains appropriate levels of product liability insurance.

#### 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.

Our stocks of finished goods and raw materials which are held in a number of locations worldwide enable us to supply any short-term surge in demand from our customers.

Furthermore, it is our policy to keep capacity well ahead of demand by investing in all aspects of our supply chain so that our customers can be confident that we can meet their current and future requirements. During the year we commenced construction of a third PEEK plant which will increase our annual capacity by 2,900 tonnes to in excess of 7,000 tonnes. The new plant is expected to be operational in 2015.



“ Victrex are a trusted innovation partner  
in our pursuit of solutions to tomorrow’s  
automotive challenges.

Peter Luff, Purchasing Director, Bosch



# Victrex Polymer Solutions overview



## Our business

VPS is the world's leading manufacturer of high performance polyaryletherketones, including VICTREX PEEK polymer. VPS provides a wide range of products, together with technical and marketing support to our customers and end users to help them deliver innovative, cost effective solutions in our major markets of industrial, transport and electronics.

Our industries continue to be challenged to achieve higher performance with less material, less energy, less waste, less noise, less time and less cost. This drives the need for innovative designs using our materials and expertise to bring them to market. The unique combination of properties and physical forms of Victrex materials help customers deliver against these challenges.

We bring these solutions to reality through our dedicated market development, sales and technical teams located close to customers, across all of our major regional markets and by our main regional offices in Germany, USA, Japan and China.

Technical leadership underpins the value we bring to customers and end users and is critical for our future growth. The new Victrex Japan Technical Center in Tokyo has been welcomed by customers in Japan and is now fully utilised in support of development programmes we have in that region. We have also recently opened our new UK Technology Centre at our Hillhouse site as part of our commitment to expanding our core and applied technical capability.

Our manufacturing expertise resides in the UK where we operate three manufacturing sites. We are the only vertically integrated aromatic polyketone supplier in the world. This affords us control over key raw materials and the ability to offer security of supply and product quality for our customers. Our strategy remains to invest ahead of demand in all aspects of our supply chain. This ensures we have the capability to meet our customers current and future requirements. During the year we commenced construction of a third PEEK plant in the UK. This investment will increase our annual capacity by 2,900 tonnes to in excess of 7,000 tonnes. The new plant is expected to be operational in early 2015.

## Key markets

All of our key markets present continued opportunities for growth. In existing applications we see growth from further product acceptance, geographical expansion and execution on existing development programmes with customers and end users. The megatrends will require new innovative solutions which play to the strength of our product offering and our deep technology leadership.

### Industrial

A key sector within industrial is the oil and gas market. Increasing demand for and depletion of existing resources drive exploration into ever more challenging territory such as deepwater presalt deposits. Deeper, hotter, higher pressure and chemically aggressive wells must be tapped to reach new reserves. Deep off-shore is the only sector of oil and gas exploration expected to demonstrate continued growth beyond 2015. Reliable, safe and high yield

operation is enabled using VICTREX PEEK based solutions in exploration and production tooling and piping technology.

### Transport

Transportation accounts for over 27% of all energy consumption globally. Environmental regulation on emissions is now in place across developed and developing countries alike and is set to escalate over time. These controls plus the need for energy exploration in extreme environments and the need to support renewable energy all drive the spiralling cost of energy consumption. Energy efficiency is a primary strategic imperative for the aerospace and automotive industries. In aerospace VICTREX PEEK enables lightweighting via metal replacement across numerous applications. Whilst huge progress has been made in automotive lightweighting, the trend will continue. However, major improvement in vehicle energy efficiency is only going to be possible through the development of powertrain and transmission technologies. VICTREX PEEK enables reliable solutions to the complex challenges of next generation technology.

### Electronics

Product properties such as temperature resistance, chemical resistance, dimensional stability and mechanical strength are well aligned with the trends and opportunities faced by this industry, both in consumer electronics which continues to be a fast changing and innovative market focused on miniaturisation and performance of devices and in semiconductor manufacturing, where demands placed on processing and handling equipment is constantly increasing. Customers and end users are increasingly working with Victrex on innovative solutions to create competitive advantage in this market space.

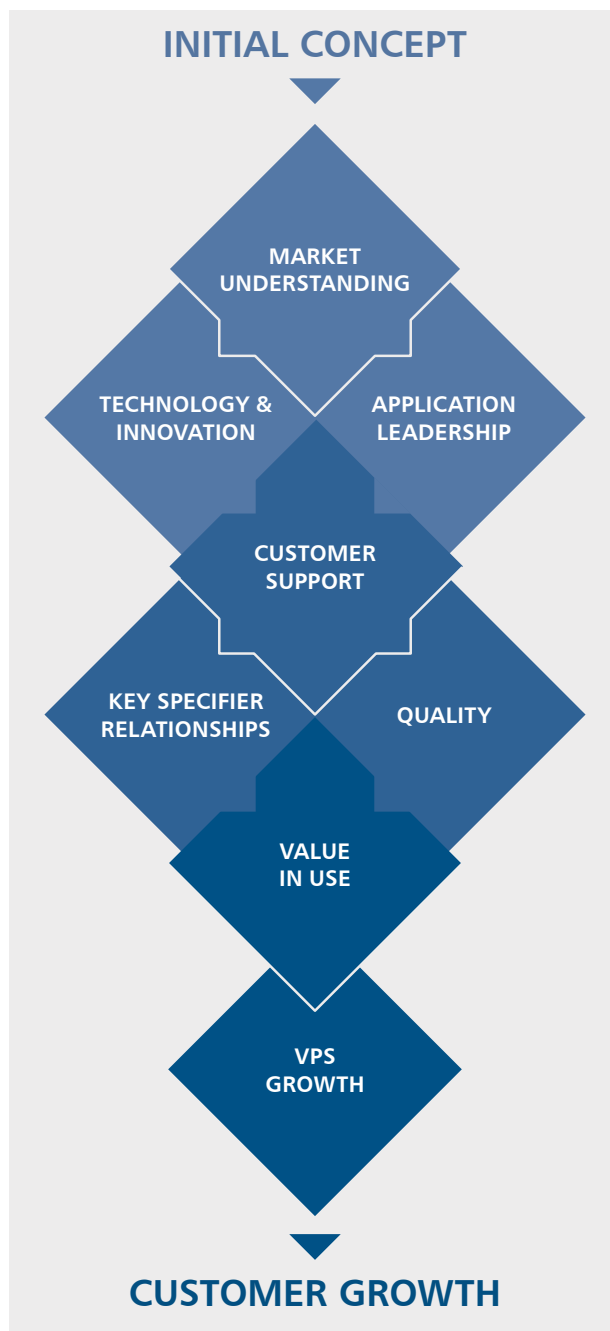
### Spotlight on – small space acoustics

Across the array of mobile electronic devices one challenge is common; the need for smaller, thinner, smarter devices. In response to this need Victrex have developed APTIV acoustic film enabling mobile device speaker manufacturers to meet this challenge. It is the only material, in a thin film format, capable of withstanding benchmark industry durability tests. APTIV acoustic film has been fitted in over 750 million mobile telephone handsets worldwide.



# Victrex Polymer Solutions: how we create value

VPS engage with audiences throughout the value chain; from our direct buying accounts through to major global OEMs. The benefits of our material solutions are often most apparent to the end user, so it is vital that we build and maintain strong relationships at this level to create the opportunity for a strong development pipeline. In this way we expand the use of our materials to deliver high performance value added applications that help our customers deliver on the challenges and opportunities they face.



## IDEA DEVELOPMENT

### MARKET UNDERSTANDING

#### Marketing Manager, Americas

"We see every customer interaction as an opportunity to create value by offering creative solutions to their most challenging engineering problems.

Our goal is to help customers leverage the highest performing materials to create the most efficient designs, enhance product performance, extend lifetimes and streamline manufacturing to meet the increasingly competitive demands of their industry."

### TECHNOLOGY & INNOVATION

#### Business Development Leader, Global

"The Business Development and Innovation team is uniquely positioned within Victrex to imagine, develop and bring to life entirely new customer solutions using the full range of Victrex products. In most cases the ideas originate from within the Victrex team based on unmet market and customer needs, emerging market assessments, or the discovery of new enabling technologies or product forms. Our customers benefit from these innovations in ways they didn't know were possible."

### APPLICATION LEADERSHIP

#### Technical Services Manager, Asia

"We find that many customers simply are not familiar with PEEK or simply do not have the level of application testing to develop new solutions. Our technical centres are designed to complement the needs of local customers and get them to commercialisation quickly."

## PRODUCT REALISATION

### CUSTOMER SUPPORT

#### Industrial Market Development Manager, Americas

"Our key accounts are immensely important to us. The oil and gas industry, in particular, is tasked with fast turn-around of bespoke design. Working closely together is key to meeting the needs of end use customers in this market."

### KEY SPECIFIER RELATIONSHIPS

#### Sales Manager, Japan

"The benefits of VICTREX PEEK are most often felt by the OEM or component manufacturer. Whilst there is a strong move to "off-shore" manufacture by Japanese OEMs, the design decisions are still made in Japan. Our strong relationships at this level mean we are well placed to support their overseas growth plans."

### QUALITY

#### Quality Manager, Global

"VICTREX PEEK is the by-word for quality. This has been achieved with a dedicated workforce always aiming to exceed our customers' expectations. It is key for our customers to have consistent material, which we achieve through raw material and process qualifications coupled with in-process and release testing. Our products are qualified throughout many industries and we have recently been described as a 'role model supplier' for qualification within the aerospace industry."

## VALUE CREATION

### VALUE IN USE

#### Senior Market Development Manager, Europe

"The transport industry is challenged with continuous reduction in emissions. Whether it is driven by the rising cost of fuel in the aerospace industry or government regulation for automotive emissions, VPS is committed to working with customers throughout the world to develop components and systems that help reduce dependence on fossil fuels, protecting the environment and delivering meaningful total cost in use benefits."

### VPS GROWTH

#### Sales and Marketing Manager, Asia

"Asia is an exciting region for us, full of potential across many industries and it is a growing part of Victrex's business. We believe that our customer is the most important person in our team. We can support and learn from each other if we make the best of those golden moments we have with each other. If we get it right we will grow by helping our customers to succeed."

“ Uncompromising safety, Speed of Innovation<sup>®</sup> and Absolute Responsiveness<sup>®</sup> is what matters to NuVasive<sup>®</sup> and our customers. We work with InVivo because they consistently deliver results in all of these areas.

Tyler Lipshultz, NuVasive Executive Vice President of Global Operations





## Our business

Invibio provide versatile PEEK based polymers to address the unmet needs of the long-term implantable medical device market. Our materials are extensively used across a number of applications including spinal fusion and motion preservation, arthroscopy, joint replacement, trauma, cardio-neuro and cranio-maxillo facial implants.

Invibio continues to be the market leader in providing PEEK based biomaterial solutions to medical device manufacturers around the world. We bring value added services to our customers with comprehensive solutions that include dependable, traceable product supply, technical and developmental support as well as regulatory support expertise.

We are driven by a continued Commitment to Quality, Focus and Innovation.

## Quality

Healthcare issues have made international news during 2012, increasing the focus on the quality of the materials and devices being used to treat patients. Our priority at Invibio will always be the delivery of safe, consistent, high quality biomaterials and components to our customers. We are proud of our track record of the past 13 years and are determined to maintain and improve our quality excellence. In a recent audit by one of the worlds top 10 medical device companies, Invibio was described as "The best supplier we've ever audited".

## Focus

Invibio excel at the interface of PEEK and medical devices. We have achieved this by investing in talent from the biomaterials world and expertise from the medical devices market. As a result, our focus on finding and solving medical device problems with PEEK based materials is unrivalled and we continue to find new opportunities for our customers to improve patient outcomes.

## Innovation

We think innovation in biomaterials needs to be focused on areas that are novel, valuable to surgeons and patients and have a high probability of adoption. For these reasons we collaborate closely with surgeons and device companies to understand their problems. Having identified the areas of clinical improvement, our talent in materials, regulatory and manufacturing ensure that our solutions meet the needs of the medical device market.

## Key markets

### Spine

Growth in spinal implant procedures in developed geographies is forecast to be incremental in upcoming years so spinal device companies must innovate to remain competitive and grow. Spinal fusion continues to be the most popular procedure for treating spinal pathologies so development programmes are focusing on new devices and techniques to improve clinical outcomes and maintain value.

This has been evident in the last year with the trend towards minimally disruptive procedures continuing and a growing trend towards improving the interface of PEEK with bone through coated PEEK cages.

In emerging geographies, there is a rapid growth in spinal fusion procedures. Due to our regulatory knowledge and relationships there is an increased pace of regulatory approvals of PEEK-OPTIMA based spinal devices in these geographies.

## Developing markets

Highly publicised international recalls of metal on metal hip implants, growing safety concerns and heightened regulatory scrutiny present both challenges and opportunities for Invibio outside of the spinal market.

Invibio's growth in developing markets this year was principally from the areas of arthroscopy, cardiology and cranio-maxillo facial where PEEK-OPTIMA has established performance and regulatory acceptance. Beyond our existing application portfolio, we have a maturing pipeline of opportunities including Trauma (medium-term) and Knee (longer-term). In the short-term, we are focusing on specialist removable dentures where we believe our materials offer both cost and performance benefits over the incumbent solutions.

## Spotlight On – specialist removable dentures

Invibio is leading the way for technological advancements in removable denture manufacturing by addressing specific needs of the dental market. Globally, 20 million removable dentures are produced each year in a £5 billion market. For patients, a wide variety of treatment options and product choices are available, at a range of prices. The more costly high strength dentures are made from cast metal.

Dental professionals are challenged with the traditional metal materials that require labour intensive processes and result in in-exacting designs causing stability and retention issues for the patient. PEEK provides a versatile material that offers:

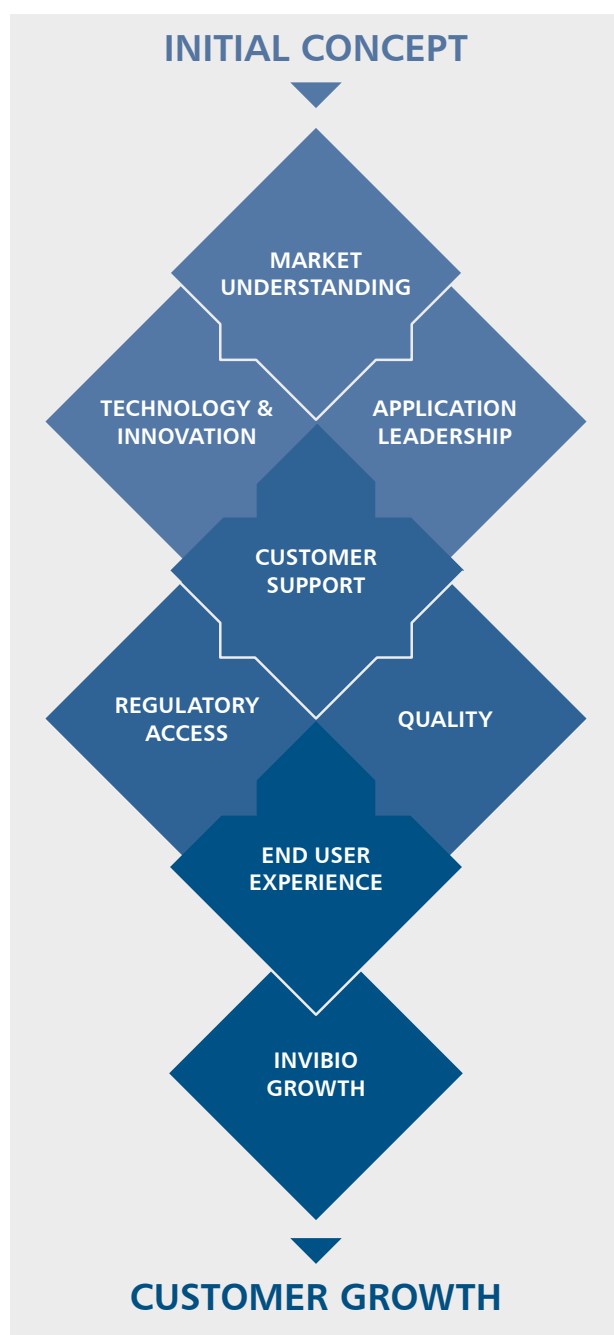
- ▶ the ability for dental professionals to use CAD/CAM technology for precision designing of a high strength denture framework; and
- ▶ patients an effective metal-free solution that provides improved comfort and fit for the patient.

To increase pace to market, optimise distribution and progress market share Invibio have developed a certified dental disc under a dedicated brand, JUVORA™, that increases value to our customers and moves Invibio closer towards application manufacturing development.



# Invibio Biomaterial Solutions: how we create value

Invibio deliver safe, consistent and reliable high quality materials and components which are aligned to our customers' fundamental needs. Our investment in facilities and specialist resources from the medical device industry enable us to improve collaborations with our customers and better understand surgeons' needs. In recent years we have focused on growing our regulatory understanding in emerging geographies to enable our customers' to gain faster penetration in markets where growth opportunities are more attractive.



## IDEA DEVELOPMENT

### MARKET UNDERSTANDING

#### Spine Marketing Leader, Global

"With over 10 years in Spinal Device development with the worlds largest spine company I was intrigued by surgeons desire to provide a less rigid fusion and avoid some of the issues with existing metal rod treatments. Having established the perceived patient benefits and discussed these with surgeons and device companies we focused on PEEK spinal rods as a solution."

### TECHNOLOGY & INNOVATION

#### Product Development Project Scientist, Global

"The current pre-clinical test standards were established for metal rods. We investigated the impact on PEEK rods and established important variations in testing to more accurately evaluate these devices and have presented these at spine industry conferences in order that our customers accurately evaluate these devices. We also filed intellectual property around a material modification to reduce the risk of failure of these devices."

### APPLICATION LEADERSHIP

#### Spine Marketing Leader, Europe

"More than ever medical device customers need to demonstrate both the safety and benefits of new devices. Working with a professor who heads a leading spinal device research group and a pioneering spinal surgeon, we completed testing that demonstrated that PEEK meets performance requirements and could improve the clinical outcomes for patients in terms of preventing complications and the spread of degenerative disease."

## PRODUCT REALISATION

### CUSTOMER SUPPORT

#### Component Manufacturing Leader, Global

"Having led medical device manufacturing in a division of a global medical device market leader, I appreciate the role that manufacturing can play in market access. Injection moulding is a competency in Invibio and spinal rods are optimally manufactured in this way. We were able to rapidly prototype these devices for customer evaluations and then utilise this experience to produce components for commercial use allowing rapid market entry."

### REGULATORY ACCESS

#### Director of Regulatory Affairs, Global

"Regulatory requirements for new medical devices are increasing. We have established excellent relationships with regulatory authorities globally and by understanding the requirements we can proactively generate this data and improve the time to market access for our customers. For example, in spinal rods we can help customers satisfy authorities that any particles created by the rod system will be safe in patients."

### QUALITY

#### Quality Manager, Global

"Invibio have an exceptional quality record and this is due to the priority we place on the safety of our products. We test and qualify not only the rod components but the polymer and the raw materials given our unique integrated supply chain. We were recently audited by one of the world's largest device companies and described as 'the best supplier we've ever audited'. We aim to continually improve our quality performance."

## VALUE CREATION

### END USER EXPERIENCE

#### Business Development Manager, Asia-Pacific

"As a former surgeon I understand the clinical need for these materials and can communicate them to our customers in Asia and their surgeons. It is important to be able to take our learning around biomechanical testing of PEEK rods and help establish a strong understanding of how these devices should be considered and evaluated by regulatory bodies in Asia. Part of this education has involved a close collaboration with a research institution in the US to look at the longer-term outcomes of these devices in patients."

### INVIBIO GROWTH

#### Marketing Communications Leader, Global

"At Spineweek in Amsterdam Invibio held educational sessions for surgeons and device companies on spinal rods with keynote speakers from US and Europe. We are in the process of publishing our research findings and pre-clinical testing advice and promoting the economic efficiency and pace of our manufacturing operations and the clinical benefits our material provides. We believe this offering is unique and valued by our customers."

# Corporate responsibility and sustainability

## In brief

- ▶ 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.
- ▶ 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.
- ▶ The Board recognises that our continued business success is a reflection of the quality and skill of our talented and diverse workforce.
- ▶ 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 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.
- ▶ During the year there have been no prosecutions, fines or enforcement action as a result of non-compliance with safety, health or environmental legislation.
- ▶ We recognise that sustainability is integral to our business today and in the future. In 2012 we completed a strategic review of sustainability for our business.
- ▶ 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.

The Board considers that the management of safety, health, environment ('SHE'), social and ethical matters forms a key element of effective corporate governance which in turn supports the strategy, long-term performance and sustainability of the business.

We recognise that sustainability is important to our stakeholders and that policy and communication should be continually reviewed. With this in mind, we have commenced a project during 2012 to refresh our corporate responsibility and sustainability strategy focusing on our supply chain, our manufacturing operations, our impact in existing markets, resourcing and social impact, research and development and the development of new markets. The intent is to challenge and refresh our key priorities and metrics, which will promote new activities as well as bring many existing programmes of work together, and improve communication with our employees, shareholders and other stakeholders. We look forward to communicating the outcome of this project in our 2013 Annual Report.

The Board has ultimate responsibility for policy and performance in this area and receives a SHE report on a monthly basis. The Chief Executive has Board level accountability for overseeing these areas, which are managed in conjunction with all other business risks and are covered by the internal control systems and procedures outlined on pages 37 and 38. Senior executives are responsible for ensuring that the SHE policy is implemented in their departments and each department annually reviews their own SHE improvement plan. Employees are also governed by additional policies such as ethics and anti-bribery to ensure the culture of our business environment fosters the right behaviours.

To ensure the appropriate level of focus and resource in this area we have a dedicated department of SHE professionals who oversee all aspects of policy, procedure and communication in this area. The SHE team are an integral part of the business and regularly attend meetings with other business groups as well as all Risk Management meetings.

We work proactively with both the Environment Agency ('EA') and the Health and Safety Executive ('HSE') to ensure they understand our business and we can take advice as appropriate. We conduct regular SHE audits around the business which involve senior executives to reinforce the culture. In addition, because of the nature of our business, we are frequently subject to external third-party audits such as the EA and HSE as well as customers from some of our more demanding end markets. The recommendations of any external audits are considered and implemented as appropriate.

In addition to regulatory compliance over our operations, our products are produced to strict specifications and our key processes are compliant with ISO standards (ISO 9001 and ISO 13485) and governed by our quality management systems. These are regularly tested and audited by appropriately resourced quality control and quality assurance teams.

From time to time we seek external advice to ensure we are aware of, and can apply as appropriate, developments in best practice. This has been demonstrated most recently by the current project on our sustainability strategy as well as work we are doing with the Carbon Trust.

A review of the Group's policies relating to SHE, employees and business ethics is set out below.

### Safety, health and environment

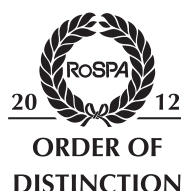
The Board believes that all employees should be able to work safely in a healthy workplace and that the Group's activities should not harm the public or the environment. Everyone in the Group is expected to place the highest priority on achieving these aims. Good SHE performance goes hand in hand with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

These policy objectives are achieved by:

- ▶ identifying SHE hazards;
- ▶ assessment of the risks associated with the 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 SHE performance through regular and effective communication and consultation.

Line management are held responsible for SHE performance in their areas and are held accountable for the SHE performance of those reporting to them. All employees have a responsibility to work safely at all times and to follow procedures designed to protect the environment and the safety and health of all employees.

The Group's excellent health and safety performance has continued with no employee reportable injuries. We did however have three project contractor reportable injuries (one contractor suffered bruised ribs, one sustained a knee injury and one back pain). These incidents have been treated with the same scrutiny as employee reportable injuries to ensure they are not repeated and our contractors procedures have been amended accordingly.



The Group received the Royal Society for the Prevention of Accidents ('RoSPA') Order of Distinction award in 2012 in recognition of sustained occupational health and safety achievement after winning fifteen consecutive RoSPA Gold Awards.

We seek to stay well ahead of relevant environmental standards. Our manufacturing plants are regulated by Environmental Permitting Regulations and, as such, are subject to close monitoring of environmental emissions. We work closely with the Environment Agency on any significant change projects to ensure Best Available Techniques are applied in the design stage.

During the year there were three notifiable events. At our Rotherham plant during routine prescribed air emissions monitoring the amount of fluoride and NOx measured exceeded agreed limits. In addition, at our Hillhouse plant there was a small fire that was rapidly extinguished. On all three occasions no environmental harm was caused.

As in previous years, there have been no prosecutions, fines or enforcement actions as a result of non-compliance with safety, health or environmental legislation.

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

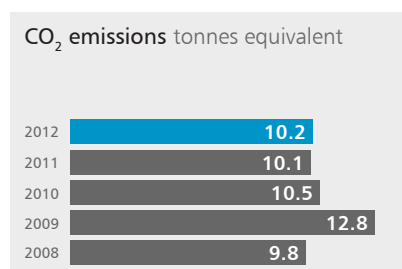
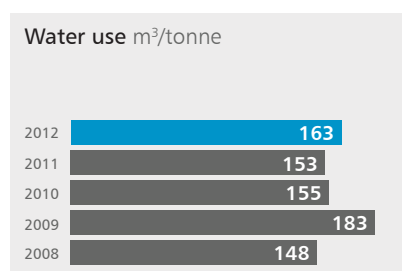
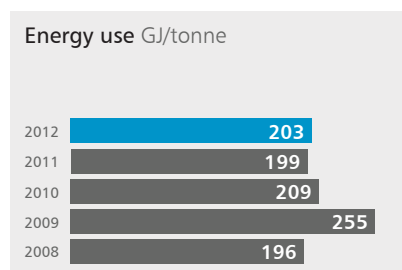
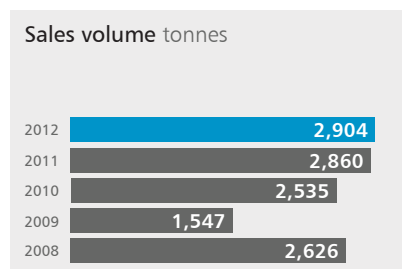
We are constantly striving to improve efficiency in all areas of our operations, including energy use (and therefore CO<sub>2</sub> emissions), water consumption and quantities of hazardous waste produced. This is achieved by implementing many procedures and projects, large and small, across the business.



# Corporate responsibility and sustainability

## continued

### Environmental impacts per tonne of VICTREX PEEK sold



### Safety, health and environment continued

Of the key metrics we monitor, we are pleased to report that hazardous waste disposal to landfill (post treatment) reduced further this year as a number of initiatives took effect. Whilst we continue to work towards improving the general efficiency of our processes, energy usage, CO<sub>2</sub> emissions and water usage per tonne of sales increased this year as a result of product mix, with growth in our downstream activities (turning our basic products into different forms, including film and pipe) as well as production of a number of special grade products which we manufacture on a campaign basis.

### Employees

The Board recognises that our continued business success is a reflection of the quality and skill of our talented and diverse workforce. The Chief Executive, supported by the Group Human Resources Director and the Managing Directors of each business unit, is responsible for overseeing employee matters. This year we put in place a Group wide People Strategy, which will ensure we have processes in place to attract and retain the best talent, provide opportunities for personal development, encourage diversity and recognise and reward excellence. We have continued to invest strongly in the development of our people through the establishment of formal and informal training programmes on a global basis. Assessment of individual training needs comprises a key element of the annual appraisal process which is undertaken by all employees. Training and development of our employees takes many forms including on the job training, specific skills training and professional development training. We continually review our systems and policies in this area to ensure we evolve as the business grows and to that end have recruited a Learning and Development Manager into the team during the year. We have succession plans in place for senior roles and continue to work in developing our future leaders so that we are able to promote internally as well as sourcing talent externally.

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. 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.

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 quarterly global staff presentations, email communication and the Group intranet to which all employees worldwide have access. In 2012 we conducted workshops globally with our employees to engage with them and get input on key factors affecting them. Attendance of the workshops was voluntary and 61% of employees attended. Feedback from the sessions is helping shape solutions in the appropriate work streams within the business.

The Company supports employee share ownership and, where practical, offers the opportunity to participate in share schemes. As at 30 September 2012, approximately 93% (2011: 85%) 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 14 to the financial statements.

Largely as a result of the above approach, Victrex has low voluntary employee turnover: 3.3% in 2012 (2011: 3.3%).

### Business ethics

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

### Our 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 environmental standards.

# Corporate responsibility and sustainability

## continued

### Business ethics continued

#### 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; and
- ▶ prohibit illegal activities on our sites.



*First year Engineering Apprentice, Joshua Bucknall, has been awarded the Gareth Jones Endeavour Award for his outstanding personal achievements and contributions. Joshua was also runner up in the Engineering Skills Award, for apprentices displaying the highest levels of practical skills.*

#### Anti-bribery

We are committed to ensuring adherence to the highest legal and ethical standards, in order to ensure full compliance with the latest governance legislation (The Bribery Act 2010), and have adopted a zero-tolerance policy towards bribery by any of our employees or third-party representatives who:

- ▶ must never provide or accept something of value to or from an individual, government official, company or organisation that is intended to, or could be perceived as intended to, influence a business decision;

- ▶ must only give or accept gifts, hospitality or entertainment which are reasonable and appropriate and have a specific business purpose with the intention of developing or strengthening a business relationship in accordance with the Group's Gifts, Hospitality and Entertainment guidelines;
- ▶ must not make political donations of any kind;
- ▶ must not make facilitation payments of any kind, except if under duress or faced with potential safety issues or harm, in which case any facilitation payment made should be reported and recorded as soon as practicable;
- ▶ must report any suspicions of bribery immediately, either via the relevant line manager or through the Group's whistleblowing process, as appropriate; and
- ▶ are assured that if a genuine concern is raised will not be at risk of losing their job or suffering any form of retribution as a result.

#### 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.

Victrex's commitment to environmental issues is reflected in the production of this Annual Report which has been printed on environmental paper stocks using vegetable oil based inks by a CarbonNeutral® printer certified by ISO 14001 environmental management system and registered to EMAS the Eco Management Audit Scheme.



*To celebrate a successful year, the Speciality Products team completed a sponsored walk in the UK's Peak District and raised in excess of £3,000 for The Christie charity, which supports the development of cancer prevention, treatment, research and education.*

## Social and community

The Group participates in a range of activities within the local communities where we operate including charitable giving, offering apprenticeships, awareness in schools, advancement of research work at universities and offering work experience to students of all ages at varying stages of their academic careers.

Victrex invests in recruiting and developing young people through our advanced apprenticeship programme. This scheme is based on national standards, is fully monitored and trains apprentices in process, mechanical or electrical technician skills. Currently there are nine apprentices participating in the apprenticeship scheme. To date, five apprentices have successfully completed the programme, all of which have joined the company as employees on a permanent basis.

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 £59,735 (2011: £6,312) during the year, of which £3,973 (2011: £1,820) were in the UK. We are currently in the process of developing our Corporate Responsibility Strategy and as part of this have become members of Business in the Community.

# Board of Directors



**ANITA FREW**

**Non-executive Chairman** BA MPhil

\* + # ^

Anita Frew was appointed to the Board in 2000 and became Chairman in 2008. She has over 15 years experience as a plc director and has been a non-executive director of industrial and financial companies for over 12 years. She was formerly a non-executive director of Northumbrian Water, Executive Director at Abbott Mead Vickers PLC, Director of Corporate Development at WPP Group plc, and held various investment and marketing roles at Scottish Provident and Royal Bank of Scotland in her early career.

In addition to Victrex, Anita currently serves on the board of 3 FTSE 100 companies. She is Senior Independent Director of Aberdeen Asset Management plc and a non-executive director of IMI plc and Lloyds Banking Group plc.



**DAVID HUMMEL**

**Chief Executive** BSc

\* + # ^

David Hummel assumed responsibility for VICTREX PEEK worldwide in 1992 and has more than 25 years of experience of the global high performance polymer industry. Formerly with Diamond Shamrock, GE Plastics and ICI, David was appointed to the Board in 1993 following his leading of the successful MBO of Victrex from ICI. He has served as CEO of Victrex since that time, overseeing strategic decision making and day to day management and leadership of the business.



**STEVE BARROW**

**Finance Director** BSc ACA

\* + # ^

Steve Barrow was appointed as Group Finance Director in October 2011, from his previous position as Finance Director for the VPS business unit. Steve joined Victrex from KPMG in 1995 to lead and develop the finance function for the Group. Steve has been a key member of the Group Senior Management team for many years, developing an in-depth knowledge of the business and playing an active role in strategy and organisational development. Steve is Chairman of the Currency Committee.



**TIM COOPER**

**Executive Director** BA Hons

\* + # ^

Tim Cooper was appointed to the Board in October 2012, and continues in the position of Managing Director of Victrex Polymer Solutions, a position Tim has held since joining Victrex in January 2010. Tim has over 30 years of international business management and commercial experience, having held senior leadership positions in a number of industries. Prior to joining the Victrex business, Tim was with Umeco Plc, initially as Managing Director of Aerovac Systems Ltd, but later becoming Group Managing Director of Umeco Composites Process Materials. He has been Managing Director of Tellermate Plc and of Avery Berkel Ltd, having developed his international career with GEC, BP and Land Rover.



**SUZANA KONCAREVIC**

**General Counsel and Company Secretary** BBus LLB MBA \* + # ^

Suzana Koncarevic was appointed to the position of General Counsel and Company Secretary in April 2012. Suzana has a corporate and commercial law background, having previously held the position of General Counsel and Company Secretary at Speedy Hire Plc. She has also held the position of Senior Legal Adviser at United Utilities Group PLC. Suzana's career also includes previous experience as a corporate lawyer at both Herbert Smith in London and DLA Phillips Fox in Sydney, Australia.





**GILES KERR**

**Non-executive Director** BA ACA

\* + # ^

Giles Kerr was appointed in 2006. Giles is Chairman of the Audit Committee and Senior Independent Director. Giles has a strong financial background and commercial experience within the pharmaceutical industry. He has formerly held the position of Finance Director at Amersham plc and was previously a partner at Arthur Andersen.

Giles is the Finance Director of Oxford University and non-executive Director of Elan Corporation plc and BTG plc.



**PATRICK DE SMEDT**

**Non-executive Director** BSc MSc

\* + # ^

Patrick De Smedt was appointed in 2008. His career includes over 20 years with Microsoft Corporation, culminating in his appointment to Chairman of Microsoft Europe, Middle East and Africa in 2003. Patrick has previously worked with early stage ventures as well as large, established multi-nationals. He has deep knowledge of international markets, technology and diverse industry sectors.

Patrick is Chairman of WorkPlace Systems Ltd, Senior Independent Director of Morgan Sindall plc, and non-executive Director of Easynet Global Services Ltd.



**LAWRENCE PENTZ**

**Non-executive Director** BS ChE MBA

\* + # ^

Lawrence Pentz was appointed in 2008. Lawrence has over 30 years' service within multi-national corporations in a variety of operational and general management positions. He has extensive experience in developing strategy for and successfully leading international growth businesses. Lawrence has been instrumental in the acquisition and integration of multiple catalyst and chemical companies for Johnson Matthey Plc, and was formerly executive director responsible for Emission Control Technologies of Johnson Matthey Plc.

Lawrence is an Executive director of Johnson Matthey Plc, responsible for their Environmental Technologies division.



**PAMELA KIRBY**

**Non-executive Director** BSc PhD

\* + # ^

Pamela Kirby was appointed in 2011. Pamela has detailed knowledge of the international pharmaceutical industry, and was formerly CEO of Quintiles Transnational Corp based in North Carolina USA. Pamela has also held a number of other senior positions in the international pharmaceutical industry including AstraZeneca PLC where she was a regional director and F.Hoffmann-La Roche Ltd. where she was director of strategic marketing and business development. She was previously non-executive Chairman of Oxford Immunotec Limited and non-executive director of Novo Nordiac A/S.

Pamela is Chairman of Scynexis Inc, and a non-executive director of Smith and Nephew plc, Informa plc and Simmons and Simmons LLP.

## KEY TO COMMITTEES

- \* Nominations Committee
- + Audit Committee
- # Remuneration Committee
- ^ Risk Management Committee

# Corporate governance

The Board takes its responsibility to achieve sound governance very seriously and regards the continuing setting, maintenance and review of high quality standards of corporate governance as an essential part of its work.

## Corporate governance in brief

- ▶ The Board confirms that the Company has complied with all aspects of the Code during 2012.
- ▶ The Board gains valuable insight into the activities of the business by visiting the operational sites. This year Board members visited the main operational site in Lancashire and several overseas offices.
- ▶ The current female representation on the Board is 25% and is therefore already aligned with the minimum target representation level to be achieved by 2015 as recommended by the Davies Review.
- ▶ The importance of diversity in general at Board level is recognised and the Board members comprise a number of different nationalities with a wide range of experience from a variety of business backgrounds.
- ▶ An internal evaluation of performance of the Board and its Committees was carried out during the year as required by the Code. The last external evaluation was performed in 2011.

▶ FOR MORE INFORMATION VISIT [www.victrex.com](http://www.victrex.com)

A review has been performed of the Company's compliance with The UK Corporate Governance Code (the 'Code') issued by the Financial Reporting Council in June 2010 which confirms that the Company has complied in all aspects with the Code throughout the year ended 30 September 2012.

This report, together with the Directors' Remuneration Report on pages 43 to 51, describes how the main principles of good governance have been applied.

In September 2012, the Financial Reporting Council issued revisions to the Code which are effective from 1 October 2012. In this regard Victrex confirms that it expects to be fully compliant with all aspects of this 2012 Code for the year ending 30 September 2013. The new provisions include that FTSE 350 companies should put the external audit contract out to tender at least every ten years. We shall first report against the 2012 Code in the 2013 Annual Report and shall outline then our proposed action in this regard. In the meantime, we propose to continue to contract with KPMG Audit Plc for our external audit provision as we believe that auditor objectivity and independence is satisfactory and they continue to provide a professional, timely and cost effective service.

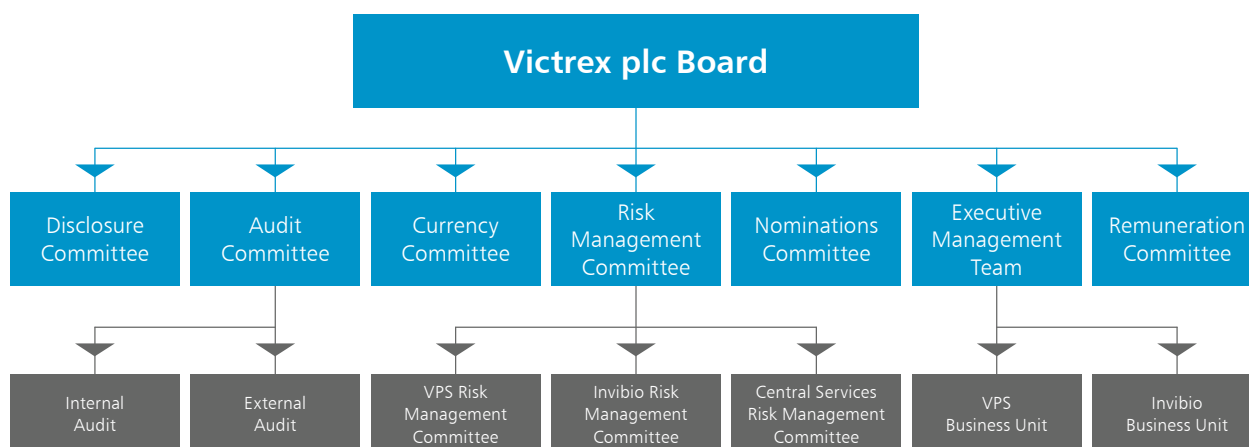
## Leadership

The Directors on the Board are collectively responsible for the long-term success of the Company. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. The executive Directors are responsible for the running of the business. The non-executive Directors are responsible for challenging constructively, exercising independent and objective judgement in respect of Board decisions, helping develop strategy proposals and for scrutinising and challenging the actions of Group and business unit senior management.

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.

During the year, pursuant to the Code, 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.

## Corporate governance framework



### Operation of the Board

The Board is responsible for the Group's strategic development, monitoring achievement of its business objectives, oversight of risk and maintaining a system of effective corporate governance, which includes the responsibility for health, safety, environmental, social and ethical matters. The Board discharges these responsibilities through a programme of meetings, which include regular reviews of financial performance, critical business issues and participation in development and setting of strategy and the progress towards meeting strategic objectives. A clearly defined corporate strategy, supported by business unit strategies, is approved and updated periodically by the Board. Key projects are considered in the context of the corporate strategy.

### Matters reserved for the Board and delegation of authority

The Board has a clearly documented schedule of matters reserved for its decision, including approval of the Group's strategy, the annual budget and, for above certain financial values, capital expenditure, contracts, customer credit limits, investments, disposals and entering into strategic alliances, joint ventures and partnerships. The Board delegates day to day and business management control to the executive Directors and business unit Managing Directors who, led by the Chief Executive, meet formally on a monthly basis together with other senior managers as appropriate.

The Board has delegated certain responsibilities to standing Committees as illustrated above and, as further described on pages 38 to 40, which report back to the Board on the basis of clearly defined terms of reference and through reports from Committee Chairmen with respect to each meeting. The terms of reference are reviewed regularly, with any revisions proposed by the respective Committees and then approved by the Board.

The delegation of certain responsibilities to standing Committees ensures that adequate time is devoted by Board members to the independent oversight of key areas under their responsibility.

The terms of reference of the Nominations, Audit, Remuneration and Risk Management 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.

### Board effectiveness

#### Composition and diversity of the Board

The Board comprises a non-executive Chairman, four other non-executive Directors and three executive Directors. The Code requirement that at least half the Board should be independent non-executive Directors has continued to be met. Changes in the composition of the Board during the year are noted in the Directors' Report.

The composition of the Board is intended to ensure that its membership represents a mix of backgrounds and experience that will enhance the quality of its deliberations and decisions. In looking for prospective Directors there is regard to the skills of the Board at that time and the need to address longer-term succession and business priorities. The annual formal evaluation of the Board, Board Committee and individual Director's performance takes Board diversity into account and is instrumental in identifying any new skill requirements, as well as possible shortcomings, gaps or inefficiencies. Further details of the 2012 performance evaluation are overleaf.

# Corporate governance

## continued

### Board effectiveness continued

#### The Davies Review on Women on Boards

Our current female representation on the Board is 25% and is therefore aligned with that minimum target representation level to be achieved by 2015 as recommended by the Davies Review.

We also recognise the importance of diversity in general at Board level and our Board members comprise a number of different nationalities with a wide range of experience from a variety of business backgrounds. Further information on our Group HR policies, including those on equal opportunities and diversity, is set out on pages 28 and 29.

#### Independence of the Board

The non-executive Directors (including the Chairman, Anita Frew, upon her appointment as Chairman on 1 October 2008), 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. Giles Kerr is the Senior Independent Director.

The Board confirms that it has considered and authorised any conflicts or potential conflicts of interest in accordance with the Company's existing procedures and has also implemented specific guidelines to address any potential conflicts that may arise in future. The Board has specifically considered the other appointments held by Directors, details of which are contained in their biographies on page 32 to 33, and has confirmed that each is able to devote sufficient time to fulfil the duties required of them under the terms of their contracts or letters of appointment.

#### Re-election of Directors

All Directors retire at each Annual General Meeting ('AGM') and may offer themselves for re-election by shareholders. Accordingly, all the Directors will retire at the AGM in February 2013 and the Notice of AGM on page 80 gives details of those Directors seeking re-election. Further information on both the appointment and replacement of Directors is given in the Directors' Report on page 41 to 42.

#### Performance evaluation

A formal evaluation of the Board, Board Committees and individual Directors' performance is carried out annually. As part of the annual Board evaluation process, Directors' training and development needs are considered by the Chairman. The 2012 Board evaluation comprised an internal evaluation process including questionnaires and individual meetings between the Chairman and each Director and appropriate follow up discussions. The Chairman's performance is reviewed by the Remuneration Committee 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.

The evaluation process concluded that the Board and its Committees remain effective in fulfilling their responsibilities appropriately and that each Director continues to demonstrate a valuable contribution. Actions agreed as a result of the Board evaluation included continued development of the Group's strategic planning and talent management processes.

The 2011 Board evaluation was the Board's and its Committees' (Nominations Committee, Audit Committee, Remuneration Committee and Risk Management Committee) first external evaluation of performance, as required by the Code every three years. The external evaluator, JCA Group, had no other connection with the Company. The external evaluation process included assessment of the performance of individual Board members. Once this formal evaluation had taken place, the Chairman held one to one meetings with all the Directors, including the Chief Executive. The Senior Independent Director held a separate meeting with the external evaluator regarding the performance of the Chairman.

#### Information, training and support

The Board receives sufficient management information and reports on all strategic and significant operational matters on a timely basis. Group and business unit senior executives also attend Board meetings as appropriate. Briefings by operational management also take place regularly to enhance the Board's understanding of the business. The Board gains valuable insight into the activities of the business by visiting the operational sites. This year Board members visited the main operational site in Lancashire and several overseas offices.

The Group's two business units are managed by separate boards, which each submit monthly executive commentaries of financial and non-financial results through a standardised reporting process to the Board. In addition, Head Office Group functions are consolidated with these business units and the resulting Group position is reported monthly in a Group executive commentary to the Board. The Group has a comprehensive process of annual budgeting and regular forecasting linked to the Group's business objectives.

Training (including social, environmental and ethical matters) is provided for new Directors as required, by means of a tailored induction, and subsequently as required. During and after induction, Directors are encouraged to, and do, visit business locations across the Group, meet with Group and business unit management and regularly refresh and update their skills and knowledge. Any specific training or development needs are addressed either individually or as part of the annual Director training session.

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 the Board operates in accordance with good corporate governance under the Code and relevant regulatory requirements.

Appropriate levels of insurance cover are obtained for all Directors and Officers of the Company. Further information on Directors' indemnities is given in the Directors' Report on page 42.

#### Time commitments

The Nominations Committee annually reviews the time required from each non-executive Director and has found the time allocated to the Company to be sufficient to discharge their responsibilities effectively.

#### Relations with shareholders

The Board as a whole has a responsibility for ensuring that a satisfactory dialogue with shareholders takes place, based on the mutual understanding of objectives.

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 them cost effective. The most recent site visit was part of an investor day at our Hillhouse site in October 2012. We also held an investor day in London in February 2012. The AGM provides the Board with an opportunity to meet informally and communicate directly with private investors. Voting at the AGM is conducted by way of a show of hands in order to encourage questions from and interaction with private investors. Proxy votes lodged on each AGM resolution are announced at the meeting and published on the Company's website.

To ensure that the Board, particularly the non-executive Directors, understands the views of major shareholders, the Company's broker provides 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. No such meetings were requested during the year.

#### Accountability

##### Financial and business reporting

The Board is responsible, in its reporting, for presenting a balanced and understandable assessment of the Group's financial position and prospects and has complied with this main principle of the Code.

The statement which gives the reasons why the Directors continue to adopt the going concern basis for preparing the financial statements is given in the Directors' Report on page 42.

#### Risk management and internal control procedures

The Board, supported by the Audit and Risk Management Committees, is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, for maintaining sound risk management and internal control procedures. In addition, the Board is responsible for establishing formal and transparent arrangements for considering how it should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditor.

The Board's responsibility for the Group's system of internal control covers all controls, including financial, operational, compliance and risk management, and includes reviewing the system's 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 of effective operation, compliance with laws and regulations and against material misstatement or loss.

The Directors have reviewed the internal audit procedures and, as discussed on page 39, have concluded that there exists an independent internal audit function as required by the Code. This independent internal audit function also supports the Board in their review of the effectiveness of the system of internal control, as well as the external auditor on matters identified in the course of its statutory audit work.

The Group maintains a clearly defined corporate framework for the ongoing evaluation, reporting and management of internal control and risk management issues, together with an established and robust control environment.

The management of the Group is delegated to the executive Directors. Authority is delegated to senior executives as appropriate and the organisational requirements of a rapidly developing business are regularly reviewed. The Group's financial controls enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records.

► MORE INFORMATION ON RISKS P16–17



# Corporate governance

## continued

### Accountability continued

#### Risk management and internal control procedures continued

The Audit Committee oversees whistleblowing arrangements, by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Board is committed to this established whistleblowing policy, which is available in a variety of languages globally and allows for proportionate and independent investigation of such matters and for appropriate follow up action.

The Audit Committee is also responsible for overseeing the Company's relationship with the external auditor and further information on how this is achieved, together with more information on the work of the Audit Committee, is given on page 39.

The Group has complied with the Code provisions on internal control by operating throughout the year ended 30 September 2012 (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.

During 2012, the Directors have continued to review the effectiveness of this system, supported by the Risk Management Committee which manages the clear and ongoing process for identifying, evaluating and managing significant risks and is described on page 40. The Risk Management Committee reports to the Board twice annually and a formal risk management review is undertaken by the Board annually. Further information about the ways in which the Group manages its risks is set out in the risks section of the Business Review on pages 16 and 17. These pages contain a list of the principal external market and business specific uncertainties faced by the business, a risk description and mitigating factors.



### Nominations Committee

Chairman – Anita Frew

The Nominations Committee, comprising all of the non-executive Directors, is responsible for regularly reviewing the structure, size and composition of the Board, including Board diversity, succession planning and identifying and recommending appropriate candidates for membership of the Board when vacancies arise. In considering an appointment, the 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. Internal candidates are considered where appropriate and this most recently applied for the appointment of Tim Cooper. External search consultants are also used to identify appropriate candidates.

The Nominations Committee is also responsible for annually reviewing the time required from each non-executive Director and any other significant commitments of the Chairman, of which there were none that had a negative impact on the Group.

Based on recommendations from the Nominations Committee, Directors submit themselves for re-election at the AGM following their appointment and annually thereafter.

## Attendance at meetings

Directors' attendance at the Board and committee meetings convened in the year was as follows:

■ Attended    □ Not attended

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings	■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■
<b>Chairman</b>				
Anita Frew	■ ■ ■ ■ ■ ■ ■ ■	N/A	N/A	■ ■
<b>Executive Directors</b>				
David Hummel	■ ■ ■ ■ ■ ■ ■ ■	N/A	N/A	N/A
Steve Barrow <sup>(1)</sup>	■ ■ ■ ■ ■ ■ ■ ■	N/A	N/A	N/A
<b>Non-executive Directors</b>				
Giles Kerr	■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■
Patrick De Smedt	■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■
Lawrence Pentz	■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■
Pamela Kirby	■ ■ ■ ■ ■ ■ ■ ■	N/A	■ ■ ■ ■	■ ■

(1) Steve Barrow was appointed to the Board with effect from 6 October 2011.

Whilst not formally required, Anita Frew, David Hummel and Steve Barrow attended a number of Audit Committee, Remuneration Committee and Nominations Committee meetings when appropriate.



**Remuneration Committee**  
Chairman – Patrick De Smedt

The Remuneration Committee, comprising all of the non-executive Directors (excluding the Chairman), 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, each executive Director, each business unit's Managing and Finance Directors, the Company Secretary and the Group Human Resources Director. The Chairman and executive Directors are responsible for the agreement of non-executive Directors' remuneration.

The Directors' Remuneration Report on pages 43 to 51 describes how the main principles of good governance have been applied to the remuneration of the executive and non-executive Directors.

#### **Disclosure Committee**

Chairman – Anita Frew, David Hummel or Steve Barrow

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 will take advice, including from the Company's broker, external auditor and legal advisers, on the form and content of any disclosure under consideration.

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. 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.



**Audit Committee**  
Chairman – Giles Kerr

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

It is also responsible for overseeing all matters associated with the appointment, terms, remuneration and performance of the external auditor and for reviewing the scope and results of the audit and its cost effectiveness. The Committee reviews annually the independence and objectivity of the external auditor taking into account the non-audit services provided by 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 guidelines, which are incorporated in its terms of reference. These can be viewed on the Company's website.

Only Audit Committee members are entitled to attend a meeting. However, the Chairman, the Finance Director, senior finance executives (including the internal audit function) and the External Audit Engagement Partner are normally invited to attend meetings. Others are also invited to attend as appropriate.

During the period the Audit Committee met on four occasions. A section of at least one meeting during the period takes place without management present.

The Audit Committee undertakes its activities in line with an annual programme of business. This includes the review of the Half-yearly Financial Report and the Annual Report, the annual appraisal of the external auditor (including reviewing of non-audit fees) and the effectiveness of the audit process.

The Audit Committee also considers the results of internal control reviews and reviews the effectiveness of the internal audit function. There is a rolling programme of internal control reviews carried out across the Group by the internal audit function with the head of internal audit, as appointed by the Committee, independently reporting to the Chairman of the Audit Committee in relation to internal control matters. The Audit Committee receives these reviews from this internal audit function, reviews its findings, annual audit plan, effectiveness and the resources available to it to perform its work. The Committee also reviews the Group's whistleblowing policy.

# Corporate governance

## continued



**Risk Management Committee**  
Chairman – Lawrence Pentz

The Risk Management Committee is chaired by Lawrence Pentz and comprises the executive Directors, the Company Secretary and senior operational and SHE executives. The Committee 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 reports to the Board twice annually. In addition, the Board annually undertakes a formal review of the effectiveness of the risk management process, internal controls systems and the performance of the Risk Management Committee.

The VPS and Invivio business unit Risk Management Committees, comprising the Directors of each business unit respectively, along with the Company Secretary and senior operational and SHE executives, meet quarterly. The Central Services Risk Management Committee comprises the executive Directors along with the Company Secretary and senior ICT, HR and finance executives. All these risk management committees report into the Group Risk Management Committee and are responsible for ensuring that all risks facing the business units and central services are reduced to an acceptable level.

The Committee has taken the opportunity this year to conduct a formal review of its systems and procedures and has implemented a number of improvements aligned with industry best practice.



**Currency Committee**  
Chairman – Steve Barrow

The Currency Committee is chaired by the Finance Director and comprises the Chief Executive 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; and
- ▶ a minimum of 75% and a maximum of 100% of projected transaction exposures arising in the following six month period.

Profitability can nevertheless vary due to the impact of fluctuating exchange rates on the uncovered portion of the transaction exposures and from revised forecasts of future trading, which can lead to an adjustment of currency cover in place.

The impact of this hedging policy is disclosed in notes 13 and 21 to the financial statements.

# Directors' report

The Directors present their Annual Report and Accounts to shareholders for the year ended 30 September 2012.

## Principal activity

The Company is a public limited company, incorporated in England, registration number 2793780. The principal activity of the Company is that of a holding company. The principal activity of the Group is the manufacture and sale of high performance polymers.

## 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 2012, 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 a 'Business Review').

The information that fulfils the requirements of this Business Review can be found on pages 10 to 31.

## Results and dividends

Group profit after tax for the year was £71.9m (2011: £71.2m).

The Directors recommend the payment of a final dividend of 28.4p per ordinary share on 22 February 2013 to all shareholders on the register on 8 February 2013. This makes a total dividend of 37.4p per ordinary share for the year (2011: 32.5p per ordinary share).

## Post balance sheet events

There have been no such balance sheet events which either require adjustment to the financial statements or are important in the understanding of the Company's current position.

## Related party transactions

The Company did not have any material transactions or transactions of an unusual nature with, and did not make loans to, related parties in the periods in which any Director is or was materially interested.

## Share capital

Details of the Company's share capital and reserve for own shares are given in note 17. During the year 447,597 shares were issued in respect of options exercised under employee share schemes. Details of these schemes are summarised in note 16.

## Rights and obligations attaching to shares

The holders of ordinary shares are entitled to receive dividends when declared, the Company's Annual 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 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 17 to the financial statements.

At the 2012 Annual General Meeting ('AGM'), shareholders renewed the Company's authority to make market purchases of up to 8,403,673 of its own ordinary shares (representing 10% of the issued share capital of the Company as at 2 December 2011). 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 2013 AGM of the Company is given on page 80.

## Directors

Details of the Directors of the Company are given on pages 32 to 33. Details of Directors' interests in shares are provided in the Directors' Remuneration Report on pages 43 to 51.

As previously announced, on 6 October 2011 Peter Bream resigned as Finance Director and Steve Barrow was appointed to the Board as the new Finance Director. In addition, Tim Cooper joined the Board as an executive Director of the Company with effect from 3 October 2012. Prior to their appointment, Steve had held the post of VPS Finance Director, whilst Tim retains his role as the VPS Managing Director.

At the forthcoming AGM resolutions will be proposed for the re-election of all members of the Board in compliance with the UK Corporate Governance Code.

## Appointment and replacement of Directors

The 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 either by the Directors, or at the previous AGM, must retire at the next 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

# Directors' report

## continued

### Appointment and replacement of Directors continued

a Director by virtue of any provision of the Companies Act 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.

### Major interests in shares

The Company has been notified of the following interests in 3% or more of its issued share capital as at 7 December 2012:

	Number of ordinary shares	Percentage held
BlackRock Inc	11,972,691	14.17%
Schroder Investment Management Ltd	4,424,382	5.24%
Mondrian Investment Partners Ltd	4,314,882	5.11%
Legal & General Investment Management Ltd	3,588,729	4.25%
Kames Capital	3,419,345	4.05%
Montanaro Investment Managers Ltd	2,875,000	3.40%
Ameriprise Financial Inc (Group)	2,795,193	3.31%
Baillie Gifford & Co Ltd	2,765,625	3.27%

Directors of the Company control 4% of the voting shares of the Company, details of which are given on page 49.

### Powers of the Directors

The powers of the Directors are determined by the Company's Articles of Association, the 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.

### Conflict of interest duties

Procedures are in place to ensure compliance with the Directors' conflict of interest duties set out in the Companies Act 2006. The Company has complied with these procedures during the year and the Board believes that these procedures operate effectively. During the year, details of any new conflicts or potential conflict matters were submitted to the Board for consideration and, where appropriate, these were approved. Authorised conflict or potential conflict matters will continue to be reviewed by the Board on an annual basis.

### 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 2012 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.

### Change of control

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.

### Employment policies

The Group's employment policies are set out on pages 28 and 29.

### UK Corporate Governance Code

A statement on corporate governance is set out on pages 34 to 40.

### Financial instruments

Details of financial risk management are given in note 13.

### Donations

Details of charitable donations made in the year are set out on page 31.

No political donations were made (2011: £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 31 days (2011: 30 days) of purchases. The Company did not have any significant external trade creditors.

### Management report

The Directors' Report and Business Review comprises the 'management report' for the purposes of the Financial Services Authority's Disclosure and Transparency Rules (DTR 4.1.8R).

### 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

**Suzana Koncarevic**  
Company Secretary  
10 December 2012



# Directors' remuneration report

## Letter from the Remuneration Committee Chairman



**Remuneration Committee**  
Chairman – Patrick De Smedt

Dear Shareholder

As Chairman of the Remuneration Committee, I am pleased to introduce our Directors' Remuneration Report for the year ended 30 September 2012.

Consistent with the draft proposals on Directors' pay which were published by the Department for Business, Innovation and Skills in June 2012, the report has been split into two sections: a Remuneration Policy Report, which sets out the policy on the remuneration of the executive and non-executive Directors, and an Implementation Report, which discloses how the remuneration policy has been implemented in the year ended 30 September 2012. We will be seeking your support for both parts of the report by way of a single advisory vote at the forthcoming AGM on 5 February 2013.

### Remuneration Policy for 2013

The Remuneration Committee continually reviews the senior executive remuneration policy to ensure it promotes the attraction, motivation and retention of the high quality executives who have been key to delivering the Company's strategy in the past and who will be key to delivering sustainable earnings growth and shareholder return in the future. The Committee's most recent conclusions are that the existing senior executive remuneration policy, after the minor amendments which were made to the policy last year, remains appropriate and should continue to operate for 2013. Specifically, the Committee felt that:

- ▶ basic salary positioning remains appropriate in the market. Increases for 2013 were therefore limited to 2.5%;
- ▶ the structure and quantum of the annual bonus, following the improvements which were made last year around deferral and clawback, work well. Reflecting the Committee's robust approach to target setting, the Chief Executive and Finance Director have earned bonuses of 21.6% and 16.2% of salary respectively for 2012; and
- ▶ the long-term incentive grant policy, whereby nil cost options are granted annually with vesting in equal tranches after three, four and five years from grant, based on earnings per share and relative total shareholder return performance conditions and continued service, provides a strong alignment between the senior executive team and shareholders. This alignment was further strengthened by the introduction of share ownership guidelines last year. With regards the three year Long Term Incentive Plan performance period ended 30 September 2012, 100% of the awards will vest following the earnings per share and total shareholder return targets being met in full and the Remuneration Committee concluding that there has been a sustained improvement in the underlying financial performance of the Group over that period.

In conclusion, the Committee believes that the remuneration policy continues to incentivise the delivery of strong yet sustainable financial results and the creation of shareholder value.

**Patrick De Smedt**  
Chairman of the Remuneration Committee  
10 December 2012

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# Directors' remuneration report

## continued

This report covers the remuneration of executive and non-executive Directors. Consistent with the proposals on Directors' pay being developed by the Department for Business, Innovation and Skills, the report is split into two sections: a Remuneration Policy Report and an Implementation Report.

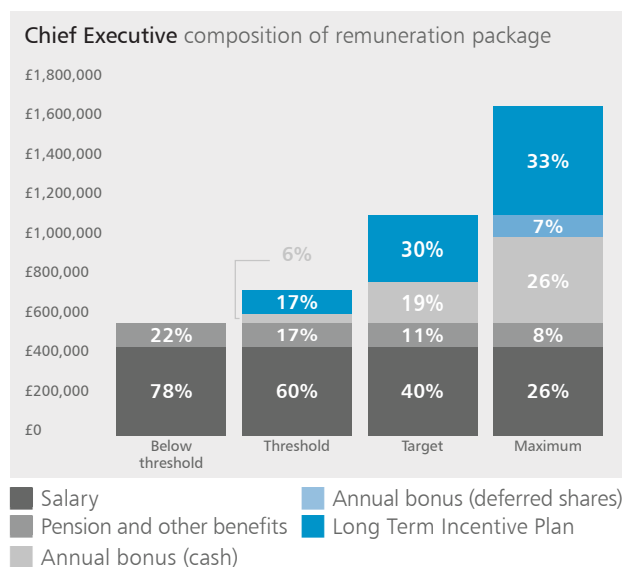
## Remuneration Policy Report

The Company's approach to the Chairman's and executive Directors' remuneration is determined by the Board on the advice of the Remuneration Committee. The Remuneration Committee consists entirely of non-executive Directors, as set out on page 39. The Remuneration Committee has access to independent advice where it considers it appropriate. The Committee seeks advice relating to executive remuneration from New Bridge Street ('NBS'), an Aon Hewitt company, whom the Committee appointed. NBS provides no other services to the Company, although another part of the Aon Corporation group provides insurance broking and consultancy services. The Committee is entirely comfortable that the provision of these services does not in any way prejudice NBS's position as independent advisers to the Committee.

The Company aims to provide a remuneration structure that is aligned with shareholder interests and, as such, is competitive in the marketplace to attract, retain and motivate executive Directors of superior calibre in order to deliver continued growth of the business. Company policy is that performance-related components should form a significant portion of the overall remuneration package, with maximum total potential rewards being earned through the achievement of challenging performance targets based on measures that represent the best interests of shareholders.

In formulating the remuneration policy, full consideration has been given to the principles set out in Section D of The UK Corporate Governance Code and the Committee regularly reviews the policy to ensure it takes due account of best practice and the particular circumstances of the Company.

The chart below illustrates how the composition of the Chief Executive's remuneration package varies at different levels of performance under the 2013 policy, both as a percentage of total remuneration opportunity and as a total value.



### Detailed policy

#### 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 adjustments take into account each executive Director's performance against agreed challenging objectives and the Group's financial circumstances, 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 NBS to provide comparative market data. Current basic salary levels are as follows:

	2013	2012	% increase
D R Hummel	\$707,250	\$690,000	2.5%
A S Barrow	£246,000	£240,000	2.5%
T J Cooper*	£260,000	—	n/a

\* Appointed to the Board on 4 October 2012.

The Group's employees, in general, are receiving pay rises ranging from 2.5%–5.5% depending on promotional increases and individual performance.

Executive Directors receive certain benefits in kind, principally a company car or car allowance and private medical insurance.

The table on the next page summarises the main components of our remuneration policy for executive Directors for 2013 and highlights changes made to the policy which was operated for 2012.

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance targets	Changes from 2012
<b>Salary</b>	<ul style="list-style-type: none"> <li>- To provide competitive fixed remuneration</li> <li>- To attract and retain executive Directors of superior calibre in order to deliver growth for the business</li> <li>- Intended to reflect that paid to senior management of comparable companies</li> </ul>	<ul style="list-style-type: none"> <li>- The basic salary for each executive Director is reviewed annually by the Remuneration Committee</li> <li>- Individual salary adjustments take into account each executive Director's performance against agreed challenging objectives and the Group's financial circumstances, as well as comparing each executive Director's basic salary to senior management in the Group and relative to the external market</li> </ul>	<p><b>2012</b> CEO D R Hummel \$690,000 FD A S Barrow £240,000</p> <p><b>2013</b> CEO D R Hummel \$707,250 FD A S Barrow £246,000 VPS MD T J Cooper £260,000</p>	- Not applicable	- Increase of 2.5% for CEO and FD, compared to Group employees receiving pay rises ranging from 2.5% to 5.5% depending on promotional increases and individual performance
<b>Bonus</b>	<ul style="list-style-type: none"> <li>- Incentivises annual achievement of performance targets</li> <li>- Maximum bonus only payable for achieving demanding targets</li> </ul>	<ul style="list-style-type: none"> <li>- Not pensionable</li> <li>- Paid in cash up to 100% of salary</li> <li>- Any bonus in excess of 100% of basic salary (currently applicable to the CEO only) deferred into shares</li> </ul>	<p><b>2012 (% of salary)</b> CEO D R Hummel 125% FD A S Barrow 100%</p> <p><b>2013 (% of salary)</b> CEO D R Hummel 125% FD A S Barrow 100% VPS MD T J Cooper 100%</p>	<ul style="list-style-type: none"> <li>- A combination of growth in Group profit before tax (80% of maximum) and specific individual objectives (20% of maximum)</li> <li>- The bonus for individual objectives is payable only if, in the opinion of the Remuneration Committee, there was an improvement in the underlying financial and operating performance of the Group during that financial year</li> </ul>	- No change
<b>Long Term Incentive Plan</b>	- Designed to align with both the strategic objectives of delivering sustainable earnings growth and the interests of shareholders	- Annual grant of nil cost options which normally vest in equal tranches after 3, 4 and 5 years from grant, subject to performance targets and continued service	<p><b>2012 (% of salary)</b> CEO D R Hummel 125% FD A S Barrow 100%</p> <p><b>2013 (% of salary)</b> CEO D R Hummel 125% FD A S Barrow 100% VPS MD T J Cooper 100%</p>	<ul style="list-style-type: none"> <li>- LTIP performance measured over 3 years</li> <li>- 50% TSR (of which 25% vesting for median increasing to 100% vesting for upper quartile of the FTSE 250 (excluding investment trusts))</li> <li>- 50% EPS (of which 20% vesting for EPS &gt; RPI+5% p.a. increasing to 100% vesting for EPS &gt; RPI+12% p.a.)</li> </ul>	- No change
<b>Share Ownership Guidelines</b>	- To increase alignment between executives and shareholders	- Executive Directors will be required to retain 50% of the net of tax vested LTIP shares until the guideline is met	- 100% of salary for executive Directors	- Not applicable	- No change
<b>Pension</b>	- Provide retirement benefits	<ul style="list-style-type: none"> <li>- CEO D R Hummel participates in a defined contribution scheme and a life assurance plan operated in respect of the Group's USA employees</li> <li>- FD A S Barrow participates in the defined benefit section and VPS MD T J Cooper participates in the defined contribution section of the Group's UK Pension Scheme</li> <li>- Where the promised levels of benefits cannot be provided through the appropriate scheme, the Group provides benefits through the provision of salary supplements</li> </ul>	<p><b>2012</b> CEO D R Hummel 25% of salary FD A S Barrow Defined benefit/salary supplement</p> <p><b>2013</b> CEO D R Hummel 25% of salary FD A S Barrow Defined benefit/salary supplement VPS MD T J Cooper Defined contribution/salary supplement</p>	- Not applicable	- No change

# Directors' remuneration report

## continued

### Annual cash bonus

The Chief Executive and Finance Director were eligible to receive a maximum bonus of 125% and 100% of basic salary respectively for the year ended 30 September 2012. This was determined by reference to performance targets based on the Group's financial results, being growth in Group profit before tax (up to 80% of maximum award) and specific individual objectives (up to 20% of maximum award) set at the beginning of the financial year. For 2012 the individual objectives included continued development and implementation of a 5 year strategic plan, investment of financial resources, corporate competitiveness and continued development of organisational structure and talent. The second component of the bonus is payable only if, in the opinion of the Remuneration Committee, there was an improvement in the underlying financial and operating performance of the Group during the year ended 30 September 2012.

With regards to performance in 2012, the Chief Executive earned a bonus of 21.6% of salary (1.6% growth in Group PBT and 20% specific individual and strategic objectives) and the Finance Director earned a bonus of 16.2% of salary (1.2% growth in Group PBT and 15% specific individual and strategic objectives), to be paid in cash in December 2012. Further details are set out in the Implementation Report below.

The bonus scheme is linked to the growth in Group profit before tax over the prior year. The actual growth in Group profit before tax from £94.2m in 2011 to £94.5m in 2012 resulted in bonuses of 1.6% and 1.2% for the Chief Executive and Finance Director respectively for this growth in profit element. To have achieved the maximum pay out for the growth in profit element of the bonus, the Group profit before tax would need to have grown to £113.0m.

For the annual bonus plan for the year ending 30 September 2013, the maximum bonus potential will remain at 125% of salary for the Chief Executive and 100% of basic salary for the Finance Director and the VPS MD and the split of targets will be consistent with those used in the year ended 30 September 2012. Deferral into shares for any part of the Chief Executive's bonus above 100% of salary and the clawback provision introduced last year will continue to apply.

### Long Term Incentive Plan

At the 2009 AGM, shareholder approval was obtained for the establishment of a new Victrex Long Term Incentive Plan (the '2009 LTIP') which replaced the original Long Term Incentive Plan which had expired. Under the 2009 LTIP executive Directors can be eligible to be awarded options to acquire, at no cost, ordinary shares in the Company up to a maximum equivalent value of 150% of basic salary each year. In exceptional circumstances such as recruitment or retention,

this limit is increased to 200% of basic salary. Awards made under the 2009 LTIP up to and including the year ended 30 September 2010 have been equivalent to 100% of basic salary. From and including the year ended 30 September 2011 this award level was increased for the Chief Executive only to 125% of basic salary so as to ensure long-term incentive provision remains market competitive. Awards normally vest in three equal tranches on the third, fourth and fifth anniversaries of grant to the extent that the applicable performance conditions measured over a single three year period from grant (see below) have been satisfied and provided the participant is still employed in the Company's Group. Participants will have a five year period from the date each tranche vests in which to exercise awards. Participants may receive a payment (in cash and/or shares) on or shortly following the vesting of their awards, of an amount equal to the dividends that would have been paid on those vested shares between the time when the awards were granted and the time when they vest.

The extent to which awards will vest 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'), as follows:

- ▶ 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 25% on a pro rata basis for median performance and is reduced to nil for below median performance; 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 20% on a pro rata basis if EPS growth exceeds inflation by an average of 5% per annum over the period and is reduced to nil if EPS growth fails to exceed inflation by 5% per annum.

The Remuneration Committee considers that this combination of performance conditions is the most appropriate way of rewarding executive Directors because it takes into account both the long-term returns to shareholders and the Group's financial growth. The TSR performance condition is monitored on the Committee's behalf by NBS whilst the Group's EPS growth is derived from the audited financial statements. It is intended that the same performance conditions will be applied to awards granted under the 2009 LTIP in the year ending 30 September 2013. Given (i) the clawback feature that has been adopted in the annual bonus and (ii) the tranching of LTIP awards in years 3–5 following grant, the Committee does not consider it necessary to apply a clawback facility to the LTIP (but will keep this matter under review).

## Share Ownership Guidelines

In addition, to further align the interests of executive Directors and shareholders, Share Ownership Guidelines require executive Directors to build up and maintain a shareholding equal to no less than 100% of their salary. Executive Directors will be required to retain 50% of the net of tax vested LTIP shares until the guideline is met. The Chairman and the non-executive Directors are also expected to hold shares in the Company in order to align their interests with those of shareholders.

## Other Share Plans

Executive Directors do not participate in the Victrex 2005 Executive Share Option Plan (which is the primary share incentive arrangement for below Board level executives). The Finance Director and VPS MD, being UK resident, 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. The Chief Executive, resident of the USA, can participate in the Victrex 2005 Employee Stock Purchase Plan on the same basis as other USA employees.

## Pension arrangements

A S Barrow and T J Cooper participate in the defined benefit and defined contribution sections of the Group's UK pension scheme respectively. 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.

D R Hummel participates in a defined contribution scheme and a life assurance plan operated in respect of the Group's USA employees. The Group's contribution to his pension scheme and associated salary supplement remain at 25% of salary.

Where the promised levels of benefits cannot be provided through the appropriate scheme, the Group provides benefits through the provision of salary supplements.

## Service contracts

The service agreements of the executive Directors are not fixed term and 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 Remuneration Committee reviews the contractual terms for new executive Directors to ensure these reflect best practice.

	Director		
	D R Hummel	A S Barrow	T J Cooper
<b>Date of contract</b>	6 December 1995	6 October 2011	4 October 2012
<b>Notice period</b>	12 months	12 months	12 months
<b>Termination provisions</b>	Common law and contractual principles apply		
<b>Change of control</b>	None of the Directors' service contracts contain additional provisions with respect to a change of control		

The executive Directors may accept outside appointments, with prior Board approval, provided these opportunities do not negatively impact on the individual's ability to perform his duties at the Company. Whether any related fees are retained by the individual or are remitted to the Company will be considered on a case by case basis.

## Non-executive Directors

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, including where applicable the chairmanship of Board committees. Non-executive Directors receive a fee, as disclosed in the Implementation Report below, determined by reference to external benchmarks based on their time and work on the Board and the Board committees, including a supplement for chairing a committee. They do not participate in any bonus or share incentive plan.

Current fees are as follows:

	2013	2012	% increase
Chairman	<b>£153,750</b>	£150,000	2.5%
Base fee	<b>£44,075</b>	£43,000	2.5%
Additional fees:			
Senior Independent Director	<b>£4,000</b>	£4,000	No change
Committee chair fees	<b>£6,000</b>	£6,000	No change

Non-executive Directors are appointed under arrangements that may generally be terminated at will by either party without compensation and their appointment is reviewed annually.

Name	Date of contract
A M Frew	1 October 2008
G F B Kerr	1 August 2006
P J M De Smedt	28 July 2008
L C Pentz	28 July 2008
P J Kirby	9 February 2011



# Directors' remuneration report

## continued

### Implementation Report

The auditor is required to report on the information contained from here to page 51 inclusive.

Directors' remuneration for the year ended 30 September 2012 was as follows:

	Basic salary <sup>(1)</sup> £	Pension/other supplements <sup>(2)</sup> £	Bonus £	Benefits in kind £	Total 2012	Total 2011
<b>Executive Directors</b>						
D R Hummel	445,538	95,572	92,296	5,316	638,722	825,168
A S Barrow (appointed 6 October 2011)	236,985	26,436	38,347	8,388	310,156	—
P E Bream (resigned 6 October 2011) <sup>(3)</sup>	3,934	1,200	—	26	5,160	477,880
<b>Chairman</b>						
A M Frew (appointed Chairman 1 October 2008)	150,000	—	—	—	150,000	135,000
<b>Non-executive Directors</b>						
G F B Kerr	53,000	—	—	—	53,000	51,000
P J M De Smedt	49,000	—	—	—	49,000	47,000
P J Kirby	43,000	—	—	—	43,000	26,762
L C Pentz	49,000	—	—	—	49,000	47,000
<b>Total remuneration</b>	<b>1,030,457</b>	<b>123,208</b>	<b>130,643</b>	<b>13,730</b>	<b>1,298,038</b>	<b>1,609,810</b>

The total payments (including pension contributions) made to the highest paid Director, D R Hummel, were £657,300 (2011: £846,030).

(1) The basic salary of D R Hummel is paid in US Dollars. The equivalent US Dollar amount is \$690,000 (2011: \$670,000).

(2) In accordance with the policy outlined on page 47, D R Hummel received a salary supplement of £88,246 with regards to the shortfall in the promised level of pension benefit which cannot be provided through the appropriate approved scheme and £7,326 with regards to the shortfall in the promised levels of life and disability insurance. A S Barrow received a salary supplement of £26,436 with regards to the shortfall in the promised level of pension benefit, which could not be provided through the appropriate approved scheme. In accordance with the policy outlined on page 47, P E Bream received contributions of £984 (equal to 25% of basic salary) for his own pension arrangements and a salary supplement of £216 in lieu of a company car.

(3) P E Bream received contractual payments in lieu of notice totalling approximately £325,000, which broadly comprised one year's salary and pension contributions at 25% of basic salary. With respect to his outstanding 2009 LTIP award, in accordance with the rules, the contingent interest in LTIP shares has been reduced by 50% and vesting will be assessed on the basis of the LTIP performance conditions.

Following the spirit of proposals published by the Department for Business, Innovation and Skills, the following table gives a single total figure for the Chief Executive and Finance Director for 2012. The principal additional component included in this single figure is the Long Term Incentive Plan.

	Fixed pay				Pay for performance			Total remuneration
	Basic salary £	Pension/other supplements £	Benefits in kind £	Subtotal £	Bonus £	LTIP £	Subtotal £	2012 £
D R Hummel	445,538	114,150	5,316	565,004	92,296	651,194	743,490	1,308,494
A S Barrow (appointed 6 October 2011)	236,985	76,696	8,388	322,069	38,347	180,508	218,855	540,924

1. D R Hummel's base salary is paid in US Dollars (US equivalent is \$690,000).

2. D R Hummel's pension value relates to 25% of his salary. A S Barrow's pension value relates to the value of his defined benefit pension arrangement (based on the HMRC valuation method) and additional salary supplements.

3. Annual bonus figures reflect the actual bonus award for the year ended 30 September 2012.

4. The LTIP values are based on maximum vesting of the 2009 LTIP award (the 3 year performance period ended 30 September 2012), based on a share price of £13.09 (being the average share price in the final quarter of the financial year under review).

## Bonus

Details of the actual bonus payments earned by executive Directors for the year ended 30 September 2012 are as follows:

	Growth in Group profit before tax			Specific individual and strategic objectives		Total	
	Maximum (% of salary)	Actual Group PBT	Actual (% of salary)	Maximum (% of salary)	Actual (% of salary)	Maximum (% of salary)	Actual (% of salary)
Chief Executive	100%	£94.5m	1.6%	25%	20%	125%	21.6%
Finance Director	80%	£94.5m	1.2%	20%	15%	100%	16.2%

The majority of the individual and strategic objectives, further details of which are set out in the Policy Report above, were deemed to have been met by the Remuneration Committee.

## Pensions

The cost of pension contributions payable and accrued under defined contribution arrangements for D R Hummel amounted to £18,578 (2011: £20,862).

The pension provision of A S Barrow is summarised in the table below.

	Accrued benefit at 6/10/11	Change in accrued benefit due to inflation	Change in accrued benefit due to other factors	Accrued benefit 30/9/12	Transfer value at 6/10/11	Director's contributions	Increase in transfer value net of Director's contributions	Transfer value at 30/9/12
A S Barrow (appointed 6 October 2011)	£37,425	£1,871	£2,513	£41,809	£566,703	£6,398	£91,388	£664,489

The transfer value of the change in accrued benefit due to other factors less Director's contributions were £33,107.

## Directors' shares

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

	30/09/12 Beneficial	30/09/12 Non-beneficial	30/09/11 Beneficial	30/09/11 Non-beneficial
<b>Executive Directors</b>				
D R Hummel	3,405,465	223,782	3,440,465	160,010
A S Barrow (appointed 6 October 2011)	8,945	—	n/a	n/a
<b>Chairman</b>				
A M Frew (appointed Chairman 1 October 2008)	14,184	—	14,184	—
<b>Non-executive Directors</b>				
G F B Kerr	2,500	—	2,500	—
P J M De Smedt	2,000	—	2,000	—
L C Pentz	2,000	—	2,000	—
P J Kirby	—	—	—	—

The mid-market price of Victrex plc ordinary shares at 30 September 2012 was 1,322.0p (2011: 1,093.0p). The range in the financial year was 1,025.0p to 1,516.0p (2011: 1,093.0p to 1,590.0p).

A S Barrow has options at 30 September 2012 under the Victrex 2005 UK Sharesave Plan of 4,655 (2011: n/a) at an exercise price of 348p and exercisable in 2014. No Sharesave options lapsed during the period. In accordance with the rules of the scheme the exercise price equates to a discount of 20% on the market value of the ordinary shares on the date of grant. To reflect the relevant statutory provisions, no performance conditions apply to these options. UK resident employees and full-time Directors of the Company or any designated participating subsidiary are eligible to participate.

In addition, A S Barrow participates in the Group's All-Employee Share Ownership Scheme on the same basis as other UK employees. In this scheme, Partnership Shares are purchased monthly from gross salary. At the date of A S Barrow's appointment on 6 October 2011 he held 1,124 shares and at 30 September 2012 1,036 shares under this arrangement.

# Directors' remuneration report

## continued

### Long Term Incentive Plan

The original Long Term Incentive Plan ('LTIP') commenced on 26 January 1999 and expired in 2009. As described earlier, a new plan, the 2009 LTIP, was approved by shareholders at the 2009 AGM. The Directors' contingent interests in ordinary shares under these plans at 30 September 2012, as set out below, were as follows:

	30/09/11	Granted in year	Exercised in year	Lapsed in year	30/09/12
D R Hummel	222,540	48,301	(38,363)	—	232,478
A S Barrow (appointed 6 October 2011)	66,974	21,622	(15,121)	—	73,475
P E Bream (resigned 6 October 2011)	10,416	—	—	—	10,416
	299,930	69,923	(53,484)	—	316,369

The market value of the shares granted in the year was 1,100.0p per ordinary share on the date of the grant, which was 12 December 2011.

On 13 June 2012, under the 2009 LTIP, D R Hummel and A S Barrow exercised 30,939 and 15,121 shares respectively at an option price of nil p per ordinary share when the market price was 1,304.0p per ordinary share. In addition, on 13 June 2012, under the original LTIP, D R Hummel exercised 7,424 shares at an option price of nil p per ordinary 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 2012, 380,091 shares (2011: 367,403) were held in trust as further described in note 17.

Outstanding option awards granted annually under the LTIP:

Granted in year	2008	2009	2010	2011	2012	30/09/12
D R Hummel	35,731	61,879	49,741	36,826	48,301	232,478
A S Barrow (appointed 6 October 2011)	—	30,242	13,788	7,823	21,622	73,475
P E Bream (resigned 6 October 2011)	—	—	—	10,416	—	10,416
	35,731	92,121	63,529	55,065	69,923	316,369

LTIP performance period – three years ending	30/09/10	30/09/11	30/09/12 <sup>(4)</sup>	30/09/13 <sup>(4)</sup>	30/09/14 <sup>(4)</sup>
TSR element <sup>(1)</sup>	50.00%	50.00%	50.00%	n/a <sup>(3)</sup>	n/a <sup>(3)</sup>
EPS element <sup>(2)</sup>	41.23%	50.00%	50.00%	n/a <sup>(3)</sup>	n/a <sup>(3)</sup>
Total exercisable rate (% of grant)	91.23%	100.00%	100.00%	n/a <sup>(3)</sup>	n/a <sup>(3)</sup>

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

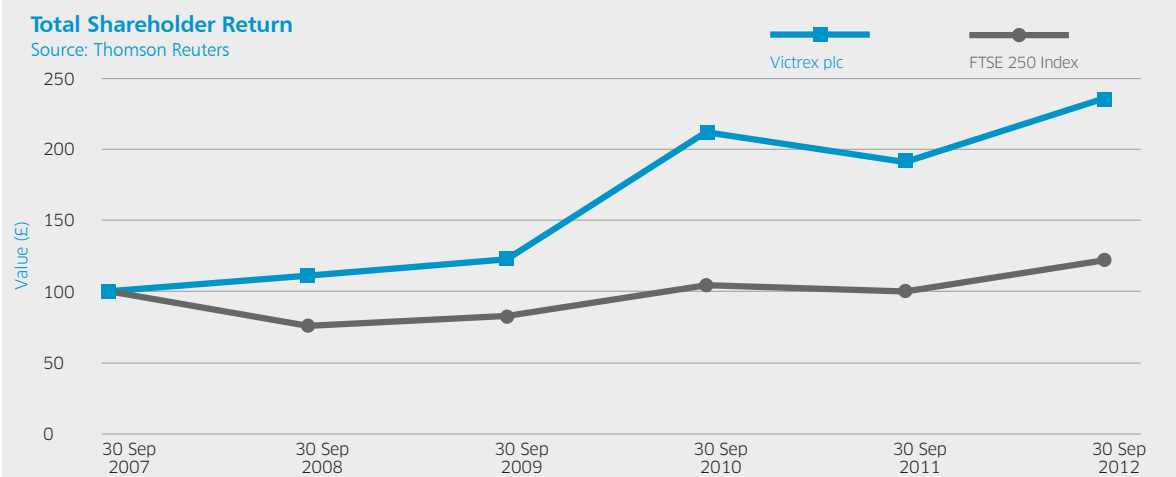
(2) Based on the average percent per annum by which the Group's earnings per share growth exceeded inflation.

(3) The three year performance periods in respect of the awards granted in 2011 and 2012 are not yet complete and hence the exercisable rate has yet to be determined.

(4) The performance conditions applicable to these LTIP awards are outlined on page 46.

Total Shareholder Return performance graph

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



This graph shows the value, by 30 September 2012, of £100 invested in Victrex plc on 30 September 2007 compared with the value of £100 invested in the FTSE 250 Index on the same date. The other points plotted are the values at intervening financial year ends.

# Responsibility statement of the Directors

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

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

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.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period.

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 adequate accounting records that are sufficient to show and explain the Parent Company's transactions and 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 2006. They have 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 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 pages 32 and 33.

By order of the Board

**Steve Barrow**  
Finance Director  
10 December 2012



# Independent auditor's report

We have audited the financial statements of Victrex plc for the year ended 30 September 2012 set out on pages 54 to 79. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Responsibility statement of the Directors set out on page 52, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APB's') Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion:

- ▶ the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2012 and of the Group's profit for the year then ended;
- ▶ the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- ▶ the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- ▶ the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- ▶ the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- ▶ information given in the Corporate Governance Statement set out on pages 34 to 40 of the Annual Report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- ▶ adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- ▶ the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- ▶ certain disclosures of Directors' remuneration specified by law are not made; or
- ▶ we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- ▶ the Directors' statement, set out on page 42, in relation to going concern;
- ▶ the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- ▶ certain elements of the report to shareholders by the Board on Directors' remuneration.

**David Bills (Senior Statutory Auditor)**  
for and on behalf of

**KPMG Audit Plc**  
Statutory Auditor, Chartered Accountants  
St James' Square, Manchester M2 6DS  
10 December 2012

# Consolidated income statement

## for the year ended 30 September

	Note	2012 £m	2011 £m
<b>Revenue</b>	2	<b>219.8</b>	215.8
Cost of sales	3	(74.1)	(69.4)
<b>Gross profit</b>		<b>145.7</b>	146.4
Sales, marketing and administrative expenses	3	(51.7)	(52.6)
<b>Operating profit</b>	2	<b>94.0</b>	93.8
Financial income		0.6	0.5
Financial expenses		(0.1)	(0.1)
<b>Profit before tax</b>		<b>94.5</b>	94.2
Income tax expense	5	(22.6)	(23.0)
<b>Profit for the year attributable to owners of the parent</b>		<b>71.9</b>	71.2
<b>Earnings per share</b>			
Basic	6	85.7p	85.3p
Diluted	6	85.1p	84.4p
<b>Dividend per ordinary share</b>			
Interim	17	9.0p	8.0p
Final	17	28.4p	24.5p
	17	37.4p	32.5p

A final dividend in respect of 2012 of 28.4p has been recommended by the Directors for approval at the Annual General Meeting in February 2013.

# Consolidated statement

## of comprehensive income

## for the year ended 30 September

	Note	2012 £m	2011 £m
<b>Profit for the year</b>		<b>71.9</b>	71.2
<b>Other comprehensive income</b>			
Currency translation differences for foreign operations		(1.0)	0.4
Effective portion of changes in fair value of cash flow hedges		7.0	(1.6)
Net change in fair value of cash flow hedges transferred to profit or loss		(2.1)	(0.7)
Defined benefit pension schemes actuarial gains	14	1.3	1.1
Tax on other comprehensive income/(expense)	5	(2.5)	0.3
<b>Total other comprehensive income/(expense) for the year</b>		<b>2.7</b>	(0.5)
<b>Total comprehensive income for the year attributable to owners of the parent</b>		<b>74.6</b>	70.7

# Balance sheets

## as at 30 September

		Group		Company	
	Note	2012 £m	2011 £m	2012 £m	2011 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	7	143.6	125.5	—	—
Intangible assets	8	10.1	10.1	—	—
Investments	9	—	—	48.2	13.7
Deferred tax assets	10	7.1	9.0	—	—
Other receivables	13	—	—	20.0	20.7
		160.8	144.6	68.2	34.4
<b>Current assets</b>					
Inventories	11	48.6	45.0	—	—
Current income tax assets		1.6	0.8	—	—
Trade and other receivables	12	26.8	24.2	33.8	54.4
Derivative financial instruments	13	4.0	0.9	—	—
Cash and cash equivalents		83.9	72.3	—	—
		164.9	143.2	33.8	54.4
<b>Total assets</b>		<b>325.7</b>	<b>287.8</b>	<b>102.0</b>	<b>88.8</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Deferred tax liabilities	10	(14.0)	(14.8)	—	—
Retirement benefit obligations	14	(4.0)	(6.2)	—	—
		(18.0)	(21.0)	—	—
<b>Current liabilities</b>					
Derivative financial instruments	13	(0.3)	(3.2)	—	—
Current income tax liabilities		(13.0)	(12.5)	(0.2)	—
Trade and other payables	15	(23.3)	(29.5)	(7.6)	(6.9)
		(36.6)	(45.2)	(7.8)	(6.9)
<b>Total liabilities</b>		<b>(54.6)</b>	<b>(66.2)</b>	<b>(7.8)</b>	<b>(6.9)</b>
<b>Net assets</b>		<b>271.1</b>	<b>221.6</b>	<b>94.2</b>	<b>81.9</b>
<b>Equity</b>					
Share capital		0.8	0.8	0.8	0.8
Share premium		29.1	27.1	29.1	27.1
Translation reserve		2.0	3.0	—	—
Hedging reserve		2.1	(1.6)	—	—
Retained earnings		237.1	192.3	64.3	54.0
<b>Total equity attributable to owners of the parent</b>	17	<b>271.1</b>	<b>221.6</b>	<b>94.2</b>	<b>81.9</b>

These financial statements of Victrex plc, registered number 2793780, were approved by the Board of Directors on 10 December 2012 and were signed on its behalf by:

**D R Hummel**  
Chief Executive

**A S Barrow**  
Finance Director

# Cash flow statements

## for the year ended 30 September

	Note	Group		Company	
		2012 £m	2011 £m	2012 £m	2011 £m
Profit after tax for the year		71.9	71.2	37.4	103.9
Income tax expense	5	22.6	23.0	0.3	—
Net financing income		(0.5)	(0.4)	(1.4)	0.1
Dividends received from subsidiaries		—	—	(37.0)	(83.1)
Operating profit/(loss)		94.0	93.8	(0.7)	20.9
Adjustments for:					
Depreciation	7	9.6	8.8	—	—
Increase in inventories		(4.3)	(9.7)	—	—
(Increase)/decrease in trade and other receivables		(2.6)	(5.5)	23.1	(42.8)
(Decrease)/increase in trade and other payables		(6.5)	4.5	0.8	1.0
Equity-settled share-based payment transactions	16	1.7	1.6	—	—
Changes in fair value of derivative financial instruments		(1.1)	(0.1)	—	—
Retirement benefit obligations charge less contributions		(0.9)	(2.2)	—	—
<b>Cash generated from operations</b>		<b>89.9</b>	<b>91.2</b>	<b>23.2</b>	<b>(20.9)</b>
Net financing income received		0.5	0.4	1.4	—
Tax paid		(24.4)	(25.7)	(0.2)	(0.2)
<b>Net cash flow from operating activities</b>		<b>66.0</b>	<b>65.9</b>	<b>24.4</b>	<b>(21.1)</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment	7	(27.0)	(9.0)	—	—
Dividends received		—	—	2.4	83.1
<b>Net cash flow from investing activities</b>		<b>(27.0)</b>	<b>(9.0)</b>	<b>2.4</b>	<b>83.1</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of ordinary shares exercised under option	17	2.0	2.8	2.0	2.8
Purchase of own shares held	17	(0.8)	(1.0)	(0.8)	(1.0)
Dividends paid	17	(28.0)	(63.8)	(28.0)	(63.8)
<b>Net cash flow from financing activities</b>		<b>(26.8)</b>	<b>(62.0)</b>	<b>(26.8)</b>	<b>(62.0)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>12.2</b>	<b>(5.1)</b>	<b>—</b>	<b>—</b>
Effect of exchange rate fluctuations on cash held		(0.6)	0.1	—	—
Cash and cash equivalents at beginning of year		72.3	77.3	—	—
<b>Cash and cash equivalents at end of year</b>		<b>83.9</b>	<b>72.3</b>	<b>—</b>	<b>—</b>

# Consolidated statement of changes in equity

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
<b>Equity at 1 October 2010</b>		0.8	24.3	2.6	0.1	183.5	211.3
<b>Total comprehensive income for the year</b>							
Profit		—	—	—	—	71.2	71.2
<b>Other comprehensive income</b>							
Currency translation differences for foreign operations		—	—	0.4	—	—	0.4
Effective portion of changes in fair value of cash flow hedges		—	—	—	(1.6)	—	(1.6)
Net change in fair value of cash flow hedges transferred to profit or loss		—	—	—	(0.7)	—	(0.7)
Defined benefit pension schemes actuarial gains	14	—	—	—	—	1.1	1.1
Tax on other comprehensive income/(expense)	5	—	—	—	0.6	(0.3)	0.3
<b>Total other comprehensive income/(expense) for the year</b>		—	—	0.4	(1.7)	0.8	(0.5)
<b>Total comprehensive income/(expense) for the year</b>		—	—	0.4	(1.7)	72.0	70.7
<b>Contributions by and distributions to owners of the Company</b>							
Share options exercised	17	—	2.8	—	—	—	2.8
Equity-settled share-based payment transactions	16	—	—	—	—	1.6	1.6
Purchase of own shares held		—	—	—	—	(1.0)	(1.0)
Dividends to shareholders	17	—	—	—	—	(63.8)	(63.8)
<b>Equity at 30 September 2011</b>		0.8	27.1	3.0	(1.6)	192.3	221.6
<b>Total comprehensive income for the year</b>							
Profit		—	—	—	—	71.9	71.9
<b>Other comprehensive income</b>							
Currency translation differences for foreign operations		—	—	(1.0)	—	—	(1.0)
Effective portion of changes in fair value of cash flow hedges		—	—	—	7.0	—	7.0
Net change in fair value of cash flow hedges transferred to profit or loss		—	—	—	(2.1)	—	(2.1)
Defined benefit pension schemes actuarial gains	14	—	—	—	—	1.3	1.3
Tax on other comprehensive income	5	—	—	—	(1.2)	(1.3)	(2.5)
<b>Total other comprehensive income/(expense) for the year</b>		—	—	(1.0)	3.7	—	2.7
<b>Total comprehensive income/(expense) for the year</b>		—	—	(1.0)	3.7	71.9	74.6
<b>Contributions by and distributions to owners of the Company</b>							
Share options exercised	17	—	2.0	—	—	—	2.0
Equity-settled share-based payment transactions	16	—	—	—	—	1.7	1.7
Purchase of own shares held		—	—	—	—	(0.8)	(0.8)
Dividends to shareholders	17	—	—	—	—	(28.0)	(28.0)
<b>Equity at 30 September 2012</b>		0.8	29.1	2.0	2.1	237.1	271.1

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# Company statement of changes in equity

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total £m
<b>Equity at 1 October 2010</b>		0.8	24.3	13.3	38.4
<b>Total comprehensive income for the year</b>					
Profit		—	—	103.9	103.9
<b>Contributions by and distributions to owners of the Company</b>					
Share options exercised	17	—	2.8	—	2.8
Equity-settled share-based payment transactions	16	—	—	1.6	1.6
Purchase of own shares held		—	—	(1.0)	(1.0)
Dividends to shareholders	17	—	—	(63.8)	(63.8)
<b>Equity at 30 September 2011</b>		0.8	27.1	54.0	81.9
<b>Total comprehensive income for the year</b>					
Profit		—	—	37.4	37.4
<b>Contributions by and distributions to owners of the Company</b>					
Share options exercised	17	—	2.0	—	2.0
Equity-settled share-based payment transactions	16	—	—	1.7	1.7
Purchase of own shares held		—	—	(0.8)	(0.8)
Dividends to shareholders	17	—	—	(28.0)	(28.0)
<b>Equity at 30 September 2012</b>		0.8	29.1	64.3	94.2

# Notes to the financial statements

## 1. Basis of preparation

### 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 2012 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 10 December 2012.

### 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 ('endorsed IFRS') and on the historical cost basis except that derivative financial instruments are measured at their fair value.

The Group's business activities, together with factors likely to affect its future development, performance and position, are set out in the Business Review on pages 10 to 31. In addition, note 13 on financial risk management details the Group's exposure to a variety of financial risks, including currency and credit risk.

The Group has significant positive cash balances and has a committed bank facility of £40m which expires in 2017. This facility was undrawn at 30 September 2012 and remained undrawn at 10 December 2012 when these consolidated financial statements were approved for issue by the Board of Directors.

Based on the above and a review of the Group's budgets and forecasts, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future and hence have continued to adopt the going concern basis of accounting in preparing the Annual Report and Accounts.

On publishing the Company financial statements here together with the consolidated financial statements, the Company is taking advantage of section 408 Companies Act 2006 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 endorsed 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 20.

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

The accounting policies have been consistently applied by Group entities.

A number of new standards and amendments to existing standards were effective for the financial year ended 30 September 2012. None of these have had a material impact.

A number of standards, amendments and interpretations have been issued and endorsed by the EU, but which are not yet effective and accordingly the Group has not yet adopted. The cumulative impact of the adoption of these standards is not expected to be significant.

# Notes to the financial statements

## continued

### 1. Basis of preparation continued

#### Basis of preparation continued

Effective for the Group's financial year ending 30 September 2013:

- ▶ amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets; and
- ▶ amendments to IAS 1 – Presentation of Items of Other Comprehensive Income.

Effective for the Group's financial year ending 30 September 2014:

- ▶ IFRS 10 – Consolidated Financial Statements;
- ▶ IFRS 11 – Joint Arrangements;
- ▶ IFRS 12 – Disclosure of Interests in Other Entities;
- ▶ IFRS 13 – Fair Value Measurement;
- ▶ IAS 27 – Separate Financial Statements;
- ▶ IAS 28 – Investments in Associates and Joint Ventures;
- ▶ amendments to IAS 19 – Employee Benefits; and
- ▶ improvements to IFRSs 2011:
  - IAS 1 – Presentation of Financial Statements;
  - IAS 16 – Property, Plant and Equipment;
  - IAS 32 – Financial Instruments: Presentations; and
  - IAS 34 – Interim Financial Reporting.

Effective for the Group's financial year ending 30 September 2016:

- ▶ IFRS 9 – Financial Instruments.

### 2. Segment reporting

The Group complies with IFRS 8 – Operating Segments which requires operating segments to be identified and reported upon that are consistent with the level at which results are regularly reviewed by the entity's chief operating decision maker. The chief operating decision maker for the Group is the Victrex plc Board. Information on the business units is the primary basis of information reported to the Victrex plc Board. The performance of the business units is assessed based on segmental operating profit.

The Group's business is strategically organised as two business units: Victrex Polymer Solutions, which focuses on our industrial, transport and electronics markets and Invibio Biomaterial Solutions, which focuses on providing specialist solutions for medical device manufacturers.

	Victrex Polymer Solutions 2012 £m	Invibio Biomaterial Solutions 2012 £m	Group 2012 £m	Victrex Polymer Solutions 2011 £m	Invibio Biomaterial Solutions 2011 £m	Group 2011 £m
Revenue from external sales	169.3	50.5	219.8	166.1	49.7	215.8
Segment operating profit	68.5	29.2	97.7	66.8	30.3	97.1
Unallocated central costs			(3.7)			(3.3)
Operating profit			94.0			93.8
Net financing income			0.5			0.4
Profit before tax			94.5			94.2
Income tax expense			(22.6)			(23.0)
Profit for the year attributable to owners of the parent			71.9			71.2
Other information						
Depreciation	9.2	0.4	9.6	8.5	0.3	8.8

## Entity wide disclosures

### Revenue recognition

Revenue comprises the amounts receivable for the sale of goods, 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.

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

Volume rebates are recognised as a deduction from gross sales as qualifying sales are made throughout the period. These 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.

### Information about products

The Group derives its revenue from the sale of high performance thermoplastic polymers.

### Information about geographical areas

The Group's country of domicile is the United Kingdom. Revenues are attributed to customers based on the customer's location.

	Revenue from external sales	
	2012 £m	2011 £m
United Kingdom	5.9	5.3
Europe, Middle East and Africa ('EMEA')	91.0	97.0
Americas	81.2	73.6
Asia-Pacific	41.7	39.9
	219.8	215.8

### Information about major customers

In the current year no one customer contributed more than 10% to Group revenue (2011: £24.3m).

## 3. Expenses by nature

	Note	2012 £m	2011 £m
Staff costs	4	41.0	42.6
Depreciation of property, plant and equipment	7	9.6	8.8
Operating lease rentals	7	1.7	1.2
Other costs of manufacture		52.2	49.5
Other sales, marketing and administrative expenses		21.3	19.9
		125.8	122.0

Auditor's remuneration is as follows:

	2012 £m	2011 £m
Audit services relating to:		
– Victrex plc Annual Report and Accounts	0.1	0.1
– The Company's subsidiaries, pursuant to legislation	0.1	0.1
Other services	—	—
	0.2	0.2

# Notes to the financial statements

## continued

### 4. Staff costs

	Note	2012 £m	2011 £m
Wages and salaries		32.0	33.5
Social security costs		3.4	3.9
Defined contribution pension schemes		2.3	1.9
Defined benefit pension schemes	14	1.6	1.7
Equity-settled share-based payment transactions	16	1.7	1.6
	3	41.0	42.6

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

	2012	2011
Operations	304	264
Technical	88	81
Commercial	137	139
Administration	78	68
	607	552

### 5. Income tax expense

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 other comprehensive income or equity as appropriate.

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.

	Note	2012 £m	2011 £m
<b>Current tax</b>			
UK corporation tax on profits for the year		20.8	22.8
Overseas tax on profits for the year		2.2	3.1
Tax adjustments relating to prior years		(0.2)	(2.4)
		22.8	23.5
<b>Deferred tax</b>			
Origination and reversal of temporary differences	10	0.2	(0.1)
Reduction in tax rate	10	(0.4)	(0.4)
<b>Total tax expense in income statement</b>		22.6	23.0



## Reconciliation of effective tax rate

	2012		2011	
	%	£m	%	£m
Profit before tax		94.5		94.2
Tax expense at UK corporation tax rate	25.0	23.6	27.0	25.4
Effects of:				
– Expenses not deductible for tax purposes		0.9		0.6
– Higher rates of tax on overseas earnings		0.8		1.0
– UK research and development tax credits and other allowances		(2.1)		(1.2)
– Tax adjustments relating to prior years		(0.2)		(2.4)
– Reduction in tax rate		(0.4)		(0.4)
<b>Effective tax rate</b>	<b>23.9</b>	<b>22.6</b>	<b>24.5</b>	<b>23.0</b>

On 21 March 2012 the Chancellor announced that the main rate of UK corporation tax rate would reduce from 26% to 24% with effect from 1 April 2012.

In July 2012, a further reduction in the UK tax rate from 24% to 23%, effective from 1 April 2013, was substantively enacted. In accordance with IAS 12 – Income Taxes, the deferred tax liabilities and assets have been calculated using a rate of 23%.

The Chancellor has also proposed changes to reduce the main rate of UK corporation tax by a further 2% to reach 21%, effective from 1 April 2014. This reduction has not yet been substantively enacted and therefore is not reflected in the above figures.

It has not yet been possible to quantify the full anticipated effect of the further rate reduction, although this will further reduce the Group's future tax charge and reduce the Group's deferred tax liabilities/assets accordingly.

## Tax recognised in other comprehensive income

	2012 £m	2011 £m
Cash flow hedges	(1.2)	0.6
Defined benefit pension schemes	(0.3)	(0.2)
Equity-settled transactions	(1.0)	(0.1)
	<b>(2.5)</b>	<b>0.3</b>

## 6. 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 17).

	2012	2011
<b>Earnings per share</b> – basic	<b>85.7p</b>	85.3p
– diluted	<b>85.1p</b>	84.4p
<b>Profit for the financial year</b>	<b>£71.9m</b>	£71.2m
Weighted average number of shares used:		
– Issued ordinary shares at beginning of year	84,033,879	83,604,504
– Effect of own shares held	(395,783)	(394,375)
– Effect of shares issued during the year	220,687	182,603
<b>Basic weighted average number of shares</b>	<b>83,858,783</b>	83,392,732
Effect of share options	635,424	936,563
<b>Diluted weighted average number of shares</b>	<b>84,494,207</b>	84,329,295

# Notes to the financial statements

## continued

### 7. 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.

#### 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.

	Land and buildings £m	Plant and machinery £m	Computers and motor vehicles £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
<b>Cost</b>						
At 1 October 2010	19.3	151.6	6.8	1.4	3.7	182.8
Additions	0.9	2.8	1.4	—	3.9	9.0
Disposals	—	—	(0.1)	—	—	(0.1)
Reclassification	2.6	3.2	—	0.2	(6.0)	—
At 30 September 2011	22.8	157.6	8.1	1.6	1.6	191.7
Exchange differences	(0.2)	—	—	(0.1)	—	(0.3)
Additions	—	2.4	1.6	0.1	23.9	28.0
Disposals	—	—	(3.4)	(0.1)	—	(3.5)
Reclassification	7.3	2.9	0.6	1.6	(12.4)	—
<b>At 30 September 2012</b>	<b>29.9</b>	<b>162.9</b>	<b>6.9</b>	<b>3.1</b>	<b>13.1</b>	<b>215.9</b>
<b>Depreciation</b>						
At 1 October 2010	2.9	47.5	6.1	1.0	—	57.5
Disposals	—	—	(0.1)	—	—	(0.1)
Depreciation charge	0.6	7.5	0.5	0.2	—	8.8
At 30 September 2011	3.5	55.0	6.5	1.2	—	66.2
Disposals	—	—	(3.4)	(0.1)	—	(3.5)
Depreciation charge	0.7	7.8	0.8	0.3	—	9.6
<b>At 30 September 2012</b>	<b>4.2</b>	<b>62.8</b>	<b>3.9</b>	<b>1.4</b>	<b>—</b>	<b>72.3</b>
<b>Carrying amounts</b>						
<b>At 30 September 2012</b>	<b>25.7</b>	<b>100.1</b>	<b>3.0</b>	<b>1.7</b>	<b>13.1</b>	<b>143.6</b>
At 30 September 2011	19.3	102.6	1.6	0.4	1.6	125.5
At 1 October 2010	16.4	104.1	0.7	0.4	3.7	125.3

The Company has no property, plant or equipment.

### Leased assets

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

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

Operating lease rentals of £1.7m (2011: £1.2m) relating to the lease of property, plant and equipment are included in the income statement (see note 3).

## 8. Intangible assets

	Goodwill £m	Knowhow £m	Total £m
<b>Cost</b>			
At 1 October 2010, 30 September 2011 and 30 September 2012	10.1	6.1	16.2
<b>Amortisation</b>			
At 1 October 2010, 30 September 2011 and 30 September 2012	—	6.1	6.1
<b>Carrying amounts</b>			
At 1 October 2010, 30 September 2011 and 30 September 2012	10.1	—	10.1

### 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 net amount recorded previously under UK GAAP. In prior years the amortisation element of the deemed cost at 30 September 2004 was shown separately, in the current year this has been deducted from gross cost. 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.

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 CGU to which goodwill has been allocated 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.

Goodwill comprises £10.1m in Victrex Polymer Solutions.

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 which use cash flow projections based on financial budgets approved by management. For the periods beyond the budget, cash flows are extrapolated using long-term growth rates. Other assumptions such as market share and changes to selling prices are based on past experience and management's expectations of future changes in the market.

The goodwill of £10.1m is measured against the discounted future cash flow projections of our Victrex Polymer Solutions business unit. The long-term average growth rate used was 2.5% (2011: 2.5%) and the risk adjusted pre-tax discount rate was 6.0% (2011: 7.3%). The impairment test results in more than 100% headroom and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

### Knowhow

The knowhow arose on the acquisition in December 1999 associated with the supply of our key raw material, BDF. It has been fully amortised on a straight line basis over the estimated useful economic life of 10 years. The charge has been recognised within cost of sales in the income statement.

### 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.

# Notes to the financial statements

## continued

### 9. Investments

#### Investments

In the Company's financial statements, 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.

##### 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.

#### Company

	Shares in Group undertakings £m
<b>Cost and carrying value</b>	
At 1 October 2010 and 30 September 2011	13.7
Addition	34.5
<b>At 30 September 2012</b>	<b>48.2</b>

On 12 December 2011, Invibio Limited distributed its shareholding in Victrex USA Holdings Inc. to Victrex plc by way of dividend in specie.

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 Europa GmbH	Germany	Sale of polymers	Ordinary	100%
Invibio Limited	Great Britain	Manufacture and sale of polymers	Ordinary	100%
Victrex Japan, Inc.	Japan	Sale of polymers	Ordinary	100%
Victrex USA, Inc.	USA	Sale of polymers	Ordinary	100%
Invibio USA, Inc.	USA	Sale of polymers	Ordinary	100%

### 10. Deferred tax assets and liabilities

	As at 30 September 2012					As at 30 September 2011				
	Property, plant and equipment £m	Employee benefits £m	Inventories £m	Other £m	Total £m	Property, plant and equipment £m	Employee benefits £m	Inventories £m	Other £m	Total £m
Deferred tax assets	—	2.3	3.9	0.9	7.1	—	3.6	4.7	0.7	9.0
Deferred tax liabilities	(14.0)	—	—	—	(14.0)	(14.8)	—	—	—	(14.8)
Net deferred tax (liabilities)/assets	(14.0)	2.3	3.9	0.9	(6.9)	(14.8)	3.6	4.7	0.7	(5.8)
				Note	Property, plant and equipment £m	Employee benefits £m	Inventories £m	Other £m	Total £m	
<b>Movement in net provision</b>										
At 1 October 2010					(15.7)	4.2	3.8	1.7	(6.0)	
Reduction in tax rate				5	1.2	(0.3)	(0.3)	(0.2)	0.4	
Recognised in income statement				5	(0.3)	—	1.2	(0.8)	0.1	
Recognised in other comprehensive income				5	—	(0.3)	—	—	(0.3)	
At 30 September 2011					(14.8)	3.6	4.7	0.7	(5.8)	
Reduction in tax rate				5	1.2	(0.3)	(0.4)	(0.1)	0.4	
Recognised in income statement				5	(0.4)	0.3	(0.4)	0.3	(0.2)	
Recognised in other comprehensive income				5	—	(1.3)	—	—	(1.3)	
<b>At 30 September 2012</b>					(14.0)	2.3	3.9	0.9	(6.9)	

## 11. 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.

As at 30 September	2012 £m	2011 £m
Raw materials and consumables	13.8	12.1
Work in progress	4.5	4.0
Finished goods	30.3	28.9
	<b>48.6</b>	<b>45.0</b>

The amount of inventory expensed in the period is equal to the value of cost of sales.

## 12. Trade and other receivables

As at 30 September	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Trade receivables	23.1	21.9	—	—
Amounts owed by subsidiary undertakings	—	—	33.8	54.4
Prepayments	2.5	1.2	—	—
Other	1.2	1.1	—	—
	<b>26.8</b>	<b>24.2</b>	<b>33.8</b>	<b>54.4</b>

## 13. Financial risk management

### Group

#### Currency risk

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 profit for 2012 is £4.5m, £3.5m and £0.9m respectively (2011: £3.8m, £3.6m and £0.8m). The impact of a 5% movement in the average Sterling/US Dollar, Sterling/Euro and Sterling/Yen rates on equity for 2012 is £1.8m, £0.4m and £0.5m (2011: £1.3m, £0.2m and £0.5m respectively).

#### 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 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

### 13. Financial risk management continued

#### Derivative financial instruments and hedging activities continued

##### Cash flow hedges

The Group hedges a proportion of forecast sales, and occasionally purchases, denominated in a foreign currency. The Board is responsible for setting the hedging policy which is detailed on page 40. 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 forecast transactions as cash flow hedges and states them at fair value.

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 transaction 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 the forecast transaction occurs. 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.

The notional contract amount, carrying amount and fair value of the Group's forward exchange contracts and swaps are as follows:

	As at 30 September 2012		As at 30 September 2011	
	Notional contract amount £m	Carrying amount and fair value £m	Notional contract amount £m	Carrying amount and fair value £m
Current assets	124.2	4.0	48.4	0.9
Current liabilities	21.3	(0.3)	91.9	(3.2)
	145.5	3.7	140.3	(2.3)

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. These are categorised as Level 2 within the fair value hierarchy under IFRS 7.

The following table indicates the periods in which cash flows associated with the maturity date of the forward foreign exchange contracts for which hedge accounting is applied are expected to occur:

	As at 30 September 2012				As at 30 September 2011			
	Expected cash flows £m	6 months or less £m	6 to 12 months £m	12 to 18 months £m	Expected cash flows £m	6 months or less £m	6 to 12 months £m	12 to 18 months £m
Forward exchange contracts:								
– Assets	124.2	75.7	48.5	—	48.4	23.3	23.8	1.3
– Liabilities	21.3	(2.3)	17.3	6.3	91.9	47.6	39.2	5.1
	145.5	73.4	65.8	6.3	140.3	70.9	63.0	6.4

Gains and losses deferred in the hedging reserve in equity on forward foreign exchange contracts at 30 September 2012 will be recognised in the income statement during the period in which the hedged forecast transaction affects the income statement. At 30 September 2012, there are a number of hedged foreign currency transactions which are expected to occur at various dates during the next 12 months. During the year, gains of £0.9m (2011: losses of £0.1m) relating to forward exchange contracts on the balance sheet at 30 September 2012 was released to the income statement.



### Credit risk

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:

As at 30 September	2012 £m	2011 £m
Amounts neither past due nor impaired	18.3	17.8
Amounts past due but not impaired:		
– Less than 30 days	3.1	2.1
– 30–60 days	0.5	0.5
– More than 60 days	1.2	1.5
Total past due but not impaired	4.8	4.1
Amounts impaired	0.7	0.3
Impairment allowances	(0.7)	(0.3)
Carrying amount of impaired receivables	—	—
<b>Trade receivables net of allowances</b>	<b>23.1</b>	<b>21.9</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:

	2012 £m	2011 £m
At beginning of year	0.3	0.4
Charge in the year	0.4	—
Utilisation of allowance	—	(0.1)
<b>At end of year</b>	<b>0.7</b>	<b>0.3</b>

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.

### Cash and cash equivalents

Cash and cash equivalents comprises cash balances, call deposits and other short-term deposits with original maturities typically 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.

As at 30 September 2012, the maximum exposure with a single bank for deposits was £43.1m (2011: £29.0m) for the Group. As at 30 September 2012, the largest mark to market exposure for gains on forward foreign exchange contracts to a single bank was £1.5m. At the prior financial year end, there was a net financial liability position with each bank. 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

### 13. Financial risk management continued

#### Cash and cash equivalents 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 2012 and expires in September 2017.

As at 30 September 2012 the Group had a cash and cash equivalents balance of £83.9m.

##### 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. The Group's policy for managing capital is to maintain a strong balance sheet with the objective of maintaining customer, supplier and investor confidence in the business and to ensure that the Group has sufficient resources to be able to invest in future development and growth of the business.

The Board does not expect to make significant share repurchases in 2013, although there is a resolution proposed at each Annual General Meeting ('AGM') to authorise the Company to make one or more market purchases of its ordinary shares up to a maximum number of shares equal to 10% of its issued ordinary share capital as at the date of the AGM notice.

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

As at 30 September	2012 £m	2011 £m
Total equity	271.1	221.6
Total assets	325.7	287.8
<b>Equity ratio</b>	<b>83%</b>	<b>77%</b>

#### Summary of categories of financial assets and liabilities

As at 30 September	Notes	Carrying amount and fair value 2012 £m	Carrying amount and fair value 2011 £m
<b>Financial assets</b>			
Derivative instruments in designated hedge accounting relationships		4.0	0.9
Receivables	12	24.3	23.0
Cash and cash equivalents		83.9	72.3
<b>Financial liabilities</b>			
Derivative instruments in designated hedge accounting relationships		(0.3)	(3.2)
Trade and other payables	15	(23.3)	(29.5)

The maturity profile and basis of the fair value calculation of the derivative instruments in designated hedge accounting relationships and trade receivables are given on pages 67 to 69.

For trade and other payables there are no amounts due after one year, the majority falling due in 30 days or less.

#### Company

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

As a result of US Dollar denominated intragroup loans with subsidiary undertakings, the Company is exposed to currency fluctuations. The Company does not actively manage the risk of exchange rate movements given that the counterparty to the loans is a subsidiary of the Company and therefore any gains or losses would be eliminated at Group level. The impact of a 5% movement in the average Sterling/US Dollar rate on these loans is £1.0m.

These intragroup loans are financial assets designated as loans and receivables. As at 30 September 2012 the Company has intragroup loans outstanding totalling £20.0m (2011: £20.7m). These loans are over terms of 7–8 years at interest rates of 7.15–7.40%.

## 14. Retirement benefit obligations

### Employee benefits

#### Defined contribution pension schemes

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

#### Defined benefit pension schemes

The Group's net obligation in respect of defined benefit pension schemes 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 not yet recognised. 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.

When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply. An economic benefit is available to the Group if it is realisable during the life of the plan or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the profit or loss on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised in profit or loss.

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

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

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

As at 30 September	2012	2011
Discount rate	4.70%	5.30%
Expected return on schemes' assets <sup>(1)</sup>	5.64%	6.12%
Future salary increases	4.50%	5.00%
Future pension increases	3.00%	3.45%
Mortality tables	S1NA CMI 2011 (1%)	S1NA CMI 2010 (1%)
Life expectancy from age 62 of current pensioners:		
– Male	24.8 yrs <sup>(2)</sup>	24.8 yrs <sup>(3)</sup>
– Female	27.4 yrs <sup>(2)</sup>	27.1 yrs <sup>(3)</sup>
Life expectancy from age 62 of active and deferred members:		
– Male	26.0 yrs <sup>(4)</sup>	26.0 yrs <sup>(5)</sup>
– Female	28.8 yrs <sup>(4)</sup>	28.5 yrs <sup>(5)</sup>

(1) The future expected return on assets of 5.64% (2011: 6.12%) per annum has been derived from assumed returns of 7.5% (2011: 7.5%) per annum from equity assets, 3.3% (2011: 3.8%) per annum from gilts, 4.7% (2011: 5.3%) per annum from bonds and 0.5% (2011: 0.5%) per annum from cash, applied to the proportion of each asset class held by the scheme as at 30 September.

(2) Life expectancy from age 62 for members aged 62 in 2012.

(3) Life expectancy from age 62 for members aged 62 in 2011.

(4) Life expectancy from age 62 for members aged 45 in 2012.

(5) Life expectancy from age 62 for members aged 45 in 2011.

# Notes to the financial statements

## continued

### 14. Retirement benefit obligations continued

Amounts recognised in the balance sheet

As at 30 September	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of funded obligations	(45.5)	(41.0)	(40.5)	(34.8)	(24.0)
Fair value of schemes' assets	41.5	34.8	31.0	24.0	17.6
Net liability before deferred taxation	(4.0)	(6.2)	(9.5)	(10.8)	(6.4)
Related deferred taxation asset	0.9	1.6	2.6	3.0	1.8
<b>Net liability after deferred taxation</b>	<b>(3.1)</b>	<b>(4.6)</b>	<b>(6.9)</b>	<b>(7.8)</b>	<b>(4.6)</b>
Change in assumptions and experience adjustments arising on schemes' liabilities	(2.0)	2.8	(2.9)	(9.0)	4.5
Experience adjustments arising on schemes' assets	3.3	(1.7)	2.0	1.8	3.6

#### Changes in the present value of the funded obligation

	2012 £m	2011 £m
Defined benefit obligation at beginning of year	(41.0)	(40.5)
Exchange difference	0.1	—
Service cost	(1.7)	(1.7)
Interest cost	(2.1)	(2.2)
Actuarial (losses)/gains	(2.0)	2.8
Benefits paid	1.2	0.6
<b>Defined benefit obligation at end of year</b>	<b>(45.5)</b>	<b>(41.0)</b>

During the year ending 30 September 2013 the Group expects to contribute to its defined benefit pension schemes £2.6m, which includes normal contributions together with the second of four deficit funding contributions of £0.9m.

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

	2012 £m	2011 £m
Fair value of schemes' assets at beginning of year	34.8	31.0
Exchange difference	(0.1)	—
Expected return	2.1	2.1
Actuarial gains/(losses)	3.3	(1.7)
Contributions by employer	2.5	3.9
Contributions by employee	0.1	0.1
Benefits paid	(1.2)	(0.6)
<b>Fair value of schemes' assets at end of year</b>	<b>41.5</b>	<b>34.8</b>
Actual return on schemes' assets	5.4	0.4

#### Major categories of schemes' assets

As at 30 September	2012 £m	2011 £m
UK equities	9.2	8.2
Non-UK equities	10.5	10.4
Gilts	13.2	4.6
Bonds	5.3	9.3
Cash	2.3	1.3
Insurance policies	1.0	1.0
<b>Fair value of schemes' assets at end of year</b>	<b>41.5</b>	<b>34.8</b>

## Amounts recognised in the income statement

	Note	2012 £m	2011 £m
Current service cost		(1.7)	(1.7)
Contributions by employee		0.1	0.1
Interest on obligations		(2.1)	(2.2)
Other finance income and expenditure		2.1	2.1
<b>Total included in 'staff costs'</b>	4	<b>(1.6)</b>	<b>(1.7)</b>

Of the total included in staff costs, £0.9m is included within cost of sales (2011: £0.9m) and £0.7m is included within sales, marketing and administrative expenses (2011: £0.8m).

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

	2012 £m	2011 £m
Cumulative amount at beginning of year	(11.8)	(12.9)
Movement in year	1.3	1.1
Cumulative amount at end of year	<b>(10.5)</b>	<b>(11.8)</b>

## 15. Trade and other payables

	Group		Company	
As at 30 September	2012 £m	2011 £m	2012 £m	2011 £m
Trade payables	5.6	5.7	—	—
Amounts owed to Group undertakings	—	—	7.6	6.9
Accruals	15.2	22.4	—	—
Other	2.5	1.4	—	—
	<b>23.3</b>	<b>29.5</b>	<b>7.6</b>	<b>6.9</b>

## 16. Share-based payments

All options are settled by the physical delivery of shares. The terms and conditions of all the grants are as follows:

### Victrex 2005 Executive Share Option Plan ('ESOP')

All employees are eligible to participate. 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.

### Victrex 2005 Sharesave Plan

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

# Notes to the financial statements

## continued

### 16. Share-based payments continued

#### Victrex 2005 Employee Stock Purchase Plan

US based employees (including executive Directors) are eligible to participate. The price payable for each ordinary 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 an ordinary share on the date of grant or the date of purchase.

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

#### Victrex 1999 Long Term Incentive Plan ('1999 LTIP')

The 1999 LTIP came to the end of its ten year life in 2009.

Each year executive Directors were eligible to be awarded options to acquire, at no cost, market purchased ordinary 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.

#### Victrex 2009 Long Term Incentive Plan ('2009 LTIP')

The 2009 LTIP was approved by shareholders at the 2009 AGM and replaced the 1999 LTIP.

Each year executive Directors, and senior executives by invitation, are eligible to be awarded options to acquire, at no cost, market purchased ordinary shares in the Company up to a maximum equivalent of 150% of basic salary. In exceptional circumstances, such as recruitment or retention, this limit is increased to 200% of an employee's annual basic salary.

Details of the 2009 LTIP can be found within the Directors' Remuneration Report on page 46.

#### Number and weighted average exercise prices of share options

	ESOP		Sharesave 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 1 October 2010	693p	897,735	383p	642,705	—	—	nil p	373,932
Granted during the year	1,355p	290,769	1,178p	40,535	748p	12,525	nil p	79,726
Forfeited during the year	1,003p	(14,746)	440p	(13,461)	—	—	nil p	(36,376)
Exercised during the year	664p	(365,100)	534p	(51,750)	748p	(12,525)	nil p	(89,621)
Outstanding at 30 September 2011	939p	808,658	421p	618,029	—	—	nil p	327,661
Granted during the year	1,166p	276,544	906p	177,298	1,107p	8,527	nil p	114,053
Forfeited during the year	1,109p	(32,934)	1,051p	(31,604)	—	—	nil p	(17,871)
Exercised during the year	640p	(126,246)	356p	(312,824)	1,107p	(8,527)	nil p	(53,484)
Outstanding at 30 September 2012	939p	926,022	613p	450,899	—	—	nil p	370,359
Range of exercise prices 2011	434.3p–1,421.0p		348.0p–1,178.0p		—	—		nil p
Weighted average contractual life (years) 2011		7.7		2.4		0.4		7.6
		7.9		2.0		0.4		7.8
Exercisable at end of year 2011	670p	200,037	348p	1,400	—	—		—
	709p	236,776	525p	1,212	—	—		—



## Fair value of share options and assumptions

### Share-based payment transactions and employee share ownership trusts ('ESOT')

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 benefiting 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 vest and include employee service periods and performance targets which are not related to the Company'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 costs, are credited to share capital (nominal value) and share premium when the options are exercised.

The Group and Company provide finance to the ESOT to purchase Company shares in the open market. Costs of running the ESOT are charged to the income statement. The cost of shares held by the ESOT are deducted in arriving at equity until they are exercised by employees.

### Fair value of share options and weighted average assumptions

	As at 30 September 2012				As at 30 September 2011			
	ESOP	Sharesave Plan	Stock Purchase Plan	LTIP	ESOS and ESOP	Sharesave Plan	Stock Purchase Plan	LTIP
Fair value at measurement date	309p	292p	233p	742p	296p	185p	338p	654p
Share price at grant	1,068p	864p	852p	910p	976p	559p	1,334p	788p
Exercise price	1,042p	613p	n/a	nil p	939p	421p	n/a	nil p
Expected volatility	34%	35%	42%	37%	33%	38%	33%	39%
Option life	10 yrs	4 yrs	1 yr	10 yrs	10 yrs	4 yrs	1 yr	10 yrs
Expected dividends	2.3%	3.1%	2.8%	0.3%	2.2%	3.6%	1.9%	0.3%
Risk-free interest rate	2.6%	1.7%	1.0%	1.6%	3.3%	2.1%	0.9%	2.1%

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	2012 £m	2011 £m
ESOP		0.7	0.7
Sharesave Plan		0.3	0.4
Stock Purchase Plan		—	—
LTIP		0.7	0.5
	4	1.7	1.6

# Notes to the financial statements

## continued

### 17. Share capital and reserves

#### Share capital

	2012		2011	
	Number	£m	Number	£m
<b>Allotted, called up and fully paid shares of 1p each</b>				
At beginning of year	84,033,879	0.8	83,604,504	0.8
Issued for cash	447,597	—	429,375	—
<b>At end of year</b>	<b>84,481,476</b>	<b>0.8</b>	<b>84,033,879</b>	<b>0.8</b>

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

#### Retained earnings

Retained earnings have been reduced by the reserve for own shares, which consists of the cost of shares of Victrex plc held by employee trusts and are administered by independent trustees. The total number of shares held in trust as at 30 September 2012 was 380,091 (2011: 367,403). 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

##### 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.

	2012 £m	2011 £m
Year ended 30 September 2010:		
– Final dividend paid February 2011 at 18.6p per ordinary share	—	15.5
– Special dividend paid February 2011 at 50.0p per ordinary share	—	41.6
Year ended 30 September 2011:		
– Interim dividend paid July 2011 at 8.0p per ordinary share	—	6.7
– Final dividend paid February 2012 at 24.5p per ordinary share	20.5	—
Year ended 30 September 2012:		
– Interim dividend paid July 2012 at 9.0p per ordinary share	7.5	—
	<b>28.0</b>	<b>63.8</b>

A final dividend in respect of 2012 of £23.9m (28.4p per ordinary share) has been recommended by the Directors for approval at the Annual General Meeting in February 2013. These financial statements do not reflect this dividend.

### 18. Operating leases

Non-cancellable operating lease rentals are payable as follows:

As at 30 September	2012 £m	2011 £m
Not later than one year	1.5	1.4
Later than one year but not later than five years	3.2	3.2
Later than five years	3.4	3.9
	<b>8.1</b>	<b>8.5</b>

## 19. 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 financial statements.

	Company	
	2012 £m	2011 £m
<b>Trading transactions with subsidiaries</b>		
Administrative expenses paid on Company's behalf by subsidiaries	0.7	0.5
Management charge to subsidiaries	2.6	2.3
Amounts receivable from subsidiaries	33.8	54.4
<b>Financing transactions with subsidiaries</b>		
Dividends received from subsidiaries	37.0	83.1
Interest received from a subsidiary	1.4	—
Cash transfers received from subsidiaries	29.3	10.1
Cash transfers made to subsidiaries	6.1	31.5
Non-current amounts receivable from subsidiaries	20.0	20.7

The Group's post-employment plans are related parties and the Group's and Company's transactions with them are disclosed in note 14.

Details of transactions during the year relating to the Company's investments in subsidiaries can be found in note 9.

Details of loan balances between the Company and its subsidiaries can be found in note 13.

### 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 Directors' Remuneration Report on pages 43 to 51.

Directors of the Company control 4% of the voting shares of the Company, details of which are given on page 49.

Details of Directors' indemnities are given on page 42.

## 20. 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. These estimates and assumptions 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.

### Hedging

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.

### Pension scheme

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 14 contains information about the assumptions relating to retirement benefit obligations.

# Notes to the financial statements

## continued

### 20. Accounting estimates and judgements continued

#### Share-based payments

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 16 contains information about the assumptions relating to share-based payment transactions.

#### Property, plant and equipment

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

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 as described in note 8. 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 8 contains information about the assumptions relating to impairment testing.

### 21. Exchange rates

#### 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:

- ▶ assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ▶ income and expenses for each income statement are translated at weighted average exchange rates; and
- ▶ all resulting exchange differences, from 1 October 2004, are recognised as a separate component of equity.

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

	2012		2011	
	Average	Closing	Average	Closing
US Dollar	1.59	1.61	1.57	1.56
Euro	1.17	1.26	1.16	1.16
Yen	126	126	135	120

# Five year financial summary

## for the year ended 30 September

	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m
<b>Results</b>					
Revenue	141.1	103.8	189.5	215.8	219.8
Profit before tax	55.0	25.1	74.9	94.2	94.5
<b>Balance sheet</b>					
Property, plant, equipment and intangible assets	140.8	139.7	135.4	135.6	153.7
Inventories	31.7	37.2	34.5	45.0	48.6
Net cash	23.5	18.6	77.3	72.3	83.9
Trade receivables and other assets	27.4	25.4	31.8	34.9	39.5
Retirement benefit obligations	(6.4)	(10.8)	(9.5)	(6.2)	(4.0)
Trade payables and other liabilities	(50.2)	(41.9)	(58.2)	(60.0)	(50.6)
Equity shareholders' funds	166.8	168.2	211.3	221.6	271.1
<b>Cash flow</b>					
Net cash flow from operating activities	46.6	15.7	77.2	65.9	66.0
Capital expenditure	(25.0)	(7.5)	(4.5)	(9.0)	(27.0)
Dividends and other items	(17.1)	(15.1)	(14.3)	(62.0)	(26.8)
Net increase/(decrease) in cash and cash equivalents	4.5	(6.9)	58.4	(5.1)	12.2
<b>Ratios</b>					
Earnings per ordinary share – basic	47.8p	21.7p	65.1p	85.3p	85.7p
Full year dividend per ordinary share	18.3p	19.2p	25.0p	32.5p	37.4p
Special dividend per ordinary share	—	—	50.0p	—	—
<b>Sales volume</b>					
Tonnes	2,626	1,547	2,535	2,860	2,904

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# Notice of Annual General Meeting

Notice is hereby given that the twentieth Annual General Meeting ('AGM') of Victrex plc ('the Company') will be held at 11am on 5 February 2013, at the Andaz Hotel, Liverpool Street, London, EC2M 7QN, to transact the following business:

## Ordinary business

1. To approve the Directors' Remuneration Report for the year ended 30 September 2012.
2. To receive the Company's Annual Report and Accounts for the year ended 30 September 2012, together with the reports of the Directors and the auditor.
3. To approve the payment of a final dividend of 28.4p per share on the Company's ordinary shares of 1p in respect of the year ended 30 September 2012.
4. To elect Mr T J Cooper who, having been appointed as a Director after the last AGM, retires and offers himself for election.
5. To re-elect Ms A M Frew as a Director of the Company.
6. To re-elect Mr G F B Kerr as a Director of the Company.
7. To re-elect Mr P J M De Smedt as a Director of the Company.
8. To re-elect Mr L C Pentz as a Director of the Company.
9. To re-elect Dr P J Kirby as a Director of the Company.
10. To re-elect Mr D R Hummel as a Director of the Company.
11. To re-elect Mr A S Barrow as a Director of the Company.
12. 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, pass the following resolutions as ordinary resolutions:

13. That the Board be and is hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the '2006 Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company:
  - a) up to a nominal amount of £281,694; and
  - b) up to a further nominal amount of £281,694 in connection with an offer by way of a rights issue:
    - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
    - (ii) to holders of other equity securities as required by the rights of those securities or as the Board otherwise considers necessary,and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter.

Such authorities to apply until the end of next year's AGM (or, if earlier, until the close of business on 5 May 2014) but, in each case, so that the Company may make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended.
14. That the renewal of the rules of the Victrex All-Employee Share Ownership Scheme (the 'Scheme') in the form produced to this meeting and, for the purposes of identification, initialled by the Chairman, be approved and the Board be authorised to:
  - a) to do all such acts and things as they may consider appropriate for the renewal of the Scheme; and
  - b) establish further schemes based on the Scheme 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 schemes are treated as counting against the limits on individual and overall participation in the Scheme.



To consider and, if thought fit, pass the following resolutions as special resolutions:

15. That, conditional upon resolution 13 being passed, the Board be and hereby is given power to allot equity securities (as defined in section 560 of the 2006 Act) for cash under the authority given by that resolution and/or where the allotment is treated as an allotment of equity securities under section 560(2)(b) of the 2006 Act, free of the restriction in section 561(1) of the 2006 Act, such power to be limited:

- a) to the allotment of equity securities in connection with an offer of equity securities (but, in the case of the authority granted under paragraph (b) of resolution 13, by way of a rights issue only):
  - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
  - (ii) to holders of other equity securities, as required by the rights of those securities or as the Board otherwise considers necessary,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

- b) in the case of the authority granted under paragraph (a) of resolution 13 and/or in the case of any transfer of treasury shares which is treated as an allotment of equity securities under section 560(3) of the 2006 Act, to the allotment (otherwise than under paragraph (a) above) of equity securities up to a nominal amount of £42,254.

Such power to apply until the end of next year's AGM (or, if earlier, until the close of business on 5 May 2014) but during this period the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted after the power ends and the Board may allot equity securities under any such offer or agreement as if the power had not ended.

16. That the Company be and is hereby authorised generally and unconditionally pursuant to section 701 of the 2006 Act to make one or more market purchases (as defined in section 693(4) of the 2006 Act) of its ordinary shares of 1p each in the capital of the Company ('Ordinary Shares'), such power to be limited:

- a) to a maximum number of 8,450,807 Ordinary Shares;
- b) by the condition that the maximum price, exclusive of expenses, which may be paid for an Ordinary Share contracted to be purchased on any day shall be the higher of:
  - (i) an amount equal to 105% of the average of the closing middle market quotation for an Ordinary Share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the day on which that Ordinary Share is contracted to be purchased; and
  - (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange at the time the purchase is carried out; and
- c) by the condition that the minimum price which may be paid for an Ordinary Share is 1p (exclusive of expenses).

Such power to apply until the end of next year's AGM (or, if earlier, until the close of business on 5 May 2014) but so that the Company may enter into a new contract under which a purchase of Ordinary Shares may be completed or executed wholly or partly after the authority ends and the Company may purchase Ordinary Shares in pursuance of such contract as if the authority had not ended.

17. That a general meeting of the Company, other than an AGM, may be called on not less than 14 clear days' notice.

By order of the Board

**S Koncarevic**  
Company Secretary  
10 December 2012

# 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 AGM 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 AGM or any adjournment thereof.
3. Members who prefer to register the appointment of their proxy electronically via the internet can do so through Equiniti's website at [www.sharevote.co.uk](http://www.sharevote.co.uk). Full details of the procedure are given on the website. The Voting ID, Task ID and Shareholder Reference Number printed on the Form of Proxy will be required in order to use this electronic proxy appointment system. Alternatively, members who have already registered with Equiniti's online portfolio service, Shareview, can appoint their proxy electronically by logging onto their portfolio at [www.shareview.co.uk](http://www.shareview.co.uk) and clicking on the 'Vote Online' link. The on-screen instructions give details of how to complete the proxy appointment process. A proxy appointment made electronically will not be valid if sent to any address other than those provided or if received after 11am on 3 February 2013.
4. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 10 below) will not prevent a shareholder attending the AGM and voting in person if he/she wishes to do so.
5. Any person to whom this notice is sent who is a person nominated under section 146 of the 2006 Act 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 AGM. 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.
6. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1, 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
7. To be entitled to attend and vote at the AGM (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 3 February 2013 (or, in the event of any adjournment, 6pm on the day two days prior to 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.
8. As at 7 December 2012 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 84,508,070 Ordinary Shares, carrying one vote each. Therefore, the total voting rights in the Company as at 7 December 2012 are 84,508,070. There are no shares in treasury.
9. 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.
10. 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 Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual available via [www.euroclear.com/crest](http://www.euroclear.com/crest). 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 3 February 2013. 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.
11. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited 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.

12. 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.
13. Under section 527 of the 2006 Act members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:
  - a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or
  - b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the 2006 Act.

The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the 2006 Act to publish on a website.

14. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if:
  - a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
  - b) the answer has already been given on a website in the form of an answer to a question; or
  - c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
15. A copy of this notice, and other information required by section 311A of the 2006 Act, can be found at [www.victrex.com](http://www.victrex.com).
16. Under section 338 and section 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company:
  - a) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or
  - b) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business.

A resolution may properly be moved or a matter may properly be included in the business unless:

- a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise);
- b) it is defamatory of any person; or
- c) it is frivolous or vexatious.

Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 25 December 2012, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

17. Representatives of shareholders that are corporations will have to produce evidence of their proper appointment when attending the general meeting. Please contact our Registrar if you need any further guidance on this.
18. You may not use any electronic address provided in either this Notice of AGM or any related documents (including the proxy form) to communicate with the Company for any purpose other than those expressly stated.
19. 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 AGM and at the meeting location from 15 minutes before the 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; and
  - ▶ the Articles of Association.
20. A copy of the rules of Victrex All-Employee Share Ownership Scheme will be available for inspection at the offices of Aon Hewitt, 10 Devonshire Square, London EC2M 4PL from the date of this notice until the time of the AGM and at the meeting location from 15 minutes before the meeting until it ends.

# Explanatory notes

## Ordinary business

### Resolution 1 – Approval of the Directors’ Remuneration Report

This resolution is proposed to approve the Directors’ Remuneration Report as set out on pages 43 to 51.

### 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 final dividend

A final dividend of 28.4p per ordinary share payable on 22 February 2013 has been recommended by the Directors for the year ended 30 September 2012. 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 to 11 – Re-election of Directors

In accordance with the Articles of Association Mr T J Cooper (who was appointed as Director after the last Annual General Meeting of the Company) is required to retire. He will, however, seek election by the shareholders. Additionally, in accordance with the UK Corporate Governance Code 2010 all Directors offer themselves for re-election at the AGM. Biographical details of all of our Directors are set out on pages 32 and 33.

The Board considers each non-executive Director to be independent and confirms that, following formal evaluation (as referred to on page 36), they each continue to contribute effectively to the Board and to demonstrate commitment to their roles (including commitment of time for Board and Board Committee meetings).

### Resolution 12 – Reappointment of auditor/auditor’s remuneration

This resolution proposes the reappointment of KPMG Audit Plc as auditor of the Company and authorises the Directors to determine their remuneration.

## Special business

### Resolution 13 – 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 until the conclusion of next year’s AGM of the Company or 5 May 2014, if sooner.

In accordance with guidance issued by the Association of British Insurers, the proposed authority will allow the Directors to allot Ordinary Shares up to an amount equal to less than one third of the existing share capital, plus in the case of a rights issue only a further amount up to an additional one third of the Company’s existing issued share capital.

The Directors have no current intention of exercising this authority.

### Resolution 14 – Renewal of the Victrex All-Employee Share Ownership Scheme

The Company’s All-Employee Share Ownership Scheme, approved by HM Revenue & Customs, is required to be renewed. The Scheme is offered to all eligible UK employees so that they can buy shares in the Company using deductions from their gross salary up to a value of £125 per month. The Scheme has facilitated wider employee share ownership and, accordingly, the Directors are seeking shareholder approval to renew the Scheme for a further ten years. The Scheme has been updated to reflect changes in the relevant tax legislation and market practice. The main terms of the Scheme and how it is currently operated are summarised in the Appendix to this notice.

### Resolution 15 – 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 shares for cash up to a nominal amount of £42,254, representing approximately 5% of the current issued ordinary share capital, other than to existing shareholders in order to take advantage of opportunities as and when they arise. The Directors have no current intention of exercising this authority and confirm their 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 AGM of the Company or 5 May 2014, if sooner.

### Resolution 16 – Authority to purchase own shares

In certain circumstances, it might be advantageous to the Company to purchase its own shares. Resolution 16 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 Company and its 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, resold or used to provide shares for employee share schemes.

As at 7 December 2012, options over a total of 1,336,789 Ordinary Shares were outstanding and not exercised. That number of Ordinary Shares represents 1.58% of the Company's issued Ordinary Share capital at 7 December 2012. It would represent 1.76% of the issued Ordinary Share capital if the authority to buy the Company's own shares had been used in full that date. The authority will lapse at the earlier of the next AGM of the Company or 5 May 2014, if sooner.

### Resolution 17 – Authority to hold general meetings (other than annual AGMs) on 14 clear days' notice

This resolution is required to reflect the changes made to the 2006 Act by the Companies (Shareholders' Rights) Regulations 2009 (the 'Shareholders' Rights Regulations'). The Shareholders' Rights Regulations increased the notice period for general meetings of the Company to 21 days unless shareholders approve a shorter period, which cannot however be less than 14 clear days. Prior to the coming into force of the Shareholders' Rights Regulations the Company was able to call general meetings (other than an AGM) on 14 clear days' notice and would like to maintain this ability. In order to be able to do so the Company's shareholders must approve the calling of such meetings on 14 clear days' notice. Resolution 17 seeks such approval. The Company undertakes to meet the requirements for electronic voting under the Shareholders' Rights Regulations before calling a general meeting on 14 clear days' notice. If given, the approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

### Recommendation

The Directors consider that all the proposed resolutions set out in this Notice of AGM 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

## Summary of the principal terms of the Victrex All-Employee Share Ownership Scheme (the 'Scheme')

### Operation

The Board supervises the operation of the Scheme. The renewal of the Scheme will be approved by HM Revenue & Customs.

The Scheme is currently used to offer all eligible UK employees the opportunity to buy ordinary shares in the Company ('Shares') on a monthly basis using deductions from their gross salaries up to a value of £125 per month. This element of the Scheme is known as the 'Partnership Shares' element. The relevant tax legislation allows companies to offer two other elements, known as 'Matching Shares' and 'Free Shares', and the Scheme contains the facility to also offer these elements. However, the current intention of the Board is to continue to offer only the Partnership Shares element. More details on each of the three elements are set out below.

### Partnership Shares

The market value of Partnership Shares which an employee can agree to purchase in any tax year may not exceed £1,500 (or 10% of the employee's salary, if lower), or such other limit as may be permitted by the relevant legislation. If the Board so decides, salary deductions may be accumulated over a period of up to 12 months and then used to buy Shares at the lower of the market value of the Shares at the start and at the end of the accumulation period. However, the Board currently allows only monthly purchases of Shares.

### Matching Shares

Matching Shares are free Shares which may be awarded to an employee who purchases Partnership Shares. The Board may award Matching Shares to an employee who purchases Partnership Shares up to a maximum of two Matching Shares for every one Partnership Share purchased (or such other maximum ratio as may be permitted by the relevant legislation). The same Matching Share ratio will apply to all employees who purchase Partnership Shares on the same occasion.

### Free Shares

Free Shares are free Shares which may be awarded to eligible employees. The market value of Free Shares awarded to any employee in any tax year may not exceed £3,000 or such other limit as may be permitted by the relevant legislation. Free Shares may be awarded to employees equally or on the basis of salary, length of service or hours worked, or on the basis of performance, as permitted by legislation.

### Eligibility

Employees of the Company and any designated participating subsidiary who are UK resident taxpayers are eligible to participate and all eligible employees must be invited. The Board may also allow non-UK tax resident taxpayers to participate. The Board may require employees to have completed a qualifying period of employment of up to 18 months in order to be eligible to participate.

### Retention of Shares

The trustee of the Scheme trust acquires and holds Partnership Shares on behalf of participants. Participants can withdraw their Partnership Shares from the Scheme trust at any time. If a participant ceases to be employed by the Company's group at any time after acquiring Partnership Shares, then his/her Shares are required to be transferred out of the Scheme.

If any Matching Shares and/or Free Shares are awarded then those Shares would usually be held by the Scheme trustee for a period of at least three years. The Board may decide that such Shares will be forfeit if participants cease to be employed in the Company's group within three years of the grant of the award unless they leave by reason of death, injury, disability, redundancy, retirement on or after reaching 60, or if the business or company for which they work ceases to be part of the Company's group. In any of those cases, the participants' Shares will be transferred out of the Scheme.

Any dividends paid on Shares held by the Scheme trustee on behalf of participants may be either used to acquire additional Shares for participants or distributed to participants. The current policy of the Board is for dividends to be distributed to participants.

### Other rights attaching to Scheme Shares

A participant is treated as the beneficial owner of the Shares held on his behalf by the Scheme trustee. Accordingly, in the case of corporate transactions affecting the Company and variations of share capital of the Company, Shares held in the Scheme are usually treated in the same way as any other Shares. In the event of a corporate reorganisation, Shares held on behalf of participants may be replaced by equivalent shares in a new holding company.

Any Shares allotted under the Scheme rank equally with Shares then in issue except for rights attaching to such Shares by reference to a record date prior to their allotment.



### Overall Scheme limit

The Scheme may operate over new issue Shares, treasury Shares or Shares purchased in the market. In any ten calendar year period, the Company may not issue (or grant rights to issue) more than 10 per cent of the issued ordinary share capital of the Company under the Scheme and any other employee share scheme adopted by the Company. Treasury Shares will count as new issue Shares for the purposes of this limit unless institutional investor bodies decided that they need not count.

### Alterations to the Scheme

The Board may, at any time, amend the Scheme in any respect, except that the prior approval of shareholders in general meeting is required for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of treasury Shares, the basis for determining a participant's entitlement to, and the terms of, Shares to be acquired and the adjustment of awards.

The requirement to obtain prior shareholder approval does not, however, apply to any minor alteration to benefit the administration of the Scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for any participant or any company in the Company's group.

### General

An award of Shares may not be made under the Scheme later than ten years after shareholder approval of the renewal of the Scheme.

No benefits received under the Scheme are pensionable.

### Overseas schemes

The shareholder resolution to approve the Scheme will allow the Board, without further shareholder approval, to establish further schemes for overseas territories, any such scheme to be similar to the Scheme, but modified to take account of local tax, exchange control or securities laws, provided that any Shares made available under such further schemes are treated as counting against the limits on individual and overall participation in the Scheme.

# Financial calendar and advisers

Annual General Meeting	5 February 2013
Ex dividend date	6 February 2013
Record date*	8 February 2013
Payment of final dividend	22 February 2013
Announcement of 2013 half-yearly results	May 2013
Payment of interim dividend	July 2013

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

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