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Annual Report & Accounts 1999

Victrex is a high performance materials group. It is the sole manufacturer of the PEEK™ polymer brand, a unique high performance plastic, with major markets in USA, Europe and Asia Pacific.

PEEK™ has a unique combination of properties, with exceptional chemical, wear, electrical and temperature resistance, as well as dimensional stability, biocompatibility and processing capabilities. These properties enable engineers to produce cost-effective design for critical applications in such diverse markets as the industrial, transportation, electronics, food and medical sectors.

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Profit before tax of **£12.7m (1998: £13.1m)**

Final dividend increased **6%**

Record European sales

Sales development pipeline increased

Encouraging progress on medical and fuel cell applications

Key raw material supply secured since year end

Chairman's Statement

1999 was a year of two parts for Victrex. On the strategic front we made major strides in securing our raw material supplies, increasing capacity and developing the markets for our products, all of which cemented our strong base for the future. However, despite a record year in Europe, second half sales to the US were slow, yielding results for the year that were less than we would have liked.

Results and dividend

Turnover declined marginally to £46.4m (1998: £47.3m) and profit before tax fell by 3% to £12.7m (1998: £13.1m).

In recognition of the strategic steps that have been made the Board is proposing a final dividend of 3.85p per ordinary share, an increase of 6% over last year, making a total of 5.50p per ordinary share for the year (1998: 5.28p)

Progress

We have continued to focus our efforts on identifying growth opportunities and exploiting our leading technology to the full. During the past year we have grown our development pipeline and launched new products such as PEEK-OPTIMA™ LT which has aroused significant interest in the medical market. In addition our technical

advances in such areas as fuel cell technology and powder coating continue to show promise.

Our capital investment has continued to plan. The engineering work to increase the capacity of our existing plant has been completed since the year end and the melt filtration facility commissioned earlier in the year made a useful contribution to profits.

People

This progress has not been achieved without considerable effort from everyone in the Company and I am grateful for their continuing commitment. I should also like to thank Dave Hummel and the directors for their support in this first year of my Chairmanship.

Outlook

Victrex enters the next millennium with unique technology, a strong global market position and exciting growth opportunities on which we are focussing our resources. Early signs suggest the trading environment is beginning to turn in our favour, so improving the prospects for the Group's growth.

Peter Warry

Chairman

7 December 1999



The recent announcement of our agreement with Laporte to purchase their DFDPM business at Rotherham, and to form a joint venture for the production of our key raw material, represents a major strategic development. It secures a cost-effective long term supply of BDF and thereby supports our future expansion opportunities.

leading TECHNOLOGY

Victrex continues to exploit its leading position in polyketone technology through greater product differentiation and a commitment to new application development.

Operational Review

Overview

Victrex has made considerable progress throughout the business during the past year. Key initiatives have been concluded, and new ones have been instigated. The Company has tightly controlled those areas it can directly affect whilst managing and mitigating the impact of a challenging international business environment.

Results

Total sales revenue for the year was £46.4m, 2% behind last year's performance. Administrative expenses increased 10% to £8.0m due mainly to continued investment in our sales and marketing activities.

Profit before tax for the year was £12.7m (1998: £13.1m) leading to earnings per share of 11.8p (1998: 12.1p).

Operational review

Sales volumes were marginally below last year's level at 1,067 tonnes (1998: 1,100 tonnes).

An estimated 40 tonnes of sales volume were generated from end users commercialising new applications from the development pipeline. This was offset by a decrease of approximately 70 tonnes of sales to our existing customer base as a result of slower international demand in their sectors.

Overall Europe saw continued growth, with a 4% volume increase consolidating a 34% increase the previous year. Sales to the automotive sector were again very strong, up 28%, offsetting slightly weaker market segments elsewhere.

USA sales volumes were down 11% compared to the previous financial year. Sales to the key segments of industrial and transportation were lower due to a combination of de-stocking and weakness in certain industrial and transportation sectors. Set against this we are beginning to see sales to the teletronics segment recover from last year's trough.

Sales to the Rest of the World were up 5%, with most of this improvement being concentrated in second half sales to the teletronics sector in Japan.

Average selling prices increased slightly on previous years due to the full year effect of earlier price increases. This more than offset the impact of worse currency rates.

STRATEGIC PROGRESS

The strategy for our Company continues to focus on the key areas of **Growth, Delivery and Infrastructure**. Driving volume and sales growth, guaranteeing product availability, and establishing an organisation that will allow us to maximise the opportunity for our company in the area of high performance materials is paramount. We have achieved significant progress in all of these areas in the past year.

GROWTH

Development Pipeline

Victrex measures future potential by the size of the development pipeline as explained on the opposite page. This represents our best estimate of the volume that could be generated by the applications we are currently working on. If they all come to fruition this figure now stands at approximately 1,800 tonnes per annum of mature annualised volume (MAV).

Our European development pipeline is over 750 tonnes, 40% of the Group total. Significant opportunities exist in the transportation and medical markets. Our strong position could not have been achieved without the investment in our European team since 1996.

Since the formation of Victrex-MC, Inc in 1997 we have seen the size of the Japanese development pipeline increase six fold to over 600 tonnes, one third of the Group total. This rapid increase has supported our view that PEEK™ was not being fully exploited in this market and further has justified our strategic joint venture partnership with Mitsui Chemicals Inc. In addition, we have continued to strengthen our representation in the Asia Pacific region and expect to see a growing sales position in Taiwan, South Korea and Singapore.

driving GROWTH

Going for Growth

The recently upgraded Victrex Customer Relationship Management system is an effective tool used by our market developers to manage the progress of customer enquiries through to sales. This allows new business development activity to be controlled and driven on a global basis.

Volume measurement

MAV, or Mature Annual Volume, is estimated PEEK™ sales volume per year for an application in the development pipeline based on up-to-date customer and business information.

WMAV, or Weighted Mature Annual Volume is the probability-adjusted MAV of an application in the development pipeline. The probability assigned depends on progress of the application against specific criteria including qualification testing, agreement of commercial terms and readiness of production facilities.

Enquiry

Prospect

Development Pipeline

Commercialisation

Definitions

A contact with Victrex regarding a potential PEEK™ application, often arising from a visit to the Victrex website, magazine coverage and trade show.

An enquiry which meets certain key criteria, including PEEK™'s ability to meet the performance requirements of the application. Enquiries are screened via our telesales operations worldwide and customer visits.

A potential application passes through several stages in the development pipeline as key end user requirements are met, customer testing is satisfactorily completed, commercial terms are agreed and production arrangements with external processors are finalised.

The point at which PEEK™ is sold to meet the demand for an application which has gone into commercial production.

Operational Review – Continued

More recently we have recruited a number of new developers to our USA team and have seen our pipeline there increase to almost 400 tonnes, almost 20% of the Group total. All of the key market segments are showing growth especially in areas of teletronics, transportation and medical. Additional focus on personnel, key distribution channels and development partnerships should continue to show sales and development results.

New Product Initiatives

Our increased market presence and awareness has presented further opportunities to utilise our unique technology.

The launch of PEEK-OPTIMA™ LT has generated considerable interest from the medical profession. As the stiffness of PEEK-OPTIMA™ LT can be tailored to match that of human bone it is being considered as a potential upgrade to current implant materials. Our first sales contracts in this area have been signed and a number of new devices have entered clinical trials.

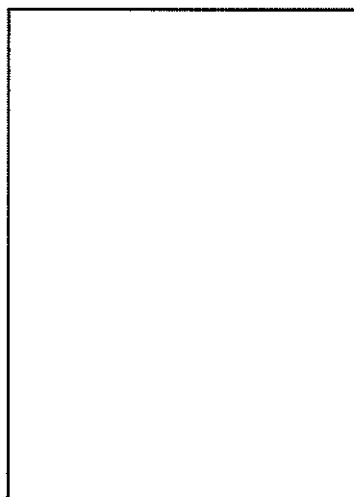
We referred in the interim statement to our encouraging progress in the area of fuel cell technology. A number of our speciality grades are under test for use as membrane material. Feedback continues to be positive and commercial negotiations have been initiated.

In addition, Victrex has developed a highly efficient powder coating process and is working with a number of international companies

to commercialise this new technology in areas of the teletronics and industrial markets.

We are beginning to see enquiries from the food processing industry in the USA, following the FDA approval of PEEK™. Last year PEK™ was launched commercially as planned with initial interest in the automotive sector.

DELIVERY



Purchase of DFDPM business at Rotherham

On 17th November 1999 we announced an agreement to purchase the DFDPM manufacturing business of Laporte plc for cash for a price of £17.6 million plus stocks estimated at £2.3 million. The transaction is a key strategic move for Victrex to secure its raw material supplies and will underpin future growth and provide financial benefits in the medium term.

This business is the principal commercial source in the world of

DFDPM, the primary step in the two stage process for the production of BDF, the raw material from which PEEK™ is manufactured. The secondary step in the production of BDF is the oxidation of DFDPM, which will be provided by Laporte as part of a 50/50 joint venture for the overall supply of BDF.

The joint venture agreement will start on 1st January 2000 and will run for a minimum of 7 years. The purchase of the DFDPM business and the new agreement will supersede the current arrangements which would have expired at the end of 2001.

The current plant capacity at Rotherham should be sufficient, with limited additional investment, to supply the predicted capacity requirements of Victrex's existing PEEK™ plant.

Manufacturing Capacity

We have increased existing manufacturing capacity from 1,500 to 2,000 tonnes per annum of PEEK™ effective November 1999.

In addition we have now identified cost-effective solutions to increase manufacturing capacity significantly above the 2,000 tonnes per annum level. As a result, we believe we can safely push back investment in the planned second plant whilst still meeting the anticipated market growth. We will however continue to keep under regular review our forward capacity and sales forecasts to ensure that sufficient time is available to build the second plant when it is needed.

global BUSINESS

Victrex global presence allows greater market penetration and application translation through a network of dedicated sales teams and first class distribution network.

Operational Review **Continued**

Melt Filtration

The melt filtration facility completed this year was an important contributor to profits, bringing in house a processing step previously out-sourced to a contractor. The facility was completed mid year and the benefits of this £3.7m investment were felt as costs were reduced by £0.2m. As important, we have received favourable comment from our key customers on improved and consistent product quality.

INFRASTRUCTURE

People

The past year has been a challenging but successful one for our staff. We have completed major engineering projects, instigated new technology research projects, launched new product grades, identified a greater number of development pipeline opportunities, introduced new business software, and established new appraisal and reward systems. In addition we will shortly be increasing our workforce by 15% with the addition of our new colleagues at Rotherham.

We have increased our focus on the capabilities of our organisation, and in giving all our staff opportunities to succeed. A growing business brings such opportunities as well as demands. I would like to thank our staff for rising to the challenge in what has been at times a difficult year.

Despite the difficult trading conditions we have continued to add the staff and resources we think necessary to exploit Victrex's full potential. In addition, as initiatives have come to completion, we have continued to re-direct staff to focus a greater proportion of our resources on growth projects. In this way we are seeking to drive growth as fast as possible whilst efficiently managing our cost base.

Systems

We completed the international installation of our new Enterprise Resource Planning system with great success. We are now streamlining reporting and other processes to pinpoint product growth opportunities and to drive cost efficiencies.

Health, safety and environment

Our health and safety performance during the year has again been excellent, with no lost time accidents incurred for the eleventh year running. We were pleased again to receive the Royal Society for Prevention of Accidents Gold Award in 1999.

Environmental emissions continue to be monitored closely, and we seek to stay well ahead of the relevant environmental standards.

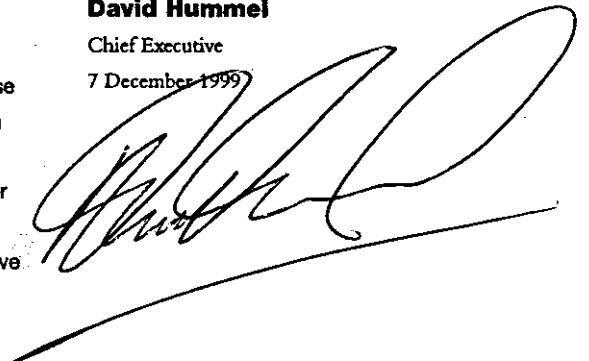
FUTURE

As we enter the next millennium Victrex is well poised to exploit its many opportunities. We have sound technology, a strong and growing team of market developers and technicians, and the assets to support our ambitions. The Victrex team is stronger than it has ever been. We look forward to the future with confidence.

David Hummel

Chief Executive

7 December 1999



high growth MARKETS

Victrix continues to focus on strategically important markets of Automotive and Semiconductor, developing technically demanding and innovative application design solutions for worldwide OEMs.

Financial Review – Year to 30 September 1999

Group Performance

Profit before interest and taxation at £13.2m (1998: £13.4m) benefited from contribution from the new melt filtration facility but reflected marginally reduced turnover, higher overhead costs from investment in the sales and marketing team and the impact of adverse exchange rates which reduced profits by £0.6m compared to the previous year. Operating margins were nevertheless in line with the previous year.

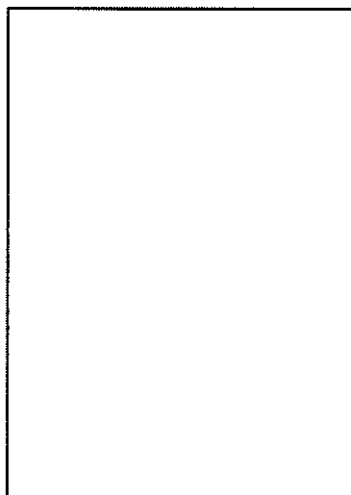
Net interest costs increased to £0.4m (1998: £0.3m), reflecting higher average debt levels. The Group's effective rate of taxation was reduced to 27.2% due to the continuing UK investment programme.

Earnings per share declined marginally to 11.8p per ordinary share. With dividends for the year at 5.50p per ordinary share the Company has a dividend cover of 2.1.

Taxation payments increased to £4.2m (1998: £3.6m) due to the phasing in of UK legislation accelerating such payments.

Capital expenditure payments fell to £4.7m (1998: £7.0m) as a number of projects were completed. Equity distributions increased reflecting last year's increased dividend.

Net debt at the year end stood at £8.1m (1998: £4.7m), representing balance sheet gearing of 29%.



The assets of the Rotherham business, including knowhow and goodwill, will be consolidated on Victrex's balance sheet at completion. Victrex plans to account for the joint venture in its consolidated accounts using the proportional consolidation accounting method as outlined in FRS 9 on Associates and Joint Ventures.

Victrex plans to capitalise and depreciate goodwill and knowhow in accordance with FRS 10 on Goodwill and Intangible Assets.

Victrex expects that the financial impact of the transaction will be to marginally reduce earnings per share, after amortisation of goodwill, in the current year with a neutral effect in the following year. Thereafter, as sales volumes grow, the deal becomes increasingly earnings enhancing. Victrex has always pursued a core strategy of growing its development pipeline for PEEK™ applications. As the results of this strategy are realised, the financial benefits of this transaction will become increasingly significant.

Cashflow

Cashflow from operating activities for the year was £10.0m (1998: £11.0m). Engineering to complete increased manufacturing capacity required an extended plant shutdown during October and November 1999, and stocks were increased prior to the year end to guarantee customer service over this period and ahead of 1 January 2000.

Acquisition of DFDPM business

As explained in the Operational Review on page 7, Victrex has agreed to purchase the DFDPM manufacturing business of Laporte and enter into a processing joint venture with Laporte for the overall supply of BDF, Victrex's key raw material.

Financial resources

Victrex has refinanced its existing bank facilities in order to have sufficient financial resources to meet the completion payments on the above transaction and additional working capital requirements. The Group now has £40m of committed

facilities which expire in December 2004 along with other short term facilities.

As a result of the transaction gearing is expected to increase significantly. Net interest cover, which is a more relevant financial ratio for Victrex and last year stood at 30 times, is expected to fall but will nonetheless remain at a comfortable level.

Currency exposure management

The Group is subject to currency transaction exposures as it exports 97% of sales from the UK to overseas entities.

Group policy is to protect profits against adverse currency movements by hedging a minimum of 90% of projected transaction exposures arising from trading over the forthcoming six month period. Profits in the following six month period are protected by hedging a minimum of 75% of projected transaction exposures. Thus the Group has rolling foreign exchange cover to protect anticipated profits over the following 12 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 note 20 in accordance with FRS 13 on Derivatives and other financial instruments: disclosures.

Translation exposures of overseas earnings are currently modest and are not hedged.

Year 2000

The Group has completed its plans

for Year 2000 readiness and final contingency plans have been put in place.

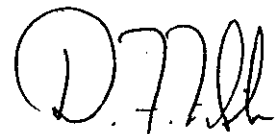
During the past 24 months the Group has undertaken a risk-based review of its potential Year 2000 exposures. Embedded logic units within our production processes have been checked and replaced as necessary. Our production and internal finance and administration

software and systems have been upgraded to millennium-compliant versions and tested as required. In addition our Year 2000 readiness programme has been audited by external consultants as an additional quality check to our process.

We have reviewed the preparedness of our key trading partners to ensure that the businesses we depend on have actively prepared for Year 2000. In addition, as Victrex is the sole commercial supplier of PEEK™, we have built up strategically located contingency stocks of finished product and our key raw materials in order to provide maximum flexibility in case of disruption to the supply chain.

The associated costs of this exercise, including the recent financing of higher stock levels, have not been significant. Capital expenditures required on software and other systems have been incurred in the normal course of business during the last 24 months.

David Tilston
Finance Director
7 December 1999



Board of Directors

Peter Warry ⁽¹⁾

MA CEng FIEE FIMechE (50) Chairman * † #

Appointed Chairman in January 1999 and Chairman of the Nominations Committee. Currently a non-executive director of Kier Group plc, BSS Group PLC and of the Office of the Rail Regulator. Formerly an executive director of British Energy PLC.

Anthony Clinch ⁽³⁾

MSc CEng (51) Non-Executive Director † #

Appointed in 1993. Currently an executive director of CVC Capital Partners Ltd and non-executive director of a number of private companies. Formerly with Rolls Royce Ltd prior to joining Citicorp and subsequently CVC Capital Partners.

Richard Heley ⁽⁵⁾

MA (51) Non-Executive Director * † #

Appointed in 1995 and Chairman of the Remuneration Committee. Currently an executive director of Charterhouse Bank Ltd. Formerly head of corporate finance at Barclays de Zoete Wedd and Vice Chairman of Hill Samuel Bank.

David Tilston ⁽⁷⁾

BSc FCA FCT (42) Finance Director

Appointed in 1997. Currently a Council Member of the Association of Corporate Treasurers. Formerly held senior financial positions with Reuters, Meyer International and BICC.

Tim Walker ⁽⁸⁾

BSc PhD FRSC (51) Production & Technical Director

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

David Hummel ⁽²⁾

BSc (41) Chief Executive*

Appointed in 1993. Formerly at Diamond Shamrock, General Electric Plastics and ICI, assuming responsibility for PEEK™ worldwide in 1992.

Peter Harper ⁽⁴⁾

FCA (64) Non-Executive Director * † #

Appointed in 1995 and Chairman of the Audit Committee. Currently a non-executive director of Lonmin Plc and John Laing plc. Formerly an executive director of Hanson plc.

Paul Syms ⁽⁶⁾

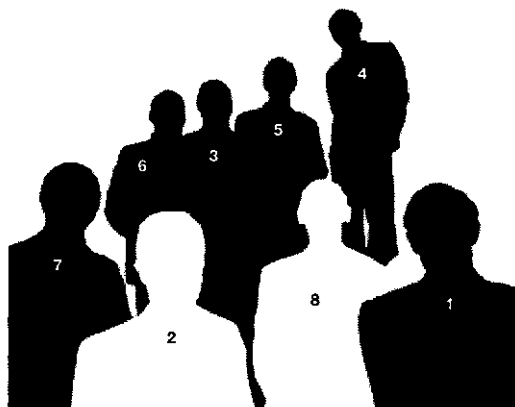
BA (37) Commercial Director

Appointed in 1993. Formerly at ICI in sales and production planning roles, joining Victrex in 1989.

* Nominations Committee

† Audit Committee

Remuneration Committee



Directors' Report

The Directors present their Annual Report and Accounts for the year ended 30 September 1999.

PRINCIPAL ACTIVITIES

The principal activity of Victrex plc and its Group companies is the manufacture and sale of high performance materials.

BUSINESS REVIEW

The Chairman's statement on page 3, the operational review on pages 5 to 9 and the financial review on pages 11 and 12 report on the Group's development during the year to 30 September 1999, its position at that date and the Group's likely development.

RESULTS AND DIVIDENDS

The accounts of the Company and Group appear on pages 19 to 38.

Consolidated profit after tax for the year was £9.3m (1998: £9.4m).

An interim dividend of 1.65p per share was paid on 23 July 1999. The Directors recommend the payment of a final dividend of 3.85p per share on 3 February 2000 payable to shareholders on the register on 24 December 1999.

SHARE CAPITAL

During the year 125,253 ordinary shares were issued under employee share schemes as summarised in note 19 to the accounts.

MAJOR INTERESTS IN SHARES

The Company has been notified of the following major interests in the Company's shares as at 3 December 1999.

Prudential Corporation plc and related companies	19.2%
Standard Life Group	4.4%
Norwich Union Group	4.0%
The AEGON UK plc Group	3.2%
Lazard Asset Management	3.1%

Legal & General	3.0%
Dr P J Rowley	
- beneficial shareholding	2.6%
- non-beneficial shareholding	2.2%
Mr J Bamford	
- beneficial shareholding	1.6%
- non-beneficial shareholding	1.6%

The Company has been notified that a number of independent investment funds advised by Bee & Associates Incorporated have an interest in 7.7% of the Company's issued share capital. Bee & Associates Incorporated do not own any of these shares nor does any one investment fund own more than 3% of the Company's share capital.

Details of Directors' holdings are disclosed in note 29 to the accounts.

DIRECTORS

Mr Peter Warry was appointed to the Board as Chairman following the AGM on 26 January 1999 and Dr Peter Rowley's retirement from the Board. Dr Tim Walker was appointed to the Board on 4 May 1999. Mr John Bamford retired from the Board on 28 May 1999.

Details of the directors of the Company are given on page 13.

DONATIONS

The Group made charitable donations of £5,000 during the year. There were no political donations.

POLICY FOR PAYING CREDITORS

It is not Group policy to follow any standard code on payment practice, and terms and conditions are agreed as appropriate. The Company had trade creditors outstanding at the year end representing 18 days of purchases.

AUDITORS

A resolution proposing the reappointment of KPMG Audit Plc as auditors of the Company will be put to the Annual General Meeting.

CORPORATE GOVERNANCE

In June 1998, the Stock Exchange published the Principles of Good Governance and Code of Best Practice ('the Combined Code'), which embraces the work of the Cadbury, Greenbury and Hampel Committees and became effective in respect of accounting periods ending on or after 31 December 1998.

During the period under review the Company has complied with the principles and provisions of the Combined Code.

The recent issuance of the Turnbull Report provides further guidance on the Company's obligations in order to fully comply with the internal control aspects of the Combined Code and becomes effective for accounting periods ending on or after 23 December 2000. Victrex continues to fully support the Combined Code and has already implemented action plans to move towards compliance with these new requirements for this reporting year.

Further, the Company is establishing the procedures necessary to implement the Turnbull guidance such that they can fully comply with it for the accounting period ending 30 September 2000.

The Company applies the principles of the Combined Code as outlined below.

DIRECTORS

The Board comprises a non-executive Chairman, three further non-executive directors and four executive directors. The role of the Board is to agree the Company's long term direction and strategy and monitor achievement of its business objectives. The Board has a schedule of matters reserved to it for decisions. Directors have the facility to take external independent advice in

furtherance of their duties at the Company's expense and have access to the services of the Company Secretary.

The roles of the non-executive Chairman and the Chief Executive are separate and clearly distinct.

The non-executive directors are considered by the Board to be independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement.

The Board delegates certain of its responsibilities to the Audit, Remuneration and Nomination Committees of the Board. These Committees operate within clearly defined terms of reference and their membership is given on page 13. The Board meets approximately ten times a year to transact business. The Board receives reports for consideration on all significant strategic and operational matters.

The Nominations Committee is responsible for identifying appropriate candidates to join the Board when the need arises and may use executive search firms as required. The Nominations Committee managed the identification and appointment of Messrs Warry and Walker to the Board during the year.

The Combined Code requires all directors to retire and offer themselves for reappointment at least once every three years. The retirement of directors at the 2000 AGM will comply with this requirement.

The Remuneration Committee, which consists exclusively of non-executive directors, is responsible for recommending to the Board the framework and policy for executive directors' remuneration and related

contractual matters. The current framework is explained below.

The Board as a whole is responsible for the approval or otherwise of such recommendations from the Remuneration Committee, and for the agreement of remuneration for the non-executive directors of the Board.

The Company's policy and practice has been in line with the Combined Code's provisions during the year and is described in further detail below.

RELATIONS WITH SHAREHOLDERS

Victrex is always ready, where practicable, to enter into a 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 sufficient demand to make it cost effective. The AGM provides the Board with an opportunity to informally meet and communicate directly with private investors. Proxy votes lodged on each AGM resolution are announced.

ACCOUNTABILITY AND AUDIT

Directors' responsibilities

The Directors are required by UK company law to prepare accounts which give a true and fair view of the state of the Company and Group as at the end of the period and of the profit for the period. The Directors have responsibility for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of the Group and to enable them to ensure the accounts comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to

them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Appropriate accounting policies, which follow generally accepted accounting practice and are explained in the notes to the accounts, have been applied consistently and applicable accounting standards have been followed. In addition reasonable and prudent judgments and estimates have been used in the preparation of the accounts.

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 accounts.

Audit Committee and Auditors

The Audit Committee, composed entirely of non-executive directors, assists the Board in meeting its responsibilities in respect of external financial reporting and internal controls. The Audit Committee also keeps under review the scope and results of the audit. It also considers the cost effectiveness, independence and objectivity of the auditors taking account of non-audit services provided by them.

Internal controls

The principal elements of the Group's internal control system are described below. The Board has reviewed the effectiveness of the system of internal financial control as currently required by the London Stock Exchange from information provided by management, internal reviews and the Group's external auditors. The Directors have reviewed the need for an internal audit function, and will continue to assess this as the Group continues to grow. Wider aspects of internal control are periodically considered by the Board.

Directors' Report continued

The Group's strategic direction is kept under review by the Board and key projects are considered in this context. The management of the Group is delegated to the Chief Executive and his executive Directors. Authority is delegated to senior executives as appropriate, and the organisational requirements and professional standards of a rapidly developing business are regularly reviewed.

The Group has a comprehensive process of annual budgets, detailed monthly reporting and regular forecasts linked to the Group's business objectives. Major capital investment decisions are reviewed by the Board.

A Risk Management Committee, chaired by the Production and Technical Director and including members of the senior management, was established in January 1999. The Committee is responsible for ensuring that risks facing the Group are managed within an acceptable level, that risk control measures are reviewed for effectiveness and changes to the risks faced by the Group are identified and managed. The Committee reports periodically to the Board on its activities and the results of its reviews. The Board receives a report on health, safety and environmental issues on a regular basis.

In addition a Currency Committee, chaired by the Chief Executive and involving other executive Directors and senior finance staff, meets on a regular basis to manage the Group's currency hedging activity.

REMUNERATION FRAMEWORK FOR DIRECTORS

The base salaries and other benefits of the executive Directors are established by the Board, following recommendations from the Remuneration Committee, in the light of the need to attract, retain and motivate Directors of the calibre required. The Company policy is that the performance related elements of compensation should form a significant proportion of the potential total rewards of the executive Directors.

Executive Directors are employed on one year rolling contracts and the remuneration packages comprise base salaries, annual cash bonuses, share options and awards under a Long Term Incentive plan approved at the last AGM.

Base salaries are determined with reference to comparative market data and the financial needs of the business.

Pension arrangements for directors are explained in note 29 to the financial statements.

Executive Directors may be paid bonuses up to 50% of their basic salaries based on performance targets set by the Board at the beginning of each financial year.

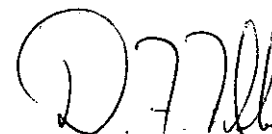
Share options may be granted under the existing employee share option scheme. Such options are only exercisable once Group earnings per share increases over any three year period by at least 9% in excess of the increase in the UK Retail Price Index over the same period.

Awards granted under the Long Term Incentive plan permit executive Directors to receive a conditional right to receive market purchased shares in the Company based on the medium to long term performance of the Company. Currently half the award is determined by the Company's Total Shareholder Return measured over a three year period relative to the constituents of the FTSE Mid-250 Index at the beginning of the relevant performance period. This element will vest in full if the Company ranks in the top quartile in performance, and none will vest for below median performance. The other half of the award is determined by normalised earnings per share growth where a minimum performance requires earnings per share to increase by 5% per annum in excess of inflation over the three year period.

Non-executive directors are appointed under arrangements which may be terminated at will without compensation by either party, with the exception of Dr P J Rowley whose tenure was subject to a one year rolling contract and who received payment in lieu of this on his retirement from the Company.

Further disclosures required under Schedule B of the Combined Code are included in note 29 of the accounts.

By order of the Board
D F Tilston
 Company Secretary
 7 December 1999



Auditor's Report to the Members of Victrex plc

We have audited the financial statements on pages 19 to 38. We have also examined the amounts disclosed relating to the emoluments, share options and pension entitlements of Directors which form part of the notes to the financial statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper records, if we have not received all the information and explanations we require for audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 15 to 17 reflect the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

Registered Auditor

Manchester

7 December 1999

Consolidated Profit and Loss Account

Year ended 30 September 1999	Note	1999 £000	1998 £000
Turnover: Group and share of joint venture		48,735	49,037
Less: share of joint venture		(2,330)	(1,741)
Turnover	2	46,405	47,296
Cost of sales		(25,257)	(26,594)
Gross profit		21,148	20,702
Administrative expenses		(8,029)	(7,327)
Group operating profit		13,119	13,375
Share of operating profit in joint venture		52	16
Total operating profit		13,171	13,391
Interest receivable	5	70	117
Interest payable	6	(512)	(403)
Profit on ordinary activities before taxation	2-6	12,729	13,105
Tax on profit on ordinary activities	7	(3,462)	(3,665)
Profit on ordinary activities after taxation		9,267	9,440
Equity dividends paid and proposed	8	(4,306)	(4,141)
Retained profit for the financial year	18	4,961	5,299
The Company		7,640	1,024
Group undertakings and joint venture		(2,679)	4,275
		4,961	5,299
Earnings per ordinary share -- Basic	9	11.8p	12.1p
-- Diluted		11.8p	12.0p

The Group's turnover and operating profit arise from continuing operations in both the current and preceding year.

There were no material differences between reported profits and historical cost profits on ordinary activities before taxation in either of the above financial years.

Balance Sheets

As at 30 September 1999	Note	Group		Company	
		1999 £000	1998 £000	1999 £000	1998 £000
Fixed assets					
Tangible assets	10	24,276	20,869	-	-
Investments	11	140	1	11,391	11,252
Investment in joint venture: share of gross assets	11	1,355	1,030	-	-
share of gross liabilities		(1,687)	(1,034)	-	-
		24,084	20,866	11,391	11,252
Current assets					
Stocks	12	13,925	9,928	-	-
Debtors: amounts falling due within one year	13	6,700	7,247	28,483	20,585
Cash at bank and in hand		-	1,021	32	28
		20,625	18,196	28,515	20,613
Creditors: amounts falling due within one year	14	(9,249)	(10,428)	(4,194)	(5,657)
Net current assets		11,376	7,768	24,321	14,956
Total assets less current liabilities		35,460	28,634	35,712	26,208
Creditors: amounts falling due after more than one year	15	(7,400)	(5,600)	(7,400)	(5,600)
Net assets		28,060	23,034	28,312	20,608
Capital and reserves					
Called up share capital	17	785	784	785	784
Share premium account	18	10,155	10,092	10,155	10,092
Profit and loss account	18	17,120	12,158	17,372	9,732
Equity shareholders' funds		28,060	23,034	28,312	20,608

These financial statements were approved by the Board of Directors on 7 December 1999 and were signed on its behalf by:

D R Hummel *Chief Executive*

D F Tilston *Finance Director*

Consolidated Cash Flow Statement

For the year ended 30 September 1999	Note	1999 £000	1998 £000
Net cash inflow from operating activities	24	10,046	11,027
Return on investments and servicing of finance			
Interest received		70	117
Interest paid		(508)	(351)
Net cash outflow from returns on investment and servicing of finance		(438)	(234)
Taxation – Taxation paid		(4,160)	(3,559)
Net cash outflow from capital expenditure – Purchase of tangible fixed assets		(4,678)	(6,960)
Net cash outflow from acquisitions – Purchase of shares in joint venture		-	(59)
Equity dividends paid		(4,129)	(3,874)
Cash outflow before financing		(3,359)	(3,659)
Financing			
Issue of ordinary share capital		1	25
Share purchase		(139)	-
Premium on issue of ordinary shares under option		113	-
Debt due after one year - increase in long term borrowing		1,800	4,102
Net cash inflow from financing		1,775	4,127
(Decrease)/increase in cash in the period	25	(1,584)	468

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 30 September 1999	1999 £000	1998 £000
Profit for the financial year	9,267	9,440
Exchange gain on consolidation	1	5
Total recognised gains and losses relating to the financial year	9,268	9,445

Reconciliations of Movements in Shareholders' Funds

For the year ended 30 September 1999	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Profit for the financial year	9,267	9,440	11,946	5,165
Dividends	(4,306)	(4,141)	(4,306)	(4,141)
Retained profit for the financial year	4,961	5,299	7,640	1,024
Exchange gain on consolidation	1	5	-	-
Issue of ordinary shares exercised under option	1	2	1	2
Premium on issue of ordinary shares under option	113	23	113	23
Share issue costs	(50)	(50)	(50)	(50)
Net addition to shareholders' funds	5,026	5,279	7,704	999
Opening shareholders' funds	23,034	17,755	20,608	19,609
Closing shareholders' funds	28,060	23,034	28,312	20,608

Notes to the Financial Statements

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently, except where noted below, in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost accounting rules.

Basis of consolidation The Group accounts consolidate the accounts of Victrex plc and its subsidiary undertakings, all of which are made up to 30 September 1999.

The acquisition method of accounting has been adopted. Under this method of accounting, the results of subsidiaries are included in the consolidated profit and loss account from the date effective control passed. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) has historically been written off against reserves on acquisition. From 1st October 1998 goodwill and other intangibles are capitalised and written off to profit and loss over a period appropriate to each investment but no more than 20 years in accordance with FRS 10. The Group did not capitalise retrospectively goodwill previously written off prior to 1 October 1998.

In the Company's accounts, investments in subsidiary undertakings and Victrex-MC, Inc are stated at cost less any impairment in the value of the investment. Dividends received and receivable are credited to the Company's profit and loss account to the extent that they represent a realised profit for the Company.

The Group's share of the profits less losses of the Victrex-MC, Inc is included in the profit and loss account on the gross equity accounting basis. The consolidated profit and loss account also shows the Group's share of its joint venture's turnover. The holding value of the joint venture in the Group balance sheet is calculated by reference to the Group's equity in the gross assets and gross liabilities of such undertakings, adjusted for unrealised profit in stock.

In accordance with Section 230(4) of the Companies Act 1985 Victrex plc is exempt from the requirement to present its own profit and loss account.

The amount of the profit for the financial year dealt with in the financial statements of Victrex plc is disclosed in note 18 to these accounts.

Fixed assets and depreciation Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

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

Assets in the course of construction are not depreciated until fully commissioned.

Foreign currencies Transactions and monetary assets and liabilities denominated in foreign currencies which are subject to currency hedging contracts are recorded at the rate specified in those contracts.

Transactions in foreign currencies which are not subject to currency hedging contracts are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies which are not subject to forward exchange contracts are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

For consolidation purposes, the assets and liabilities of overseas subsidiary undertakings are translated at the effective closing exchange rate taking into consideration currency hedging contracts where appropriate. Profit and loss accounts of such undertakings are consolidated at the effective average rates of exchange during the year. Exchange differences arising on these translations are taken to reserves.

Operating Leases The rental charges on operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Pensions The Group operates a UK pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. Further details are given in note 22.

Research and development expenditure All research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

Stocks Stocks are stated at the lower of cost and net realisable value. In the case of manufactured products cost includes the attributable proportion of manufacturing overhead costs.

Taxation The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that there is a reasonable probability that an actual liability will crystallise in the foreseeable future.

Turnover Turnover represents the amounts (excluding value added tax) receivable for goods and services sold to third party customers during the year.

2 ANALYSIS OF TURNOVER

The Group operates in a number of geographical segments. An analysis of profit before taxation and net assets by geographical market has not been prepared as the Directors believe it would be seriously prejudicial to the commercial interests of the Group.

Analysis of turnover by geographical market is as follows:

	1999 £000	1998 £000
Europe	22,043	20,618
United States of America	20,626	23,144
Rest of World	3,736	3,534
	46,405	47,296

All turnover and profits before taxation are derived from the Group's principal activity.

All turnover, cost of sales and operating profit are derived from continuing operations.

Notes to the Financial Statements continued

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1999 £000	1998 £000
Profit on ordinary activities before taxation is stated after charging		
Auditor's remuneration: Audit of Group	48	50
Other fees paid to the auditor and its associates	173	92
Depreciation and other amounts written off owned tangible fixed assets	1,271	948
Hire of plant and machinery – rentals payable under operating leases	147	180
Hire of other assets – operating leases	40	45
Research and development costs	1,372	1,288

The audit fee for the Company was £15,000 (1998: £15,000).

In addition to the above figure for auditor's remuneration for non-audit services, a cost of £62,000 (1998: £50,000) was incurred for advisory services associated with the implementation of the new management accounting and information system.

4 STAFF NUMBERS AND COSTS

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

Number of employees	1999	1998
Operations	53	41
Technical	21	19
Sales	38	27
Administration	22	24
	134	111

The aggregate payroll costs of these persons were as follows:

	1999 £000	1998 £000
Wages and salaries	4,630	3,394
Social security costs	430	303
Other pension costs (see note 22)	527	428
	5,587	4,125

5 INTEREST RECEIVABLE

	1999 £000	1998 £000
Bank interest receivable	70	115
Interest on overpaid corporation tax	-	2
	70	117

6 INTEREST PAYABLE

	1999 £000	1998 £000
On bank loans repayable within five years	508	398
Share of joint venture	4	5
	512	403

7 TAXATION

	1999 £000	1998 £000
UK corporation tax at 30.5% (1998: 31.0%)	3,073	3,295
Adjustments relating to prior years	(213)	(39)
Overseas taxation	572	558
Deferred taxation (note 16)	(11)	(150)
Share of joint venture	41	1
	3,462	3,665

8 DIVIDENDS

	1999 £000	1998 £000
Ordinary shares:		
Interim	1,283	1,295
Final proposed	3,023	2,846
	4,306	4,141

Notes to the Financial Statements continued

9 EARNINGS PER SHARE

	1999	1998
Earnings per ordinary share – basic	11.8p	12.1p
– diluted	11.8p	12.0p

Earnings per ordinary share is based on the Group's profit on ordinary activities after taxation of £9,267,000 (1998: £9,440,000).

The weighted average number of shares used in the calculation is: – basic 78,453,630 (1998: 78,294,885);

– diluted 78,577,969 (1998: 78,824,760).

10 TANGIBLE FIXED ASSETS

GROUP	Freehold land and buildings £000	Plant and machinery £000	Computers and motor vehicles £000	Fixtures, fittings, tools and equipment £000	Assets in the course of construction £000	Total £000
Cost						
At beginning of year	2,087	16,773	842	174	6,712	26,588
Additions	(2)	835	669	12	3,164	4,678
Reclassification	–	4,356	432	–	(4,788)	–
At end of year	2,085	21,964	1,943	186	5,088	31,266
Depreciation						
At beginning of year	161	5,062	399	92	5	5,719
Reclassification	–	5	–	–	(5)	–
Charge for year	71	860	316	24	–	1,271
At end of year	232	5,927	715	116	–	6,990
Net book value						
At 30 September 1999	1,853	16,037	1,228	70	5,088	24,276
At 30 September 1998	1,926	11,711	443	82	6,707	20,869

No depreciation is provided on assets in the course of construction until fully commissioned in accordance with the Group's accounting policy.

11 FIXED ASSET INVESTMENTS

GROUP	Own shares £000
Cost and net book value	
At beginning of year	1
Additions	139
At end of year	140

The fixed asset investments consist of shares of Victrex plc held by employee trusts which are administered by independent trustees. The total number of shares held in trust as at 30 September 1999 was 259,819 (1998: 178,572).

The shares, whilst not legally the property of the Company, have been included in fixed asset investments as 'own shares' to comply with Financial Reporting Standard 5 'Reporting the substance of transactions'. The market value of these shares at 30 September 1999 was £467,675 (1998: £250,894).

Distribution of shares from the trusts is at the discretion of the trustees. Dividends attaching to these shares have not been waived.

Investment in joint venture The investment in the joint venture represents the Group's share of the net assets of Victrex-MC, Inc., adjusted for unrealised profit in stock, resulting in a negative balance of £332,000 (1998: £4,000).

COMPANY	Shares in joint venture £000	Shares in Group undertakings £000	Own shares £000	Total £000
Cost and net book value				
At beginning of year	131	11,120	1	11,252
Additions	-	-	139	139
At end of year	131	11,120	140	11,391

There are no provisions against any of the investments.

Notes to the Financial Statements continued

The companies in which the Group's interest is more than 20% are as follows:

Subsidiary undertakings	Country of registration and operation	Principal activity	Shares held	
			Class	Percentage
Victrex Manufacturing Limited	Great Britain	Manufacture and sale of polymers	Ordinary	100%
Victrex USA Inc.	USA	Sale of polymers	Ordinary	100%
Victrex Europa GmbH	Germany	Sale of polymers	Ordinary	100%
Victrex Sales Limited	Great Britain	Dormant	Ordinary	100%
Victrex Trustee Limited	Great Britain	Dormant	Ordinary	100%
Joint venture				
Victrex-MC, Inc.	Japan	Sale of polymers	Ordinary	51%

The activities of Victrex-MC, Inc. are governed by a joint venture agreement between Victrex plc and Mitsui Chemicals Inc. Certain key management decisions require the co-operation of both parties.

During the year Victrex Sales Limited transferred all activities, assets and liabilities to Victrex Manufacturing Limited and subsequently remained dormant. In addition, administration of the employee trusts was transferred from Victrex Trustee Limited to independent professional trustees.

12 STOCKS

	GROUP		COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Raw materials and consumables	574	641	-	-
Work in progress	299	889	-	-
Finished goods and goods for resale	13,052	8,398	-	-
	13,925	9,928	-	-

13 DEBTORS

	GROUP		COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Amounts falling due within one year				
Trade debtors	4,289	5,344	-	-
Amounts owed by subsidiary undertakings	-	-	28,462	19,788
Amounts owed by joint venture	1,573	741	-	-
Advance corporation tax	-	699	-	712
Other debtors	609	321	21	85
Prepayments and accrued income	229	142	-	-
	6,700	7,247	28,483	20,585

There were no amounts due after one year.

14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank loan and overdrafts	692	129	921	991
Trade creditors	1,505	1,678	41	104
Other creditors including taxation and social security:				
Corporation tax	2,276	2,678	15	41
Advance corporation tax	-	1,035	-	1,035
Other creditors	63	74	-	-
Accruals and deferred income	1,690	1,988	194	640
Dividends proposed	3,023	2,846	3,023	2,846
	9,249	10,428	4,194	5,657

No interest is payable on all financial liabilities, except for the bank loan. Loan and overdraft balances attract floating rates of interest.

Notes to the Financial Statements continued

15 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	GROUP		COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank loan	7,400	5,600	7,400	5,600

The bank loan is a revolving credit facility which expires in December 2000 and has since been refinanced as explained in the Financial Review. There is no security over either of these facilities. The average interest rate during the year has been 7.3%.

16 PROVISIONS FOR LIABILITIES AND CHARGES

GROUP	Taxation including deferred taxation £000
At beginning of year	11
Released during year (see note 7)	(11)
At end of year	-

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1999 Provided £000	1999 Unprovided £000	1998 Provided £000	1998 Unprovided £000
Difference between accumulated depreciation and capital allowances	-	2,710	11	1,979
Advance corporation tax recoverable	-	-	(11)	-
	-	2,710	-	1,979

17 CALLED UP SHARE CAPITAL

GROUP AND COMPANY	1999 £	1998 £
Authorised Ordinary shares of 1p each	1,100,000	1,100,000
Allotted, called up and fully paid equity Ordinary shares of 1p each	785,293	784,040

18 SHARE CAPITAL AND RESERVES

GROUP	Share capital £000	Share premium account £000	Profit and loss account £000
At beginning of year	784	10,092	12,158
Retained profit for year	-	-	4,961
Issue of shares under option	1	-	-
Share issue costs from flotation	-	(50)	-
Premium on issue of ordinary shares under option	-	113	-
Exchange adjustment	-	-	1
At end of year	785	10,155	17,120

COMPANY

At beginning of year	784	10,092	9,732
Retained profit for year	-	-	7,640
Issue of shares under option	1	-	-
Share issue costs from flotation	-	(50)	-
Premium on issue of ordinary shares under option	-	113	-
At end of year	785	10,155	17,372

The Company's profit for the year was £11,946,000 before the payment of dividends (1998: £5,165,000).

The cumulative amount of goodwill resulting from acquisitions which has been written off directly against reserves is £9,095,000 (1998: £9,095,000).

Some £8,945,000 of the brought forward goodwill was created at the time of the management buy-out from ICI in 1993. It represents the difference between the consideration paid and the fair value of the assets acquired. This goodwill has been written off against the share premium account of a subsidiary company for which statutory approval was granted and hence does not affect the distributable reserves of the Group.

In accordance with FRS 10, the goodwill reserve has been netted off against the profit and loss account.

Notes to the Financial Statements continued

19 SHARE OPTION SCHEMES – EMPLOYEE SHARE OPTION SCHEMES

Options granted during the year During the year options over 79,405 shares were granted to employees at an option price of 172.5p per share and options over 175,702 shares were granted to employees at an option price of 187.5p per share.

Options exercised during the year Options over 125,253 shares were exercised during the year. Total consideration was £114,830.

Outstanding shares under option at 30 September 1999 The total number of shares under option at the year end excluding SAYE are as follows:

Date of grant	Outstanding shares under option	Option price	Normal exercise period
July 1994	30,000	0.5p	1997-2004
March 1995	10,000	12.5p	1998-2005
December 1995	754,132	170p	1998-2005
June 1997	360,954	177.5p	2000-2007
December 1997	48,288	227.5p	2000-2007
June 1998	96,095	202.5p	2001-2008
December 1998	58,407	172.5p	2001-2008
June 1999	162,093	187.5p	2002-2009
	1,519,969		

The above includes options granted to Directors, details of which are included in note 29.

SAYE – SAVE AS YOU EARN SCHEME

During the year options over 173,786 shares were granted at an option price of 138p per share. No share options were exercised during the year. The number of shares over which options subsisted at the end of the year was 227,017 at an exercise price of 136p per share, 68,834 at an exercise price of 181p per share and 173,786 at an exercise price of 138p per share.

20 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities as at 30 September 1999.

Primary financial instruments	1999		1998	
	Book Value £000	Fair Value £000	Book Value £000	Fair Value £000
Trade debtors	5,862	5,944	6,085	5,987
Cash and bank in hand	-	-	1,021	1,021
Short term liabilities (trade creditors, bank overdraft and accruals)	(3,887)	(3,887)	(3,795)	(3,795)
Term loan	(7,400)	(7,400)	(5,600)	(5,600)
	(5,425)	(5,343)	(2,289)	(2,387)
Derivative financial instruments (hedges)				
Forward foreign currency contracts	(82)	416	98	1,010

The fair market value of the Group's forward currency contracts is calculated by comparing, for equivalent maturity profiles, the rate at which currency contracts with the same principal amounts could be acquired at the balance sheet date with the contracted rate. This produces a positive fair value of £416,000 at 30 September 1999, which will only be realised in the profit and loss account in the period to 30 September 2000 if forward foreign exchange rates at that date remain unchanged.

The fair value of debtors has been calculated by applying the rate achievable by entering into forward contracts at the balance sheet date.

20 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

Hedges

The Group's policy is to use forward contracts to hedge foreign currency risks as described in the Financial Review on pages 11 and 12. The table below shows the extent to which the Group has unrecognised gains and losses (those not reflected in the 'book value' column in the table above) on those contracts at the year end.

An analysis of the unrecognised gains and losses on these foreign currency contracts is as follows:

	Gains £000	Losses £000	Total net gains/losses £000
Unrecognised gains and losses			
at 30 September 1999	1,134	(636)	498
at 30 September 1998	1,266	(354)	912

All gains and losses that were unrecognised at 30 September 1998 have been recognised during the year. All gains and losses that are unrecognised at 30 September 1999 are expected to be recognised in the year to 30 September 2000.

21 COMMITMENTS

(i) Capital commitments at the end of the financial year for which no provision has been made.

	GROUP		COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Contracted	845	4,196	-	-

(ii) Annual commitments under non-cancellable operating leases are as follows:

GROUP	1999		1998	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	36	10	-
In the second to fifth years inclusive	40	89	31	165
	40	125	41	165
COMPANY				
Operating leases which expire:				
Within one year	-	11	-	-
In the second to fifth years inclusive	-	12	-	56
	-	23	-	56
JOINT VENTURE				
Operating leases which expire:				
Within one year	-	2	-	-
In the second to fifth years inclusive	119	4	104	18
	119	6	104	18

Notes to the Financial Statements continued

22 PENSION SCHEME

The principal scheme operated by the Group is a funded UK pension scheme in which certain employees of subsidiary undertakings participate. The scheme provides benefits based on final pensionable pay, contributions being charged to the profit and loss account of the relevant Company so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the Projected Unit method.

The most recent actuarial valuation was carried out at 31 March 1998 at which time the actuary advised that the actuarial valuation of the funds' assets represented approximately 98% of the benefits that had accrued to members after allowing for expected future increases in earnings. The actuarial valuation was performed using the Projected Unit method. Since the 1998 accounts, the assumptions in the valuation report regarding future early retirements have been revised. The principal assumptions were investment returns of 8.75% pa, earnings growth of 6% pa (plus an age related scale) and pension increases of 4% pa. The assets of the fund were included at 88% of their market value of £5,446,777 at the review date. The next actuarial valuation is due to be carried out no later than 31 March 2001.

The contributions of the employees have been set at the rates set out in the rules of the fund of 1.6% of pensionable salary up to the upper earnings limit and 6.5% of pensionable salary above that limit. The contributions of the relevant Group companies are 15.8% of pensionable salary. This figure includes a contribution of 0.3% of pensionable salary which is intended to eliminate the shortfall over the future working lifetimes of the members of the fund.

The total charge for the year in the accounts of the Group was £527,000 (1998: £428,000). There were no outstanding or prepaid contributions at either the beginning or end of the year.

23 RELATED PARTY TRANSACTIONS

There are no material transactions with related parties as defined by Financial Reporting Standard 8 'Related party transactions' except for normal trading transactions with the joint venture company. Sales to the joint venture company were £3,729,000 (1998: £2,432,000).

24 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES

	1999 £000	1998 £000
Operating profit	13,119	13,375
Depreciation charge	1,271	948
Increase in stocks	(3,997)	(942)
Increase in debtors	(152)	(1,107)
Decrease in creditors	(532)	(1,365)
Joint venture profit in stock elimination	337	118
Net cash inflow from continuing operating activities	10,046	11,027

25 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1999 £000	1998 £000
(Decrease)/increase in cash in the period	(1,584)	468
Cash inflow from increase in debt	(1,800)	(4,102)
Foreign currency movement	-	22
Movement in net debt in the period	(3,384)	(3,612)
Net debt at beginning of period	(4,708)	(1,096)
Net debt at end of period	(8,092)	(4,708)

26 ANALYSIS OF CHANGES IN NET DEBT

	At 30 September 1999 £000	Cash flow £000	Exchange movement £000	At 30 September 1998 £000
Cash at bank and in hand	-	(1,021)	-	1,021
Overdraft	(692)	(563)	-	(129)
	(692)	(1,584)	-	892
Debt due after one year	(7,400)	(1,800)	-	(5,600)
	(8,092)	(3,384)	-	(4,708)

27 POST BALANCE SHEET EVENT

On 17 November 1999 the Group announced that it had agreed to purchase the DFDPM manufacturing business of Laporte pic for a cash price of £17.6 million plus stocks estimated at £2.3 million. The transaction is scheduled to complete no later than 23 December 1999.

Further details on this are included in the Operational Review on page 7.

28 EXCHANGE RATES

The sterling exchange rates used in the accounts under the Group's accounting policies are:

	Average exchange rate		Closing exchange rate	
	1999	1998	1999	1998
US Dollar	1.64	1.63	1.68	1.62
Deutschemark	2.83	2.77	2.75	2.84
Yen	198	199	174	233

Notes to the Financial Statements continued

29 DIRECTORS' REMUNERATION

The Directors' remuneration for the year to 30 September 1999 was as follows:

	Basic salary £	Benefits in kind £	Total 1999 £	Total 1998 £
Executive Directors				
D R Hummel	135,536	7,796	143,332	139,031
J Bamford (retired 28 May 1999)	55,733	6,060	61,793	89,258
P J C Syms	95,000	4,587	99,587	96,662
D F Tilston	107,635	7,710	115,345	117,937
T J Walker (appointed 4 May 1999)	39,583	3,118	42,701	–
Chairman - P T Warry (appointed 26 January 1999)				
Non-exec fees from 26 January 1999	34,103	–	34,103	–
Retired Chairman - P J Rowley (retired 26 January 1999)				
Non-exec fees to 26 January 1999	16,666	1,900	18,566	59,517
Non-executive Directors				
P J Harper	27,500	–	27,500	25,000
A G Clinch	15,000	–	15,000	15,000
R W Heley	22,000	–	22,000	20,000
<i>Total remuneration</i>			579,927	562,405

Notes

- (a) The total emoluments (including pension contributions) of the highest paid Director, Mr D R Hummel, were £169,794 (1998: £158,848).
- (b) The Directors received no bonuses during either year.
- (c) In addition to the above Dr T J Walker has received payments totalling £28,157 in respect of relocation expenses.
- (d) Dr P J Rowley received a payment of £50,000 during the year in lieu of one year's notice on his retirement in accordance with his contract.
- (e) All remuneration regarding Mr A G Clinch's and Mr R W Heley's duties as non-executive directors are payable to CVC Capital Partners Limited and Charterhouse Bank Limited respectively.

PENSIONS

The following table, prepared under the Stock Exchange Listing Rules, shows the Directors' accrued benefits under the Fund over the year to 30 September 1999, together with the increase in value of the benefits after allowing for both inflation of 1.1% on the 1998 benefits and contributions paid by the Directors.

	Age	Years of service	Accrued pensions at 30/9/98 plus 1.1% £	Accrued pensions at 30/9/99 £	Estimated value of additional pension ⁽¹⁾ £
P J C Syms	37	14	22,505	23,934	1,178
D F Tilston	42	3	3,427	5,325	3,942
T J Walker (appointed 4 May 1999)	51	1	–	712	3,681

(1) This column shows the movement in the transfer value of the accrued pension, reduced by the contributions made by the Director over the year.

Mr D F Tilston's figures do not include the separate payments of £9,606, being 50% of the excess of his salary over the earnings cap.

Dr T J Walker's figures do not include the separate payments of £770, a liability for which existed at 30/9/99, being 25% of the excess of his salary over the earnings cap.

The cost of pension contributions payable and accrued under defined contribution arrangements for Mr D R Hummel amounted to £26,462 (1998: £19,817).

DIRECTORS' SHARES

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

	30/9/99 Beneficial	30/9/99 Non-beneficial	30/9/98 Beneficial	30/9/98 Non-beneficial
P T Warry (appointed 26 January 1999)	30,000	-	-	-
D R Hummel ⁽¹⁾	3,505,931	254,000	3,505,931	254,000
P J C Syms	616,071	1,648,215	616,071	1,648,215
D F Tilston	1,000	-	1,000	-
T J Walker	-	-	-	-
P J Harper	93,823	50,000	93,823	35,000
A G Clinch	314,288	1,764	314,288	1,764
R W Heley	75,000	-	75,000	-

(1) Mr D R Hummel has transferred 100,000 shares to a charitable remainder trust of which Mr Hummel and his wife are trustees. Mr Hummel remains beneficially interested in these shares since he is entitled in certain circumstances to participate in the income thereon during his lifetime.

The Directors' share options at 30 September 1999 were as follows:

	1/10/98	Granted in year	30/9/99	Exercise price ⁽¹⁾	Exercise period
D R Hummel	112,903	-	112,903	170p	1998-2005
P J C Syms	70,000	-	70,000	170p	1998-2005
D F Tilston	140,875	-	140,875	177.5p	2000-2007
D F Tilston	22,637	-	22,637	227.5p	2000-2007
T J Walker	-	50,000	50,000	187.5p	2002-2009

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

No share options were exercised by Directors during the year.

The mid-market price of Victrex plc shares at 30 September 1999 was 180p. The range in the financial year was 115p to 190p.

Mr P T Warry, Mr P J Harper, Mr A G Clinch and Mr R W Heley did not hold any share options in the Company during the year.

Under SAYE, the total number of shares over which Mr P J C Syms had options at the year end was 12,228 at an exercise price of 138p per share.

LONG TERM INCENTIVE PLAN

The long term incentive plan commenced 26 January 1999. Mr D R Hummel, Mr P J C Syms, Mr D F Tilston and Dr T J Walker had no contingent interest in shares at the end of the year.

Five Year Financial Summary

Year ended 30 September	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m
Results					
Turnover	31.3	38.0	43.4	47.3	46.4
Profit before taxation	9.5	12.9	11.8	13.1	12.7
Net assets					
Companies Act format					
Fixed assets	10.0	13.1	15.0	20.9	24.1
Net current assets	0.7	0.1	4.3	7.7	11.4
Creditors: amounts due after more than one year	(2.6)	–	(1.5)	(5.6)	(7.4)
Equity shareholders' funds	8.1	13.2	17.8	23.0	28.1
Comprising:					
Fixed assets	10.0	13.1	15.0	20.9	24.1
Other operating net assets	8.0	8.0	9.3	12.7	17.4
Net debt	(1.8)	(2.9)	(1.1)	(4.7)	(8.1)
Dividend and taxation creditors	(8.1)	(5.0)	(5.4)	(5.9)	(5.3)
	8.1	13.2	17.8	23.0	28.1
Consolidated cash flow					
Net cash inflow from operating activities	10.1	13.5	12.0	11.2	10.0
Capital expenditure	(1.0)	(4.3)	(3.3)	(7.0)	(4.7)
Interest, dividends, taxation and other items	(2.2)	⁽¹⁾ (10.3)	(6.9)	(7.9)	(8.7)
Decrease/(increase) in net debt in the period	6.9	(1.1)	1.8	(3.7)	(3.4)
Ratios					
Earnings per share – basic	8.6p	11.9p	11.1p	12.1p	11.8p
Dividend per ordinary share	⁽²⁾ 3.6p	4.5p	4.8p	5.3p	5.5p
Net interest cover	15	103	54	47	30
Volume and capacity					
Tonnage	738	853	1,018	1,100	1,067
Year end name plate capacity	1,000	1,000	1,500	1,500	1,500

Notes

1 A special pre-flotation dividend of £4.7m was paid during the year.

2 Notional.

Notice of Annual General Meeting

Notice is hereby given that the seventh Annual General Meeting of Victrex plc ("the Company") will be held at Cazenove & Co, Conference Suite, 4 King's Arms Yard, London, EC2R 7AN on Thursday 27th January 2000 at 10.00 am for the following purposes:

Ordinary Business

- 1 To receive and consider the Directors' report and accounts for the year ended on 30 September 1999.
- 2 To re-elect KPMG Audit plc of St James' Square, Manchester M2 6DS as auditors of the Company to hold office until the completion of the next general meeting of the Company at which accounts are laid, and to authorise the Directors of the Company to determine their remuneration.
- 3 To declare a final dividend of 3.85p per ordinary share of 1p each in the capital of the Company in respect of the year ended 30 September 1999, such dividend to be payable to the holders of such shares on the register of members on 24 December 1999 and paid on 3 February 2000.
- 4 To re-elect as a Director Mr P T Warry who (having been appointed as a Director after the last Annual General Meeting of the Company) retires and offers himself for re-election.
- 5 To re-elect as Director Dr T J Walker who (having been appointed as a Director after the last Annual General Meeting of the Company) retires and offers himself for re-election.
- 6 To re-elect as Director Mr P J Harper who retires by rotation.
- 7 To re-elect as Director Mr R W Heley who retires by rotation.

Special Business

To consider and, if thought fit, pass the following resolutions of which resolution 8 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions:

- 8 THAT the Directors be generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Companies Act 1985 ("the Act")) up to a maximum aggregate nominal amount of £314,707.21 provided always that in the case of any allotment of relevant securities the authority hereby conferred shall be limited to the allotment of relevant securities up to an aggregate nominal amount equal to:
 - (i) one third of the aggregate nominal amount of all ordinary shares of 1p each in the capital of the Company ("Ordinary Shares") issued and fully paid as at the date of this resolution; and
 - (ii) the nominal amount of all Ordinary Shares which the Company may be obliged to issue to satisfy its obligations under options granted prior to the date of this resolution under the Victrex Limited Approved Executive Share Option Scheme, the Victrex Limited Unapproved Executive Share Option Scheme, the Victrex Limited Stock Purchase Plan, the Victrex 1995 Employee Share Option Scheme, the Victrex 1995 Sharesave Scheme and the Victrex 1998 Sharesave Scheme;

and provided further that such authority (unless previously revoked, varied or extended) shall expire at the conclusion of

the next Annual General Meeting of the Company or on 27 April 2001, whichever is the earlier but so that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if the authority had not expired and provided further that the authority shall be in substitution for all other authorities conferred upon the Directors in relation to the allotment of relevant securities.

- 9 THAT conditional upon the passing of resolution 8 above, the Directors be empowered pursuant to Section 95 of the Act to allot and to make offers or agreements to allot equity securities (as defined in Section 94(2) of the Act) for cash during the period of the authority contained in resolution 8 as if Section 89(1) of the Act did not apply to any such allotment, provided that such power is limited to:
 - (i) the allotment of equity securities in connection with issues to holders of Ordinary Shares where the equity securities respectively attributable to the interest of such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems and the laws of, or requirements of any regulatory body or any stock exchange in any territory; and
 - (ii) the allotment (otherwise than pursuant to sub-paragraph 9(i) above) of equity securities up to an aggregate nominal amount equal to 5% of the aggregate nominal amount of all Ordinary Shares issued and fully paid immediately after the date of this resolution;

such power to expire at the conclusion of the next Annual General Meeting of the Company or on 27 April 2001, whichever is earlier, but so that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the power conferred thereby had not expired.

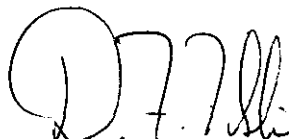
- 10 THAT the Directors of the Company be authorised generally and unconditionally to exercise all powers of the Company to make market purchases as defined in Section 163(3) of the Act) of its Ordinary Shares of 1 pence each provided that:
 - (a) the maximum number of Ordinary Shares which may be acquired is 7,852,928;
 - (b) the minimum price which may be paid for any such Ordinary Share is 1 pence; and
 - (c) the maximum price which may be paid for any such Ordinary Share is an amount equal to 105% of the average of the middle market quotation for an Ordinary Share according to the London Stock Exchange Daily Official List for the five business dates immediately preceding the day on which the purchase is contracted to take place;

such authority to expire at the conclusion of the next Annual General Meeting of the Company or on 27 April 2001, whichever is earlier, except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make a contract of

Notice of Annual General Meeting continued

wholly or partly after such expiry and to purchase shares in accordance with such contract as if the authority conferred hereby had not expired.

By order of the Board
D F Tilston
 Company Secretary
 7 December 1999



Notes:

- 1 A member of the Company entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company. To be effective, a completed and signed proxy form, together with any power of attorney or other authority under which it is signed or notorially certified copy of such power of attorney, must reach the Company registrars, Lloyds TSB Registrars, 54 Pershore Road South, Birmingham, B22 1AF, not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.
- 2 The appointment of a proxy does not prevent a member who so wishes from attending the meeting and voting in person.
- 3 An interim dividend of 1.65 pence per ordinary share of 1p each in the Company was paid on 23 July 1999.

EXPLANATORY NOTES

Ordinary Business

- 1 *Report and accounts*
 The Directors are under a duty in relation to each financial year to lay the accounts and reports of the Directors and auditors before the Company in general meeting. This gives shareholders the opportunity to ask questions on the contents.
- 2 *Re-appointment of auditors/auditor's remuneration*
 This resolution proposes the reappointment of KPMG Audit plc as auditors of the Company and authorises the Directors to determine the auditors' fees.
- 3 *Declaration of dividend*
 A final dividend of 3.85p per ordinary share payable on 3 February 2000 has been recommended by the Directors for the year ended 30 September 1999. In accordance with the requirements of the Inland Revenue, all dividends are declared and paid net of income tax at the standard rate.
- 4-7 *Re-election of Directors*
 In accordance with the Articles of Association, Mr P T Warry and Dr T J Walker (who were appointed as Directors after the last Annual General Meeting of the Company) are required to retire as Directors. Both individuals will, however, seek re-election by the shareholders. In addition Mr P J Harper and Mr R W Heley will retire by rotation as Directors and will seek re-election by the shareholders in accordance with the Articles of Association of the Company.

Special Business

- 8 *Authority to allot shares*
 The authority of shareholders is required to enable Directors to allot shares. Accordingly, in line with the Company's usual

procedure, which is also standard practice amongst other public companies, this resolution seeks authority for the Directors to issue shares within the limits of the existing authorised share capital for the period ending at the conclusion of next year's Annual General Meeting.

The resolution will provide for the Directors to be able to allot shares up to a nominal amount of £281,660.32, representing 35.87% of the current issued ordinary share capital. With the exception of shares to be issued in respect of share options exercised, the Directors have no current intention of exercising this authority.

- 9 *Permission to allot a limited number of shares other than to existing shareholders*

When shares are issued for cash, they normally have to be offered first to existing shareholders in proportion to their current shareholding. This resolution will enable the Directors to allot for cash up to £39,264.64, representing 5% of the current issued ordinary share capital, other than to existing shareholders in order to take advantage of these opportunities as and when they arise.

The authority will lapse at the earlier of the next annual general meeting of the Company and fifteen months after the passing of the resolution.

- 10 *Authority to purchase own shares*

In certain circumstances, it might be advantageous to the Company to purchase its own shares. Resolution 10 specifies the maximum number of shares which may be acquired (less than 10 per cent 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 this authority only if, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and will be in the best interest of the shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account in reaching such a decision. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly.

Documents available for inspection

Copies of the following documents will be available for inspection at the Company's registered office during normal business hours on any week day (Saturdays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting itself from 9.00 am until the conclusion of the meeting:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the register of Directors' interests in the share capital of the Company maintained under Section 325 of the Companies Act 1985; and
- (c) copies of each of the Director's service contracts.

Financial Calendar

Ex-dividend date*	20 December 1999
Record date†	24 December 1999
Annual General Meeting	27 January 2000
Payment of dividend	3 February 2000
Announcement of 1999 interim results	June 2000
Payment of interim dividend	July 2000

*Shares purchased before this date qualify for a dividend.

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

Victrex plc

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