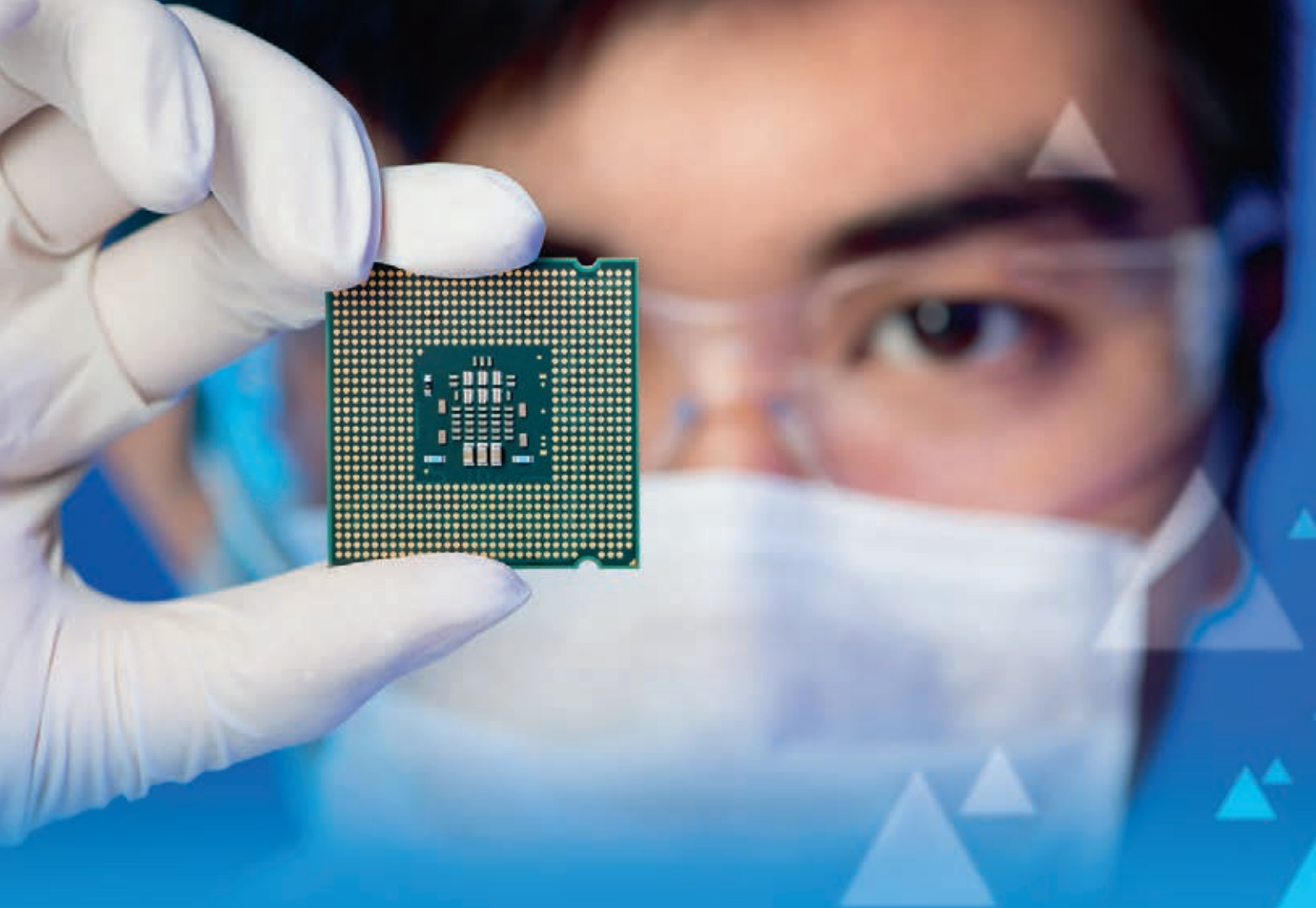


Victrex plc Annual Report 2016

An innovative world leader in high performance polymer solutions



Shaping future performance



Victrex is an innovative world leader in high performance polymer solutions



Moving beyond the polymer

FROM MATERIALS MANUFACTURER TO SOLUTIONS PROVIDER

Every day, millions of people across the world rely on products which contain our polymers and materials. From smartphones to Oil & Gas equipment, medical devices, aeroplanes and cars, we serve a diverse range of markets, helping our customers to overcome their technical challenges.

With over 35 years' experience and with global scale, we are moving downstream 'beyond the polymer' to further differentiate our business. By blending our materials knowledge, technical excellence and development know-how, Victrex will deliver selected semi-finished products, finished products and components that shape future performance for our customers and our markets, and drive value for our shareholders.

Accelerating our growth opportunities

Good finish to 2016

- Core business in growth; improved second half with core volumes up 9% on H2 2015
- Continued growth in Auto and Aero, Oil & Gas stable and Medical in line
- Consumer Electronics volumes >400 tonnes in H2 2016; remain cautious on 2017
- Full year performance impacted by weaker H1 and lower overall Consumer Electronics

Good progress accelerating growth pipeline

- Meaningful revenue of £1m+ for Magma Oil & Gas mega-programme
- Gears accelerated; initial revenue from Auto development programmes
- Trauma development agreement with major US medical device manufacturer
- Over 1,000 patient implants for PEEK-OPTIMA™ HA Enhanced

Continued growth to further develop downstream strategy

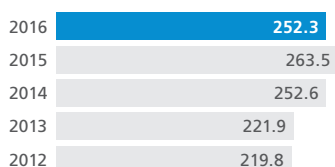
- Strategic investment of minority interest in Magma Global for £10m
- Composite manufacturing investments underpin Aerospace, Medical and Magma
 - New Trauma and Composite facilities operational
- Continued 'front-end' commercial investment, supported through focus on cost efficiency

Continued strong cash generation

- Net cash up 19% to £64.0m
- Final dividend of 35.09p (2015: 35.09p)

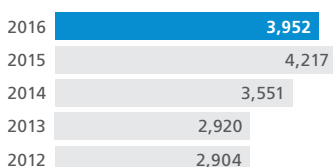
Group revenue £m

252.3 -4%



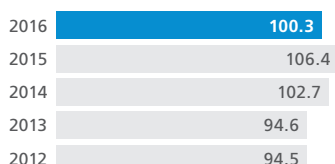
Group sales volume tonnes

3,952 -6%



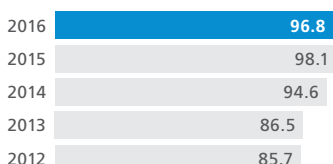
Group profit before tax £m

100.3 -6%



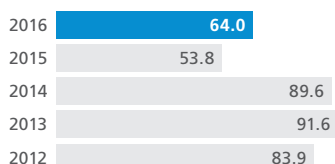
Earnings per share p

96.8 -1%



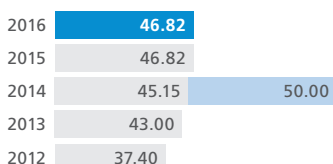
Cash £m

64.0 +19%



Dividend per share p

46.82 +0%



■ Regular dividends only ■ Special dividend

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Visit www.victrexplc.com or scan with your QR code reader to visit our Group website

Victrex at a glance

Shaping future performance...

Victrex is headquartered in the UK, with technical and support facilities across our major geographical markets, giving us global reach for our customers.



40+
countries
served

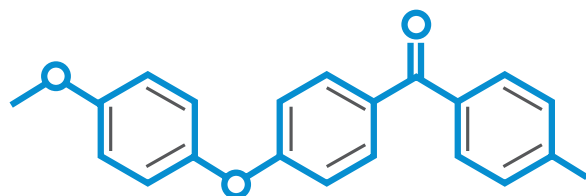
No.1
PAEK capacity

19
years RoSPA
Gold Awards

6%
of annual sales invested
in R&D

7,150 tonnes
of PEEK and PAEK capacity
(excluding downstream manufacturing)

97%
of revenue
from sales
outside UK



Did you know?

PEEK (Polyetheretherketone) was developed by ICI in the late 1970s and is part of the PAEK (polyaryletherketone) family of polymers. Today, PEEK retains its unique combination of properties to make it the highest performing melt-processable polymer in the world. Victrex continues to focus on PEEK, PAEK and other enabling high performance polymers.

...across our major markets

Victrex solutions are found across a range of applications



Our markets and megatrends
Pages 4 to 5

700+
employees
globally



36+
years of
shaping future
performance



OFFICE LOCATIONS

AUTOMOTIVE

200m+
braking systems delivered



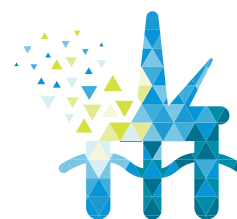
AEROSPACE

15,000+
aircraft flying with Victrex solutions



ENERGY

75m+
seal rings in use today



ELECTRONICS

1bn+
mobile devices include Aptiv
acoustic film technology



MEDICAL

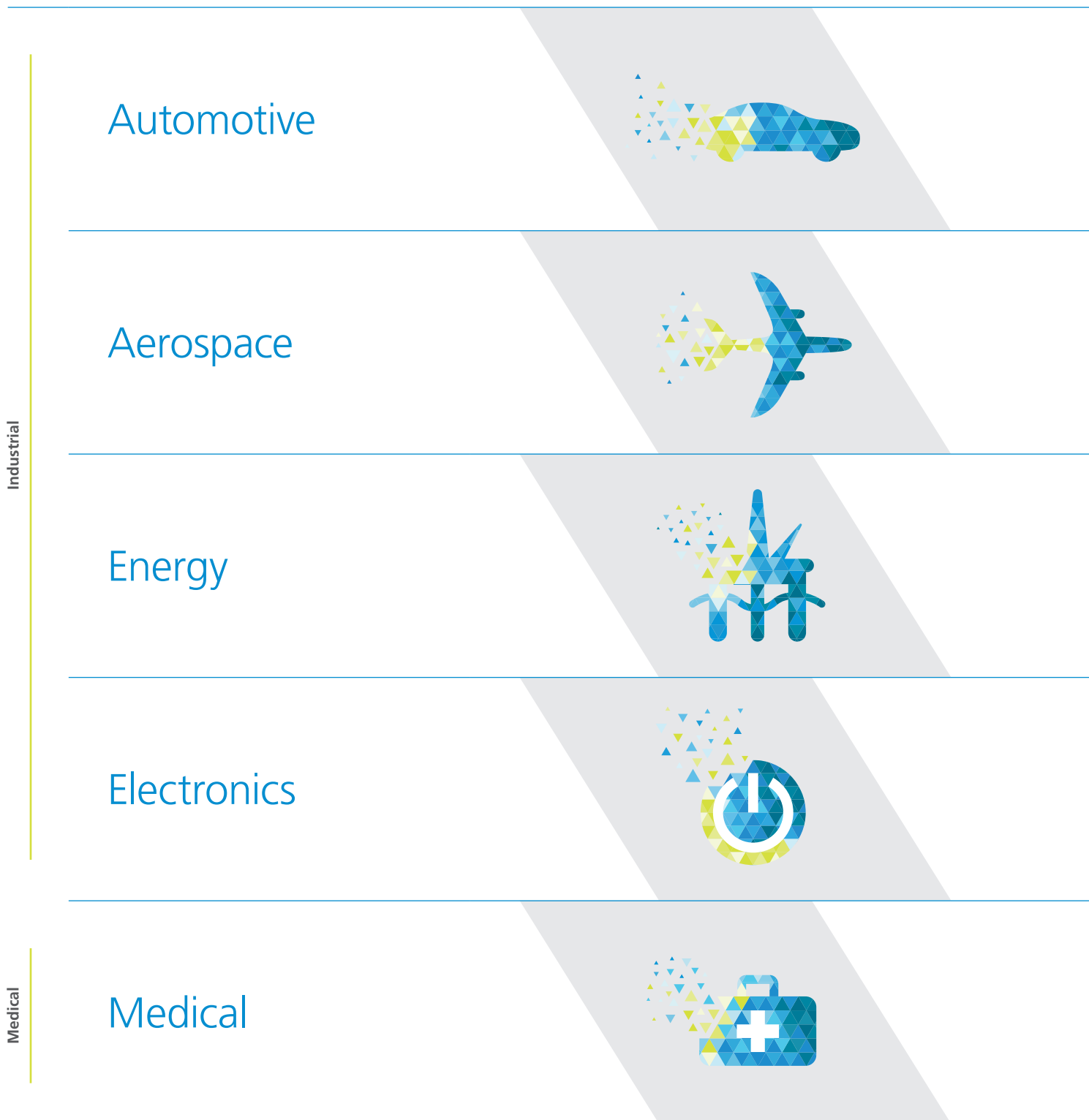
5m+
implanted devices



Sizeable growth opportunities

With long-term megatrends in our favour, we have a strong and diverse mix of growth opportunities across our key markets.

MARKETS





MEGATRENDS

CONSEQUENCES

OUR OPPORTUNITIES

Fuel efficiency and durability

Fuel efficiency, safety and reliability improvements resulting from consumer and regulatory trends.

Emissions reduction design challenges

Energy efficiency and durability are primary strategic imperatives for the Automotive industry.

Lightweight metal replacement

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

ABS braking systems, gears and transmission systems are key application areas.

Fly lighter

Lighter weight and more efficient manufacturing means fuel saving – a strategic imperative for the Aerospace industry.

Weight, cost reduction and fuel efficiency

Weight, cost reduction and improved fuel efficiency are primary strategic drivers for the Aerospace industry.

Lightweight metal replacement

VICTREX™ PEEK helps Aerospace lightweighting via metal replacement and is key to driving improved fuel efficiency and reduced emissions.

Our materials can also provide more efficient manufacturing.

Natural resource depletion

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

Extreme environments

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

Recover more

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

Thinner, smaller, smarter

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

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 PEEK resin, PEEK blends and our Aptiv™ acoustic film technology, create design opportunities by virtue of their durability in today's thinner, smaller, smarter mobile devices.

Ageing global population

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

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. Long-term demand for new solutions in core markets, such as Spine, and in emerging markets, such as Knee, Trauma and Dental, remains strong.

High performance solutions which enable device innovation

Invisio provides solutions for the Medical market that can be used in a minimally disruptive manner, enhancing clinical benefit. Our solutions are also being developed for Dental, Trauma and Knee.

Our business model

► MOVE DOWNSTREAM ►

1. DRIVE CORE BUSINESS

- PEEK and PAEK polymers
- Core applications
- No.1 upstream manufacturing capacity of 7,150 tonnes
- Cost efficiency

2. DIFFERENTIATE THROUGH INNOVATION

- Core application development pipeline
- Invent and develop new grades
- Increase differentiation

3. CREATE FUTURE VALUE

- Selected product forms (semi-finished)
- Downstream manufacturing
- Pipes, films and composites

Innovate to grow in a competitive market

Victrex's strategy is to be the world leader in high performance PEEK and PAEK polymer solutions. With over 7,000 tonnes of polymer manufacturing capacity, unique downstream manufacturing assets, a proven history of innovation, technical excellence and developing new applications and over 700 people focused on our polymers, we retain clear differentiators.

Although we have a focused and differentiated strategy, and not all PEEK is the same (with the characteristics, quality and repeatability of our products having been specified by OEMs over many years in critical applications), we remain mindful of competition in core polymer manufacturing. Innovating and further differentiating our business – in a competitive market – will provide a more sustainable platform for long-term growth. Innovating to grow beyond core polymer manufacturing requires increased specialisation, and will help Victrex to stand out as the company building the high performance polymer market.

Looking ahead, our innovation programmes are focused on four main areas:

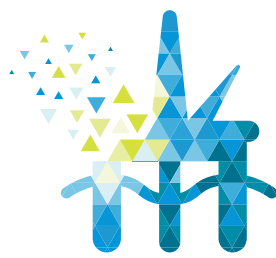
- 1 DRIVE core business: core applications
- 2 DIFFERENTIATE through innovation: core application development pipeline
- 3 CREATE future value: new product forms
- 4 CREATE future value: mega-programmes

Innovating to grow in a competitive market means increasing our differentiation by moving further downstream into selected semi-finished and finished products, components, new grades, product forms and composites. Innovating to grow beyond core polymer manufacturing will, we believe, help to further transition our business and drive long-term value for our shareholders.

FROM POLYMER TO PARTS

4. CREATE FUTURE VALUE

- Selected components (semi-finished and finished)
- Downstream manufacturing
- Deliver mega-programmes*
- Polymer to parts



ENERGY



AUTOMOTIVE



AEROSPACE



MEDICAL



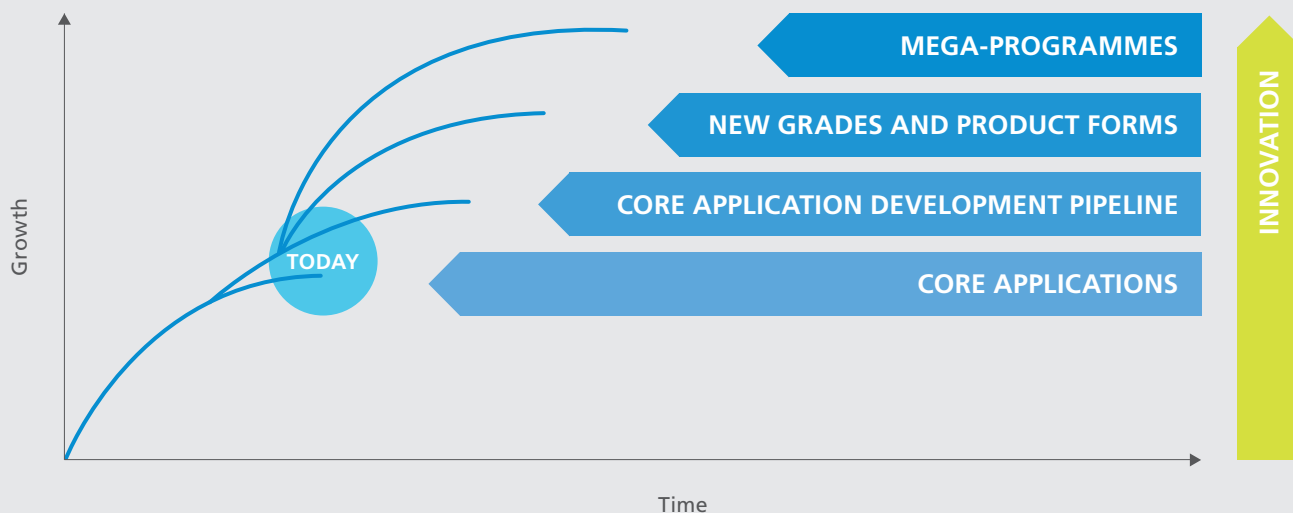
ELECTRONICS

END MARKETS

- Shape future performance
- Solutions provider



* Pipeline programmes offering >£50m annual revenue potential in peak sales year.



Our strategy

Moving beyond the polymer

Victrex's strategy is to be the world leader in value creation through high performance PEEK and PAEK-based polymer solutions.



FROM POLYMER TO PARTS

Our product leadership strategy will further differentiate our business. Moving downstream 'beyond the polymer' into selected semi-finished and finished products and components will shape future performance for our customers and our markets, and drive value for our shareholders.

Investment case

- A world leader: building the PEEK/PAEK market
- A focused and differentiated strategy: moving downstream
- Strong pipeline of medium to long-term growth opportunities
- Highly cash generative business model

Moving downstream: further differentiating our business

In a competitive market, further differentiating our business remains key. Maximising our core polymer business of today means focusing on our core application development pipeline and partnering with our customers and end users to gain specification for our products across our markets. Developing new grades and new product forms – supported by our Polymer Innovation Centre, which commenced construction this year – will also help to drive medium-term growth and differentiate our business. Continuing to focus on cost efficiency and supply chain opportunities in our business will also remain important for Victrex. Remaining cost competitive in our manufacturing and supply chain, whilst retaining the differentiators in our polymer chemistry and technical excellence will be a priority.

For tomorrow's business, beyond manufacturing polymers, Victrex stands out as the company which will expand the PEEK and PAEK market – moving downstream beyond the polymer into selected downstream semi-finished and finished products and components.

Moving downstream also offers Victrex the opportunity to not only further differentiate versus the competition, but to capture increased value from each application opportunity and deliver an appropriate return. An example is Aptiv film, where we can command a higher value share by manufacturing a product form (film) that is one step beyond simply selling materials. Other more recent examples include pipe and composites, whilst, for the medium to longer term, we are progressing semi-finished products and components in both the Industrial and Medical markets.

Moving downstream: making steady progress

Victrex continues to make steady progress moving downstream, although we are mindful that the often disruptive nature of our technology can take time to gain full market acceptance, even if technically proven. Within our pipeline, several of our programmes offer a potential peak year revenue of more than £50m. 2016 saw

us deliver first 'meaningful revenue' of over £1m for our Magma Oil & Gas project. We continue to focus on opportunities for acceleration of all our mega-programmes, whether through investment in M&A to acquire technical and design expertise (as in the case of our Kleiss Gears acquisition last year), organic investment, or partnerships or licensing agreements to secure know-how or capability to drive market adoption. Make versus Buy remains a key consideration in our strategy.

We now have several downstream manufacturing assets, including Film in Electronics, Aerospace and Automotive, Trauma plates in Medical, Pipe for Oil & Gas and Aerospace, and Composites capability. Whilst we recently completed our major capital expenditure programme, our highly cash-generative business model means we will continue to consider investments in support of our downstream journey.

Moving downstream: delivering our strategy

Victrex has a proven track record in building markets and driving adoption of new technology; for example, we developed a £50m Medical business. Looking ahead, long-term megatrends remain strong, although we are mindful of the execution risks to drive adoption of our mega-programmes and deliver our strategy, whether this is technological change, recruiting and retaining the right people and capability, or impacts from the global market environment. Further detail on these risks are set out on pages 22 to 24.

To support delivery of our strategy we will focus on three key Company priorities:

Growth and innovation

- Maximise our core applications and development pipeline
- Accelerate new product forms, new grades and mega-programmes

Cost effectiveness

- Low cost manufacturing
- Become a more efficient and effective organisation

People, processes and systems

- A safe and rewarding environment
- Recruit and retain the right talent
- Utilise world-class systems and processes

We remain confident in our strategy. We will continue to invest as we move further downstream, innovating beyond the polymer to underpin our long-term growth opportunities.

The Strategic report on pages 8 to 36 is signed on behalf of the Board.

David Hummel
Chief Executive
6 December 2016

Our strategic drivers

STRATEGIC DRIVERS

PROGRESS AGAINST STRATEGY



Drive core business

- Strategic marketing: focus on highest growth opportunities
- Execute on key growth programmes in five strategic markets
- Drive growth in emerging geographies
- Focus on cost efficiency

Revenue growth (reported)

(4)%

(2015: 4%)

Return on sales*

40%

(2015: 40%)

* Return on sales: PBT/revenue.



Differentiate through innovation

- Market-led innovation
- Invest in emerging businesses
- Move further downstream: new applications, new forms, new materials and new product launches

R&D spend**

£14.1m

(2015: £13.7m)

** 6% of Group revenue.

Sales from new products***

£7.7m

(2015: £5.7m)

*** Sales from new grades sold from FY14 onwards.



Create future value

- Strong pipeline
- Portfolio management
- M&A/partnerships

Pipeline mega-programmes

6

(2015: 6)

(Number of pipeline projects offering >£50m annual revenue potential in peak sales year).

Earnings per share

96.8p

(2015: 98.1p)



Underpin through safety, sustainability and capability

- Safe and sustainable business
- Future capacity/solutions
- Talent strategy

1.3m

employee hours worked with no reportable injuries

1,000+

hours worked in the community (2015 and 2016)



Find out how we are delivering on our sustainability goals

Page 26

Moving downstream: beyond the polymer

Delivering our growth strategy by moving downstream, beyond the polymer into new selected semi-finished and finished products, will further differentiate our business and enhance the value that we deliver to our customers and shareholders.

Strategy and differentiation

Our product leadership strategy, to become the world leader in value creation through high performance PEEK and PAEK polymer solutions, means developing new applications, new grades and product forms, including composites, and new markets alongside our core materials offering. By blending our inherent innovation and technical excellence, materials knowledge and development know-how, we will deliver selected semi-finished and finished products and components alongside our core materials business. The market opportunity to capture long-term growth remains sizeable and moving downstream, beyond the polymer, will help Victrex stand out as the company building the PEEK and PAEK polymer market.

Investment case

- **Market leader: building the PEEK/PAEK market**
- **A focused and differentiated strategy: moving downstream**
- **Strong pipeline of medium to long-term growth opportunities**
- **Highly cash-generative business model**

Growth pipeline

Our pipeline of new products is focused on our 'mega-programmes', with each offering the potential for over £50m of annual revenue in the peak sales year, although we are mindful that driving full market adoption can take time against incumbent technologies. 2016 saw continued progress, with our Magma Oil & Gas mega-programme reaching meaningful revenue of over £1m.

In the meantime, whilst we are mindful of new competitor capacity coming into the industry, our core business remains robust and we continue to differentiate, and provide a more sustainable platform for long-term growth. Supporting this is our continued investment to help accelerate our 'mega-programmes'. This year we invested in smaller scale manufacturing assets and made a strategic investment to support our long-term pipeline.

Results

2016 was a challenging year for Victrex, although, pleasingly, several markets remained in growth and we delivered in line with expectations. The macro-environment in Oil & Gas and the much lower year on year volumes in Consumer Electronics impacted our overall performance. Group revenue of £252.3m was 4% down on the prior year (2015: £263.5m).

Group profit before tax of £100.3m (2015: £106.4m) reflected these impacts and the higher fixed costs from our new manufacturing assets, although our enhanced focus on efficiency – whilst retaining investment in the 'front-end' commercial, technical and marketing functions – helped to reduce overhead costs. Earnings per share of 96.8p (2015: 98.1p) was down 1%.

Investment for growth

We are supporting our strategy of moving downstream by transitioning resources from primary manufacturing into secondary manufacturing, as well as investing in our 'front-end' market focused functions, which will help to drive market adoption and growth for our new products over the coming years. As we communicated at our 2016 preliminary results, we are focusing on a number of cost efficiency opportunities, which will place the business on a more sustainable and efficient path to support our future growth. These may include supply chain opportunities.



Larry Pentz Chairman

Having completed our major polymer capacity expansion last year, investment has turned towards downstream manufacturing, which includes our new Trauma manufacturing facility and our Composite facility, which will support a number of our mega-programmes. Capital expenditure was £25.9m (2015: £41.2m) and is expected to remain similar over the medium term.

Innovation and technical excellence remains a key differentiator for Victrex. R&D expenditure of £14.1m was similar to the prior year (2015: £13.7m) and represents 6% of Group revenue, which reflects some of our growth programmes moving past the technical qualification stage to market adoption and early commercialisation.

M&A remains a key option for Victrex in supporting our growth programmes. Our strategy of Make versus Buy offers us the opportunity to develop assets or capability ourselves, or buy in this capability as we did with Kleiss Gears last year. During the year we deepened our relationship with Magma Global, partners in the Magma Oil & Gas programme, by acquiring a minority equity interest. This will provide us with a more strategic role in the Magma business and the opportunities for this programme.

Victrex's growth capabilities and aspirations remain undiminished and we expect to communicate our aspirations for medium-term growth during the forthcoming year.

Cash-generative business model

Our business model remains highly cash generative, supporting future investment. The Group's closing cash balance reached £64.0m this year (2015: £53.8m), with no debt. Overall, our balance sheet remains robust, underpinning investment, providing reassurance to customers and enabling us to deliver appropriate returns for shareholders.

Dividends

The Board's capital allocation framework, set out last year, seeks to prioritise growth investment – whether organic or through M&A – first, whilst supporting a regular dividend and the potential of incremental returns for shareholders via a special dividend.

No special dividend is proposed this year.

Our regular dividend seeks to maintain cover at or around 2x and grow the regular dividend in line with earnings. Despite a lower trading performance, the Group is proposing to pay an ordinary dividend of 46.82p per share (2015: 46.82p). Dividend cover is at 2.1x (2015: 2.1x).

The Board

Your Board is strong, blending complementary skills and experience to shape our future performance. Our current female representation on the Board is 33%, consistent with the recommended minimum representation.

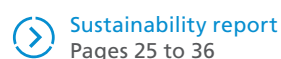
There were no changes to your Board during the year.

A more detailed description of the Board's responsibilities and governance processes that are embedded in our business are provided in the corporate governance section of this report, starting on page 40.



Sustainability and efficiency

Victrex has continued to make progress against its 2023 Vision (timed to celebrate the 30th anniversary of Victrex's formation). Some of our metrics have been revised this year to better reflect the changing nature of our business as we move further downstream into more semi-finished products and beyond the polymer. We are close to becoming carbon neutral, thanks to the strength of our products in the Aerospace and Automotive markets which support lightweighting, durability and fuel efficiency. We have also increased our focus on becoming a more efficient organisation, not just in our manufacturing operations. Further detail can be found in the Sustainability report on pages 25 to 36.



Safety

Once again, Victrex was recognised with the Order of Distinction for its safety record and processes by the Royal Society for the Prevention of Accidents ('RoSPA') this year, our 19th year of achieving Gold Standard. We again recorded no lost time accidents, a measure of our safety practices.

Away from our manufacturing operations, we have an unwavering safety focus across our global teams, who continue to drive the market opportunities for our polymers, whether at commercial, marketing, technical or support services level.

People

With near-term challenges in some of our markets, Victrex is taking appropriate actions to refine the Group which will, I believe, help make us a more efficient and differentiated business for the future. Our growth aspirations remain unwavering and, on behalf of the Board, I would like to thank each and every one of Victrex's employees for their contribution this year.

Our employees and our business continue to be viewed favourably by our wider stakeholders, which helped Victrex secure a top 20 position in Britain's Most Admired Companies this year. We also secured the runner-up position for the chemicals sector.

Outlook

For the medium to longer term, Victrex remains in a good position, with a strong pipeline of potentially game-changing projects. We continue to invest, as we transition our business beyond the polymer, and to support our move downstream.

For 2017, our core business is in growth, we remain focused on cost efficiency and we are operating in a more favourable currency environment. Our assumptions for a continuation of Consumer Electronics volumes, but at a significantly lower level, are unchanged, with an expected second half weighting. At this early stage of the year, we are comfortable with current expectations.

Larry Pentz
Chairman
6 December 2016

Accelerating our growth opportunities

Our world-leading position in high performance polymer solutions reflects not only our capacity, but our technical excellence, materials know-how and IP, application development expertise and downstream focus.

A good finish; H2 core volumes up 9%

In line with expectations, Victrex delivered an improved performance in the second half and a good finish to 2016. Our core business volumes – which exclude Consumer Electronics – were up 9% in the second half year, with growth in Transport markets and a more stable performance in Energy.

Our overall performance was offset by a weaker first half and much lower year on year Consumer Electronics. Volumes from the large Consumer Electronics opportunity, on a full year basis, were down over 30%.

Full year revenue and volumes

Group revenue for 2016 was £252.3m, 4% below the prior year (2015: £263.5m), with Group volumes down 6% to 3,952 tonnes (2015: 4,217 tonnes).

Profit before tax and EPS

Group profit before tax of £100.3m was 6% lower than the prior year (2015: £106.4m). Basic earnings per share of 96.8p per share was 1% down (2015: 98.1p per share), helped by an effective tax rate of 17.7% (2015: 21.5%).

Pricing marginally ahead, reflecting lower Consumer Electronics

Our average selling price ('ASP') of £63.80/kg was marginally ahead of the prior year (2015: £62.50/kg), principally reflecting a similar mix in our core business, but with a lower contribution from

Consumer Electronics. Whilst we are mindful of new competitor capacity coming into the industry, pricing in the core business remains broadly stable. Excluding Consumer Electronics volumes and the impact of foreign currency, our average selling price was £70/kg.

Looking towards 2017, with Consumer Electronics volumes expected to be lower, we anticipate that ASP on a full year basis will be slightly ahead of 2016 in constant currency. The effect of more favourable currency movements (as a result of pricing in local currency), will also be supportive for our reported ASP.

Margin reflects annualised new plant costs

Group gross margin of 62.9% (2015: 63.8%) was slightly down, with the costs from our third polymer plant annualising this year and reduced volumes through the plants resulting in a higher cost of manufacture per tonne. For 2017, we have previously communicated that operating leverage is expected to be weaker, with a higher cost of manufacture. This reflects the anticipated impact from lower Consumer Electronics volumes, but with higher fixed costs from our new assets now being incurred. However, investing in capacity ahead of demand remains central to our strategy.

Our downstream strategy involves a move towards the production of selected semi-finished products and components and our cost of manufacture will start to increase to reflect this. However, our strategy also offers the opportunity to capture a higher value share of each application (rather than just the material cost). Remaining focused on growing absolute profits, rather than solely focusing on the gross margin percentage, remains a priority for Victrex.

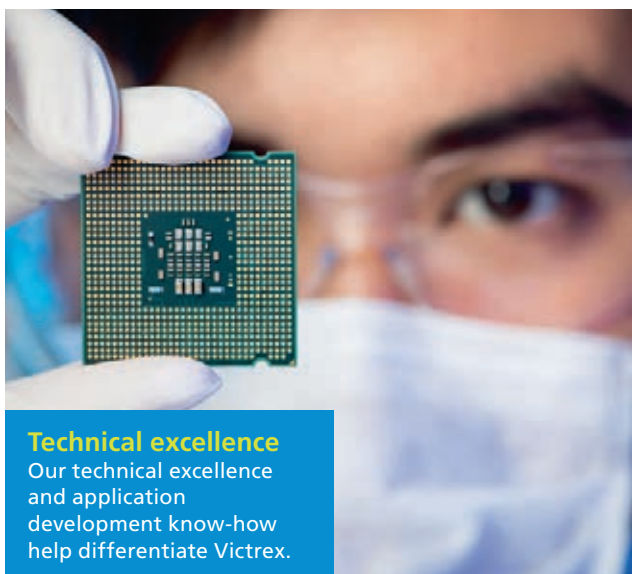
	2016	2015
Group revenue	£252.3m	£263.5m
Group profit before tax	£100.3m	£106.4m
Cash	£64.0m	£53.8m
Earnings per share	96.8p	98.1p
Dividend per share	46.82p	46.82p



Financial statements
Pages 73 to 98

Louisa Burdett Group Finance Director





Technical excellence

Our technical excellence and application development know-how help differentiate Victrex.

Currency more favourable for FY 2017; further benefit for FY 2018

As a UK-based global exporter, with over 97% of sales outside of the UK, Victrex hedges currency up to twelve months in advance. For 2017, given the considerable weakening of Sterling following the Brexit vote in June 2016, Victrex now expects currency will be more favourable, with the potential benefit to our profits expected to be slightly ahead of our prior £14m–£15m guidance. However, we anticipate that a proportion of any incremental benefit would be used to support 'front-end' growth investment, helping to drive adoption of our mega-programmes. We also note the further implied benefit from currency in 2018 – based on current spot rates – although our hedging programme for 2018 remains at an early stage.

Accelerating long-term opportunities, M&A and partnerships

We continue transitioning on our journey from polymer to parts, capable of delivering selected semi-finished and finished products and components, beyond simply manufacturing polymers. Developing the PEEK and PAEK market means creating new solutions for customers, building new supply chains where none currently exist and, in turn, offering growth and differentiation opportunities for Victrex.

Although we recognise the time required to drive market adoption, our focus is on acceleration opportunities, whether organically or through acquisition and partnership. Today we announced an investment of £10m in Magma Global, our existing development partner for the Magma Oil & Gas mega-programme. Similar to our Kleiss acquisition last year, investments of this nature offer the potential to underpin and further advance our growth programmes.

Our Magma investment reflects our long term view of this market, despite short term challenges within Oil & Gas. The investment will underpin additional manufacturing capacity at the Magma facility, provide us with a more influential role in the opportunity and enable Victrex to bring its experience of adopting innovative and disruptive technology into the Magma programme.

We expect to communicate more detail about our growth pipeline at a Capital Markets Day in 2017.

Operating performance¹

Robust performance in core Industrial markets, offset by Consumer Electronics

Our Industrial business, (Victrex Polymer Solutions or VPS), remained robust in its core markets, but reflected the decline in Consumer Electronics over the course of the year. Industrial revenue in total was £201.5m (2015: £213.0m), 5% down on the prior year.

Automotive and Aerospace saw good growth, with Transport volumes 9% ahead as build rates and increasing translations, as well as continued innovation, supported growth. Energy & Other Industrial volumes were down 7% reflecting the tough industry environment, but Oil & Gas becoming more stable in the second half of the year. Oil & Gas volumes comprise less than 10% of our total Group volume. We successfully delivered meaningful revenue of over £1m from pipe and composite sales to the Magma Oil & Gas flexible subsea pipes opportunity this year, and have also seen several orders for 'intervention' pipes. From 2017 onwards, we will also focus some of our resources on a new sub-segment of Manufacturing & Engineering. This includes industries such as fluid handling, process control and power systems. Manufacturing & Engineering will report within the Energy & Other Industrial segment.

Electronics volumes in total declined by 29% in 2016, driven mainly by the large Consumer Electronics order. Outside of Consumer Electronics, the remainder of the Electronics segment saw a steady performance in Semiconductor. Aptiv film reflected a slower smartphone and mobile device market in the first half; however, we did see an improving trend towards the end of 2016. The trend of thinner devices continues to be supportive for film over the medium term, as well as its application in other markets, principally Aerospace and emerging opportunities in Automotive.

For 2017, our assumptions for Consumer Electronics volumes are unchanged – a significantly lower level of volumes and an expected second half weighting. This reflects supply chain dynamics and market demand, although we continue to directly engage with OEMs in this market on both the existing opportunity and other differentiated application opportunities for the medium to longer term.



Meaningful revenue

Our Magma Oil & Gas programme secured over £1m revenue this year

1. As communicated at Victrex's interim results in May 2016, the industry split information has been changed from the prior year. All comparatives have been restated on a consistent basis.

Financial review continued

Delivering our strategy

“Success with our downstream strategy offers the opportunity to capture a higher value share of each application.”

Operating performance¹ continued

Medical stable; progress with mega-programmes

In our Medical business (Invibio), revenue was up 1% at £50.8m (2015: £50.5m), which reflects our biggest market – spinal fusion in the US – remaining stable, but with limited growth in the number of spinal surgery procedures. We saw continued progress in emerging market growth. Medical sales in Asia were up 2%, with first regulatory approvals for our innovative PEEK-OPTIMA™ HA Enhanced product secured in China. Submissions are also pending in South America.

Our position regarding the Consent Decree we entered into with the US Federal Trade Commission ('FTC'), as set out in our announcement of 28 April 2016, is unchanged. As we previously communicated, Victrex has not admitted any violations of any law, there are no penalties or fines and the Consent Decree will resolve all outstanding matters before the FTC. The Board does not expect the FTC Consent decree to have a material impact on the business, or the future mega-programmes. The Consent Decree became final on 14 July 2016, without any modifications.

In our pipeline of medical mega-programmes, we secured a development agreement with a major US medical device manufacturer for our Trauma programme, allied to our new Trauma plates manufacturing facility being completed this year. We anticipate meaningful revenue within a two to five-year timeframe from this programme, although it has the potential to accelerate more quickly. Further potential investment will be kept under review with this programme, in the event of a quicker ramp-up. In Dental, we continue to work on enhancing our route to market within the industry. We are now working with the Malo Clinic in Portugal, which reported successful performance data for Juvora in June, with a multi-year clinical study in place. This builds on the good progress in doubling sales last year. Over 6,000 patients now have our Juvora dental frames and developing partnerships to enhance market access remains key.

Our Knee programme will shortly commence its clinical trial. We continue to progress this opportunity with our partner Maxx Orthopedics and note the current high dissatisfaction rates with metal-based knee implants, as well as the significant market opportunity.

Investment in downstream manufacturing

Retaining growth capital to help underpin our move downstream into selected semi-finished and finished products and components remains the priority for Victrex. Our expectations of medium-term capital expenditure in the £25m–£35m per annum range are unchanged.

Investments this year were focused around composites, a market which is expected to grow over 10% per annum over the next five years (source: Lucintel 'Growth Opportunities in Continuous Fiber Thermoplastics Market 2015–2020'). These investments include construction of our Trauma plates manufacturing facility in Medical and our Composite Tape manufacturing line, which will support Aerospace, Magma and Medical mega-programmes. Both projects are now fully operational, with significant know-how tied up in these assets, helping us to further differentiate our business.

Strong development pipeline; investing to drive adoption

Our development pipeline is focused on six mega-programmes, PEEK-OPTIMA™ HA Enhanced (Spine), Dental, Victrex Pipe/Magma,

Trauma, Knee and Aerospace Loaded Brackets, as well as some smaller opportunities.

In Horizon 1 (0–2 years from meaningful revenue of £1m–£2m), Magma delivered meaningful revenue this year, reflecting trial orders, as well as some 'intervention' pipe sales. We will now focus on further development of the Magma opportunity, whilst noting the macro-environment is still challenging. Our other Horizon 1 programmes include PEEK-OPTIMA™ HA Enhanced for the Spine market and our Gears programme. The latter programme has been accelerated, thanks to the capabilities we acquired through the Kleiss acquisition and prototype development, and has the opportunity to deliver first meaningful revenue by the end of 2017. Horizon 2 (2–5 years from meaningful revenue) programmes include Dental; Trauma, where we have a development agreement in place with a major US medical device manufacturer; and Aerospace Loaded Brackets. Our Knee programme is in Horizon 3 (5+ years from meaningful revenue).

Further differentiating our chemistry

We are progressing with construction of our Polymer Innovation Centre, which will further enhance our prototyping and application development capabilities and the development of new differentiated polymer grades beyond our existing chemistry. The facility, which is expected to be operational during the second half of 2017, will also provide support for our Innovate UK consortium, led by Victrex, focusing on additive layer manufacturing ('ALM' or 3D printing). Research and development investment was £14.1m (2015: £13.7m), representing approximately 6% of Group revenue.

Continued focus on costs

Continuing to focus on cost efficiency and supply chain opportunities across our business remains important. Keeping cost competitive in our manufacturing, whilst retaining the differentiators in our polymer chemistry and security of supply, is key in a competitive market. Beyond capturing further cost benefits, a focus on our supply chain will also support the requirements for new polymer grades over the coming years, as we differentiate and move beyond our existing chemistry.

With the introduction of our Enterprise Resource Planning ('ERP') system this year, we are becoming more efficient in our allocation of resources and our support functions. Remaining cost focused in a competitive market is important and will also support how we allocate resources towards our 'front-end' commercial, technical and marketing functions, helping to drive adoption of our mega-programmes.

Overheads were down 6% during the year. Alongside being cost efficient, this also reflects that our employee bonus scheme, which is linked to profit growth, was not triggered.

Strong balance sheet

Our strong balance sheet supports growth investment and provides security of supply to our customers.

Net assets at 30 September 2016 totalled £389.1m (2015: £358.6m). At the end of the first half, stock levels were at £69.1m, where we had built stock ahead of the ERP roll-out, and ensuring we had sufficient stock to manage the expected upturn in Consumer Electronics volumes during the second half. Pleasingly, stock levels

Polymer Innovation Centre

Construction of our facility to support new polymer grades and our 3D printing consortium commenced this year.



Aerospace

Transport markets continue to offer long-term growth opportunities.



Gears

Our Kleiss acquisition has helped accelerate our Gears programme.

of £61.8m at the end of September 2016 decreased earlier than anticipated, reflecting the implementation of our ERP system.

Victrex's UK defined benefit scheme closed to future accrual on 31 March 2016, with employees in the defined benefit scheme eligible to join the defined contribution scheme. As part of the closure, Victrex made a cash contribution of £3.6m into the defined benefit scheme. A non-cash curtailment gain of £2.6m was recognised in the income statement, representing the one-off reduction in accounting liabilities as benefits are no longer linked to future salary increases. The scheme was closed to new members in 2001.

This gain was reduced by a charge of £1.5m, for transitional benefits provided to active pension scheme members and the costs of closing the scheme. The net one-off benefit of £1.1m from closing the scheme has been offset in the income statement, with restructuring costs of £1.6m, resulting in a net charge to the income statement of £0.5m.

Strong cash generation

Cash generated from operations was £96.0m (2015: £111.9m) representing an operating cash conversion (cash generated from operations/operating profit) of 96% (2015: 105%). Net cash (with no debt) at 30 September was up 19% to £64.0m (2015: £53.8m), which partly reflects the back-end loading of Consumer Electronics volumes and payments coming in after the year end.

Regular dividends of £39.9m (2015: £38.7m) reflect the final dividend from 2015 of 35.09p and the interim dividend of 11.73p. Those paid in the prior year (excluding a 50p per share special dividend totalling £42.5m, which was announced in December 2014) were a final dividend of 33.76p and an interim dividend of 11.73p.

Taxation

The effective tax rate was 17.7% (2015: 21.5%). The lower rate in 2016 is mainly due to the reduction in the main rate of UK corporation tax, in addition to the impact of restating the opening deferred tax balance and prior period adjustments, primarily relating to a higher than normal level of R&D qualifying expenditure during 2015. Taxation paid during the period was £12.7m (2015: £24.6m). The Group anticipates the effective tax rate for 2017 will be higher than 2016 levels.

Dividends

Our capital allocation framework states that growth investment is our top priority. The policy for our regular dividend is to grow in line with earnings, with cover maintained at around 2x. After this, and subject to no additional growth investment, Victrex will return around 50% of the net cash balance to shareholders, via a special dividend, subject to a 50p/share minimum level. For the full year, with profit before tax falling by 6%, the Group is holding the final dividend at 35.09p per share. Total dividends for the year are 46.82p (2015: 46.82p).

Outlook

For 2017, our core business is in growth, we remain focused on cost efficiency and we are operating in a more favourable currency environment. Our assumptions for a continuation of Consumer Electronics volumes, but at a significantly lower level, are unchanged, with an expected second half weighting. At this early stage of the year, we are comfortable with current expectations.

1. As communicated at Victrex's interim results in May 2016, the industry split information has been changed from the prior year. All comparatives have been restated on a consistent basis.

Louisa Burdett
Group Finance Director
6 December 2016

Shaping future performance

Innovating to grow; building the high performance polymer market.

Industrial (Victrex Polymer Solutions) revenue

£201.5m -5%

Industrial (Victrex Polymer Solutions) gross profit

£114.2m -8%



Tim Cooper
Executive Director Industrial

Medical (Invibio) revenue

£50.8m +1%

Medical (Invibio) gross profit

£44.5m +0%



Martin Court
Executive Director Medical

Industrial (Victrex Polymer Solutions)

The Industrial business unit generated revenue of £201.5m (2015: £213.0m), 5% down on the prior year, reflecting lower Consumer Electronics volumes.

Gross profit was down 8% on the prior year, with the gross margin down to 56.7% (2015: 58.2%). This was principally driven by the higher cost of manufacturing due to lower volumes through the plants.

Whilst the Group manages and reports its performance through the Industrial (VPS) and Medical (Invibio) divisions, we continue to provide a market based summary of our performance and growth opportunities within our two reporting segments.

Energy and Other Industrial

Energy & Other Industrial sales volume at 485 tonnes was 7% down on last year (2015: 522 tonnes), with Oil & Gas down 16% overall. The second half of the year saw Oil & Gas more stable. Victrex's exposure to Oil & Gas is mixed because we typically supply more stable chemical processing industries and production-led business, as well as the exploration-linked applications which have been more affected by the lower oil price. Long-term megatrends in Oil & Gas continue to be strong, with harder to extract reserves, higher pressure and more extreme temperatures demanding better performance from materials. Our PEEK/composite tape is also supporting opportunities in this market.

Value Added Resellers

Value Added Resellers sales volume at 1,398 tonnes was 5% ahead of last year (2015: 1,334 tonnes), as processors and industrial customers continued to benefit from the growth opportunities within the high performance polymer market. Because of the fragmented nature of the industrial supply chain, once PEEK and our polymers have been specified, full clarity on the exact route to market for all of our polymer business is not always possible and we have historically made as accurate an assessment as possible about where these volumes land in our end markets. Value Added Resellers reflects that we will no longer be allocating some indirect business into our five major markets. This segment continues to offer growth opportunities for material and resin-based business.

Transport

Transport sales volume increased 9% to 869 tonnes (2015: 800 tonnes) with a good performance across Aerospace and Automotive.

In Aerospace, the main airframe manufacturers are increasingly moving beyond lightweighting trends to focus on reducing the backlog of orders and driving down the total cost of components. PEEK's processability and ability to reduce manufacturing cycle time by up to 40% is a key selling point. During the year we secured pre-qualification for our PEEK/composites Loaded Bracket programme, which blends different grades of PEEK with carbon fibre into a unique and IP-protectable application. This complements and builds on existing applications in Aerospace, such as Unloaded Brackets and our PEEK film in Thermal Acoustic Blankets. Other developments include material for brackets programmes with COMAC in China, supporting their ARJ21 regional jet.

Acceleration options

We continue to focus on investments which could help accelerate our growth programmes.



In Automotive, we continue to see further penetration of our core applications in ABS braking systems, transmission applications and other areas. Our Gears programme reflects the demand for lower noise, vibration and harshness ('NVH'), where PEEK can offer a 50% performance benefit compared to metal gears, as well as the trend for fuel efficiency and lightweighting. We now have multiple prototyping orders and are also engaged in discussions around other applications, including those 'under the hood', whilst we continue to explore the opportunity in 'e-motors'.

Electronics

Electronics sales overall were down 29% to 977 tonnes (2015: 1,380 tonnes), reflecting a decline of over 30% in our large Consumer Electronics order, partially offset by a steady Semiconductor performance.

The long-term trend of mobile devices getting thinner, smaller and smarter remains supportive. Victrex continues to work on a number of market-wide development programmes, in addition to existing business. The inherent volatility in this market, linked to end-user demand, remains a challenge; however, as we have proven with our Aptiv film, which is repeatable across many manufacturers and models, the growth opportunities in this market continue to be attractive.

Regional trends

In our regions, the US and Asia saw the greatest declines, reflecting Oil & Gas business which is typically specified through the US, and lower Consumer Electronics. Europe was up 7%, with 1,987 tonnes (2015: 1,852 tonnes); Asia-Pacific was down 20% to 1,303 tonnes (2015: 1,626 tonnes), largely due to lower overall Electronics volumes. US volumes were 10% down to 662 tonnes (2015: 739 tonnes), principally from Oil & Gas weakness in the first half.



Downstream manufacturing

We now have several downstream manufacturing assets to underpin our growth programmes.

Performance review/Executive Directors' reports continued



“With early stage sales in some of our new medical programmes, our emphasis continues on market adoption, whether through support data to vindicate these programmes or engagement with key opinion leaders and market influencers.”

Medical (Invibio Biomaterial Solutions)

Our Medical business performed solidly this year, with the geographic weighting in the US and in Spine offsetting progress in emerging geographies and the initial build of revenue in Dental and Trauma. Invibio revenue was up 1% at £50.8m (2015: £50.5m). Gross profit was £44.5m (2015: £44.3m) and gross margins remained solid at 87.6% (2015: 87.7%).

Medical market overview

Over 70% of Invibio revenue is from the Spine market and mostly in the US. With a lack of material growth in the number of US spinal procedures, market growth in recent years has remained muted. Consolidation amongst manufacturers and ‘fee for value’ pricing trends have also been a headwind for the medical device industry. We are addressing the challenge in the US through driving adoption of new innovation in Spine, seeking to further develop revenue from new geographies – which have continued to perform well, with Asia-Pacific revenues up 2% this year – and finally to secure adoption and early stage commercialisation of our mega-programmes in PEEK-OPTIMA™ HA Enhanced, Dental and Trauma. Knee remains within our Horizon 3 opportunities (5+ years from meaningful revenue).

For the medium to longer term, we believe Invibio is well placed in both the US and other geographic markets. Beyond being simply a materials supplier, our in-house regulatory expertise will help us to drive our existing programmes and new business. Already we have qualifications in Australia, China, India and South America.

With early stage sales in some of our new medical programmes, our emphasis continues on market adoption, whether through support data to vindicate these programmes or engagement with key opinion leaders and market influencers.

Knee programme

Our clinical trial will commence in 2017.



Trauma programme

We secured a development agreement to help progress our Trauma programme this year.



Mega-programmes

Invibio's PEEK-OPTIMA™ HA Enhanced product, which promotes bone-on-growth, commenced its adoption phase in 2015 following regulatory approval the previous year. Victrex now has 18 regulatory approvals and 29 submissions, a threefold increase since the prior year. Over 1,000 patients, to date, have successfully received implants of spinal cages based on PEEK-OPTIMA™ HA Enhanced.

We will continue to target key opinion leaders and surgeons in addition to spine companies, helping to drive adoption. Whilst PEEK-OPTIMA™ HA Enhanced will cannibalise some of our existing Spine business, it remains on track to deliver meaningful revenue of £1m–£2m over the next one to two years.

Dental sales remain below the £1m meaningful revenue threshold, but have made further progress this year, following a doubling of revenues last year. Over 6,000 patients now have our Juvora dental frames. Partnerships to secure better distribution in this fragmented global market are in focus for Invibio. We are working with the Malo Clinic in Portugal, which reported successful performance data for Juvora earlier this year.

Our Trauma manufacturing facility is now operational, enhancing our offering within the Trauma plate market, enabling us to have the ability to meet initial demand. Our manufacturing process has significant know-how behind it, blending PEEK and composites into semi-finished plates. These products offer the potential for 50 times better fatigue resistance compared to a metal plate in the body. Our development agreement with a major US player is expected to help progress the opportunity over the coming years.

In our Knee programme, we have the opportunity to introduce a lightweight and durable product against incumbent materials. With all pre-clinical work completed, our clinical trial will start early in 2017. Knee is the furthest out of our opportunities (five-plus years from meaningful revenue) but is potentially sizeable, currently scaled as a £50m+ annual peak revenue opportunity. Patient demand and the current high dissatisfaction rates for metal-based solutions offer significant potential in this market.

Risk management

Risk management is embedded in Victrex's culture, ensuring that we assess risks as part of delivering our strategy.



1 RISK AGENDA

Why do we undertake risk management?

Risk objectives

The Board is responsible for determining the nature and extent of the risks it is willing to take in delivering Victrex's strategy as set out on pages 6 to 9.

Victrex undertakes risk management to improve understanding of the actual and potential risks to our business as well as the resilience, performance, sustainability and success of its business, to enable it to assess and respond to new opportunities as they arise and to provide fair and balanced information to shareholders and potential shareholders.

This is particularly important as the business continues to move downstream into semi-finished products, finished products and components and as it drives market adoption of the mega-programmes.

Risk strategy

The Board is responsible for creating the framework for the Group's risk management to operate effectively. This risk management framework includes risk assessment, response, communication and governance. The Board is also responsible for ensuring that appropriate and proportionate resources are allocated to risk management activities.

2 RISK ASSESSMENT

How do we assess and record risks?

When assessing risk, we consider:

- **external factors**, including environmental, social and governance ('ESG') factors arising from the environment in which we operate; and
- **internal factors** arising from the nature of our business, internal controls and processes.

Analysis and recording of risks

Executive managers take ownership of specific business risks. The likely causes and consequences of each risk are recorded. Each risk is evaluated based on its likelihood of occurrence and severity of impact on strategy, profit, regulatory compliance, reputation and/or people. Risks are evaluated at both a gross and a net level, i.e. before and after the effect of mitigation. All risks are positioned on a risk-ranking matrix. This approach allows the identification and consistent evaluation of significant risks, as well as consideration of the effect of current lines of defence in mitigation.

We look at three lines of defence:

1st: The day to day controls and processes put in place by management.

2nd: Activities to advise and oversee first line controls and processes and risk management processes, often at least one step removed from first line direct management.

3rd: Independent business assurance – provided by both third parties and in-house internal audit over the effectiveness of the Group's system of internal controls and processes in first and second lines of defence.

Re-evaluation and challenge of risks

We seek to keep the risk registers up to date and relevant to our strategic objectives. The risk registers are regularly reviewed, challenged and debated. Risks are escalated as appropriate.

3

RISK RESPONSE

How do we respond to risks?

For each risk, we decide whether to tolerate it, mitigate it through further control, transfer it (e.g. through insurance) or terminate the threat to the business.

We continually challenge the efficiency and effectiveness of existing internal controls and always seek to improve our risk management framework.

The risk owners and the Risk and Compliance team allocate a status rating of appropriateness and effectiveness against each line of defence. This allows the risk register to record and track the completion of improvement recommendations.

4

RISK COMMUNICATION

Effective communication

At Victrex, our risk management structure is as follows:

Victrex plc Board

The Board undertakes reviews of the effectiveness of the risk management framework, policy and procedures and the performance of the Audit Committee and also approves the risk management policy.

A more comprehensive review of effectiveness includes consideration of the continued effective integration of risk management and internal controls with the corporate strategic objectives and business model, changes to and completeness of the principal risks and their management, the robustness of the embedded risk management processes and culture which underpin the quality of the reporting received by the Board, consideration of any significant control failings or weaknesses and the strength of our public reporting process.

Twice yearly, the Board carries out a comprehensive assessment of the principal risks, including evaluating the level of risk it is prepared to accept in pursuit of Victrex's strategic objectives.

The corporate risk register is consolidated from registers within business functions and projects. The corporate risk register tracks the status ratings against each line of defence and the action plan, therefore allowing it to be used effectively as a record of the completion of risk improvement actions and their revised likelihood and impact.

Audit Committee

The responsibilities of the Audit Committee are explained on pages 48 to 49. These responsibilities include reviewing the Company's risk management systems. The risk management system is primarily designed to mitigate risk down to an acceptable level, rather than completely eliminate the risk, and the review can provide only reasonable and not absolute assurance of effective operation, compliance with laws and regulations and against material misstatement or loss.

The Company's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control. The Audit Committee receives reports from management on the effectiveness of those systems it has established.

The Risk and Compliance function supports the Audit Committee in its review of the effectiveness of the system of internal control, as does the external auditor on matters identified during the course of its statutory audit work.

ELT Risk Management Committee

The Executive Leadership Team ('ELT') Risk Management Committee, chaired by the Group Finance Director, reviews the corporate risk register at least half yearly to ensure it remains relevant to the changing uncertainties which have the potential to impact our business' strategic objectives. During the year feedback from these reviews was provided directly to the Audit Committee and the Board by the Group Finance Director, to the former in respect of the risk management systems and to the latter in respect of the principal risks in the corporate risk register. The ELT Risk Management Committee comprises the ELT membership and the Director of Risk and Compliance.

Risk management subcommittees

Risk management subcommittees exist for business unit/functional levels. These meet and report up to the ELT Risk Management Committee at least half yearly via their respective chairs, who are ELT Risk Management Committee members.

Projects

Where it is appropriate, projects will have a project-specific risk register which will be reported to the relevant business unit.

5

RISK GOVERNANCE

How do we evaluate and provide assurance over our management of risks?

In Victrex, the processes in place to support the risk governance component of our risk management framework include the following:




- For Board and internal audit, see pages 45 and 50 respectively.
- The chairman of each of the risk management subcommittees communicates significant output, activities and emerging and evolving risks to the meetings of the ELT Risk

Management Committee, which reviews these and the risks in the corporate risk register. The three lines of defence model is recognised as best practice in relation to risk governance, and its inclusion on the face of our corporate risk register enhances the governance aspect of our risk management framework.

Principal risks

Principal risks

The Group's strategic objectives can only be achieved if certain risks are taken and managed effectively. We have listed below the most significant risks that may affect our business, although there are other risks that may occur and impact the Group's performance.

Risk area and description	Mitigation	Change
Safety, health and environment		
<p>Delivery of our strategy is dependent on us conducting our business safely. Given the nature of our various manufacturing facilities, a significant operational disruption could adversely affect the safety of people on or close to our sites. Disruption could also impact our ability to make and supply products.</p> <p>The environment in which Victrex operates is subject to numerous legislative and regulatory requirements. A failure to comply could adversely impact the local environment, our employees, our manufacturing capability, or the attractiveness of our business or products to various stakeholders.</p>	<p>We employ a dedicated Safety, Health and Environment ('SHE') department to assist line management and to provide expert guidance.</p> <p>We have policies and procedures to efficiently, safely and compliantly manage all our operations; protect the safety and health of our employees, contractors and visitors; and both manage our environmental responsibility and continually improve our resource efficiency.</p> <p>As our manufacturing facilities are regulated, we are subject to close review, for example by the Environment Agency under the Environmental Permitting Regulations.</p> <p>Further detail is contained in the Sustainability report on pages 25 to 36.</p>	  
Technological change		
<p>Innovation and product leadership are key to the success of our business. We provide innovative solutions to help our customers overcome their technological challenges.</p> <p>Continuing innovation, beyond polymer manufacturing, will help us move downstream, further differentiating our business but with the potential to increase risk.</p> <p>Innovation failings could result in a lack of competitive advantage and relevant new products, erosion of margin, failure to deliver new business or achieve sustainable earnings or deliver our strategy.</p>	<p>We are future thinkers, continually assessing and identifying market needs and capturing value as product leaders. We serve a diverse range of markets and work directly with our customers, end users, OEMs and industry-leading decision makers to develop a pipeline of new differentiated applications, new product forms and new grades and leveraging our know-how and protectable IP.</p> <p>With long-term megatrends in our favour, we have a diverse mix of new growth opportunities. Further information can be found on pages 4 to 5.</p> <p>We actively invest to advance our technology skills and knowledge, in commercial and technical specialists and global technical centres, to underpin our growth and deliver sustainable earnings growth for our shareholders.</p> <p>Through our portfolio steering committee we regularly review and monitor the projects that will enable us to move downstream to ensure that any increased risks are being addressed.</p>	  
Recruitment and retention of the right people		
<p>Our success depends on recruiting and retaining the right people in all areas of our business. Victrex relies heavily on the skills, experience and competence of our people to comply with internal procedures and external regulations, to drive business in existing and new markets, to deliver our strategy, to operate our manufacturing assets safely and with a strong regard to the environment and to successfully execute our downstream strategy.</p>	<p>We have strategies in place (collectively our 'People Strategy') to attract and retain the best talent, provide opportunities for personal development, encourage diversity and recognise and reward excellence. The People Strategy is discussed at Board, ELT and functional levels. Our employees have clear objectives and development plans, aligned to our strategy, and participate in formal and informal training programmes and reviews to assess their performance and effectiveness.</p> <p>We have succession plans in place for key roles and develop our future leaders so that we are able to promote internally as well as bringing in new talent from the outside.</p> <p>Where necessary, we will supplement the skills of our own employees with those of third parties in order to deliver our downstream strategy.</p> <p>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.</p>	 

Key

RISK CHANGE






VIABILITY STATEMENT LINKS



Risk area and description	Mitigation	Change
Foreign currency risk		
The Group exports the majority of its product out of the UK, but has a significant Sterling cost base. Fluctuations in exchange rates between Sterling and US Dollar, and Euro and Yen could cause profit and balance sheet volatility.	<p>The Group adopts a hedging policy to mitigate short-term currency risk. Currency movement can have either a positive or a negative impact on the Group.</p> <p>The Currency Policy is managed by a dedicated Currency Committee, including whether the impact of major events, like the UK's referendum on EU membership, requires any modification to that Policy.</p>	
Business continuity and supply chain		
<p>It is essential to ensure continuity of supply and service to our customers and that we can operate even if a significant event did occur.</p> <p>Failure to maintain a secure supply of high quality products to our customers by, for example, an unexpected upsurge in demand or delays in the implementation of major capital expenditure programmes, could lead to a capacity shortage or insufficient inventory and loss of earnings.</p>	<p>It is our policy to keep capacity ahead of demand by continual investment in our supply chain so that our customers can be confident that we can meet their requirements today and in the future.</p> <p>Our sales and operations planning process, together with our stocks of finished goods, which are held in a number of locations worldwide, is intended to enable us to maintain supplies to our customers during any short-term disruption. Additionally we work with our key suppliers to maintain appropriate stocks of key raw materials.</p> <p>We have business continuity plans in place that are regularly reviewed to ensure their continued effectiveness.</p>	
Network and IT systems and security		
<p>A significant failure or interruption in our IT networks and systems could have a detrimental impact on our business.</p> <p>Cyber attacks are becoming more frequent and could result in denial of service or data theft. Data security is very important to us, as failure to appropriately process, store or share information could result in the loss of IP or the loss of data, whether it be our data, or that of our employees or customers.</p>	<p>We continue to review and invest where appropriate in the development and maintenance of our IT infrastructure, systems and processes and information security.</p> <p>Implementation of our new ERP system commenced during FY 2016 and will complete roll-out in FY 2017.</p> <p>We operate a firewall, antivirus software and third-party penetration testing, monitor any attempted breaches and take action where necessary to ensure our infrastructure remains robust and appropriate.</p> <p>We have in place recovery plans and business continuity plans, which are regularly reviewed and tested.</p>	
Product liability		
We sell into highly demanding end use applications and regulated markets. Any failure to supply our products in accordance with the specification could lead to loss of business which would impact revenue and give rise to a potential product liability claim.	<p>VICTREX™ PEEK polymer is manufactured within a quality management system approved to ISO 9001:2008.</p> <p>Invibio PEEK-OPTIMA™ polymer is additionally manufactured within a quality management system approved to ISO 13485:2003, a system of good manufacturing practice often used by the pharmaceutical industry and by medical device manufacturers.</p> <p>VICTREX™ pipes for the Aerospace market are manufactured within a quality management system approved to AS9100 RevC.</p> <p>We have also attained ISO 17025:2005 General Requirements for Competence of Testing and Calibration Laboratories certification.</p> <p>All of our products are supplied to an agreed specification.</p> <p>Supply contracts are used to mitigate the risk where practicable and in addition the Group maintains appropriate levels of product liability insurance.</p>	

Principal risks continued

Risk area and description	Mitigation	Change
Global market environment		
Exposure to changes and events such as increased competition and competitor capacity, external global economic conditions, regulatory rulings or judgements, or political environment may impact the Group's performance and its ability to achieve its strategic objectives.	Whilst we continue to monitor and review competitive intelligence, we continue to focus on cost efficiency opportunities and on further differentiating our business by developing new growth platforms and continuing to move downstream beyond polymer manufacturing into semi-finished products and components.	  
Political uncertainty, for example the impact of Brexit, can affect decisions by our customers to invest and therefore impact demand for our products.	Delivery of our mega-programmes is influenced by a number of external factors; however, our portfolio and product management processes are designed to accommodate these uncertainties. Mega-programme milestones are reported within the Financial review and Performance review/Executive Directors' reports on pages 12 to 19.	
	Whilst growth is impacted by a number of factors outside the Group's control, such as the impact of the oil price on the Energy market and the volatility in demand within the Consumer Electronics market, the diverse nature of its markets and customers and the territories in which it operates, together with appropriate contingency planning, helps to mitigate the impact on the business of such changes and events.	
	The UK vote to leave the EU (Brexit) has not had a material impact on the Group's performance in the current reporting period. We have a central team in place to review and assess the impact as more information becomes available and we are engaging with trade associations which are in contact with government.	
	Our outlook by market can be found within our results presentation at www.victrexplc.com .	

Going concern and viability statement

Going concern

The Directors have performed a robust assessment, including review of the budget for the year ending September 2017 and longer-term strategic forecasts and plans, including consideration of the principal risks faced by the Company, as detailed on pages 22 to 24.

Following this review the Directors are satisfied that the Company and the Group have adequate resources to continue to operate and meet their liabilities as they fall due for the foreseeable future, a period considered to be at least twelve months from the date of signing these financial statements. For this reason they continue to adopt the going concern basis for preparing the financial statements. Details of the Group's policy on liquidity risk and capital management are included in note 14 to the financial statements.

Viability statement

In accordance with the provision of section C.2.2 of the 2014 revision of the Code, the Directors have assessed the viability of the Group over a five-year period to September 2021, being the period covered by the Group's Board-approved strategic plan. The strategic plan, which is updated annually, includes analysis of profit performance (including our core business and the adoption of our Horizon programmes), cash flow, investment programmes and returns to shareholders.

The Board considers five years to be an appropriate time horizon for our strategic plan, being the period over which the Group actively focuses on its development pipeline. Whilst there are projects within the portfolio which will take longer to reach this point, a period greater than five years is considered too long given the inherent uncertainties involved.

In making their assessment, the Directors have considered the Group's current strong financial position and undertaken a comprehensive sensitivity analysis over the key trading assumptions combined with the potential impact of crystallisation of one or more of the principal risks (detailed on pages 22 to 24) over the five-year period. The risks have been assessed for their potential impact on the Group's business model, future trading and funding structure. The range of scenarios tested was carefully considered by the Directors, factoring in the potential impact, probability of occurrence and effectiveness of the mitigating actions.

Whilst each of the risks outlined on pages 22 to 24 has a potential impact, the sensitivity analysis has been focused on those considered to have the most significant financial impact. These are marked as such in the table above. In addition to the risk mitigation plans, the Group's two distinct segments, both with diverse geographic markets, assist in reducing the risk of regional economic challenges and sector-specific issues. The strategy of partnering closely with customers to develop the right applications and our existing and growing list of specified products are also important mitigants.

The mitigation assessment also considered the Group's ability to raise new finance and the possibility of delaying capital programmes and/or restricting shareholder returns over the viability period if required.

Based on the results of this analysis, the Directors have a reasonable expectation, predicated on the assumption that an unforeseen event outside of the Group's control (for example, an event of nature or terror) does not inhibit the Company's ability to manufacture for a sustained period, that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period.

Delivering long-term sustainability

Victrex's sustainability strategy seeks to build on the competitive advantage we already offer to our customers and our markets, for example in reducing CO₂ in Transport. Our focus is on three key areas: sustainable solutions, resource efficiency and social responsibility.



Introduction from the Chief Executive

Since we introduced our sustainability vision and targets (our 2023 Vision) two years ago, Victrex has made tangible progress. Sustainability is now embedded across our business and, through sustainable solutions, resource efficiency and social responsibility, we have clear long-term targets, as well as interim deliverables.

In a tougher trading environment this year, we have also increased our focus on becoming a more efficient and effective organisation. Delivering growth and shareholder value can only be supported by retaining a low cost manufacturing base, together with being efficient in how we develop, distribute and, ultimately, sell our products.

Despite weaker environmental indicators – due to lower sales volumes but more manufacturing capacity – I am pleased to say that we are now closing in on becoming carbon neutral, a reflection of the progress we have made in recent years, particularly in our Transport markets. Our sustainable products help to save CO₂ in Aerospace and Automotive, to balance our own carbon footprint. Last year we independently reviewed the method of measuring CO₂ savings in Transport and in 2016 we engaged with key suppliers to understand the climate change impact within our supply chain.

At a community level, I am encouraged by the participation of employees across our business. Not only are we supporting local schools and community centres, we have an employee network in place to foster and support the engineers and scientists of tomorrow, demonstrating the capability that Victrex has as a technology and science-led business. Whilst this activity is predominantly in the UK, we are shaping our plans to ensure our employees across the globe can make a positive contribution to our sustainability strategy.

Our employees and our business continue to be viewed favourably by our wider stakeholders, which helped Victrex secure a top 20 position in Britain's Most Admired Companies this year. We also secured the runner-up position for the chemicals sector.

Reflecting how our strategy is focused on moving further downstream beyond the polymer and into more specialised manufacturing, we have taken the opportunity to reshape some of our environmental indicators, largely to target CO₂ (rather than energy) from a unit of revenue, ensuring that we remain practical in our 2023 targets, as well as being able to deliver long-term improvement. As we move into semi-finished and finished products and components, sustainability remains integral to our strategy and long-term success.

David Hummel
Chief Executive
6 December 2016

David Hummel Chief Executive



Our sustainability goals

Victrex is committed to creating and delivering sustainable benefits and solutions to our customers and our markets, alongside maximising our resource efficiency across our global footprint.



Sustainable solutions

Vision:

Develop and deliver sustainable polymer solutions that provide clear social and environmental benefits to society

2023 target:

- Save more CO₂ than we produce (carbon neutral)
- 5 million tonne reduction of CO₂ in Aerospace and Automotive
- 10 million patients with PEEK-OPTIMA™ implanted globally

Our 2023 Vision: interim targets

Metric:

- CO₂ savings
- Scale of patient benefits

Interim targets:

✓	Independently review method of measuring CO ₂ savings in Transport by September 2015
✓	Extend PEEK-OPTIMA™ further into new and existing spinal therapeutic areas
✓	Extend PEEK-OPTIMA™ and other enabling polymers into new therapeutic areas
To do	Extend Invisio Biomaterial Solutions into emerging geographies



Resource efficiency

Vision:

Maximise resource efficiency across the value chain

2023 target:

- 50% reduction in CO₂ per £ revenue
- 50% reduction in waste per £ revenue

Metric:

- Reduction in energy and waste
- Tonnes CO₂ per £ revenue

Interim targets:

To do	Complete an energy efficiency assessment and establish a long-term plan
✓	Engage with key suppliers by FY16 to identify their climate change impact and improvement plans
✓	Establish an R&D programme by FY15 to identify process yield improvements and waste reduction opportunities
✓	Engage with key suppliers by FY16 to identify their waste impact and improvement plans



Social responsibility

Vision:

Inspire the next generation by supporting science, technology, engineering and maths education ('STEM')

2023 target:

- 10,000 employee hours (cumulative) supporting community activity by 2023
- 1,000 young people reached through education activities
- 75% of employees engaged on sustainability

Metric:

- Employee involvement in the community
- Number of young people worked with

Interim targets:

✓	Employee network in place to support community STEM education activities in the UK by end of 2015 and globally by end of 2016
To do	Support Fleetwood High School to achieve improved STEM academic results by end of 2017
✓	Victrex/Catalyst Science Education Centre project fully up and running by end of 2015
✓	Employee engagement in sustainability assessed in 2015's employee survey, with results benchmarked against peer companies

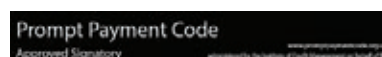
Doing business the right way – global code of conduct



Acting ethically and responsibly is not only the right thing to do, but also the right thing to do for our business, helping us to maintain our competitive advantage. The Global Code of Conduct, further details of which can be found in the corporate governance section starting on page 38, is a fundamental guide to upholding our good reputation as a business and one that can be trusted by our employees, customers, suppliers, partners and investors and all other stakeholder groups with whom we engage. Our success as a business rests on maintaining this trust and ensuring that we are a company that upholds the highest standards of integrity.


Acting ethically

Victrex is a signatory of the Prompt Payment Code for suppliers.



We have a zero tolerance approach to behaviour that breaches our Code of Conduct.
Our three principles of ethical business conduct are:

- 1** We are honest, transparent and trustworthy in all our dealings, both within Victrex and in all our external business relationships.
- 2** We respect the privacy of individuals and other organisations with whom we work.
- 3** We investigate reports of potential breaches of the Code of Conduct.

 **Performance reviews from the Executive Directors**
Pages 16 to 19

Sustainability report continued



Sustainable solutions

Sustainable solutions focuses on how we deliver products and services which shape future performance, and which provide clear environmental and social benefits to our customers and markets.

Shaping future performance

The demands on material performance across our markets remain strong. Achieving higher performance with less continues to be important: less material, less energy, less waste, less noise, less time with less cost. This requires innovation in developing solutions for our customers and markets.

Our PEEK and PAEK polymers continue to offer the benefits of reduced cycle times (the potential for quicker manufacturing), as well as the associated properties that make our polymers one of the highest performing materials available. Our customers continue to specify our polymers in many of their applications, whether it be in Aerospace to 'fly lighter', in Automotive to 'reduce wear' and 'improve durability', in Electronics to deliver 'thinner, smaller and smarter' devices, in Energy to 'improve durability' and 'recover more', or in Medical Applications to help address an ageing global population.

Our sustainable solutions area made progress this year, by moving closer towards becoming carbon neutral, following on from our

independent review of the methods of measuring CO₂ savings.

We introduced our composites offering into the Aerospace market – composites will also have applications in the Automotive, Oil & Gas and Medical markets – to build on our existing and longstanding applications within Aerospace, for example PEEK in Unloaded Brackets and in Thermal Acoustic Blankets.

In Medical, we made further progress in extending Invibio's solutions into emerging geographies, with regulatory submissions in South America for our PEEK-OPTIMA™ HA Enhanced product for the Spine market, building on existing qualifications in Asia. Further developing our polymers for new therapeutic areas has also been important, with our Trauma programme signing a development agreement with a major device manufacturer, as well as investing in a dedicated Trauma plate manufacturing facility this year.

Further sustainability and cost efficiency opportunities are being explored, including focusing on the sustainability of our supply chain as we move further downstream into more specialised manufacturing.

Focus: sustainability – a key target for the Aerospace industry



Tomorrow matters. New material solutions allow lower processing costs and reduced CO₂ emissions.

Determined to further reduce CO₂ emissions and address environmental challenges, the Aerospace industry takes advantage of composite materials. One reason – but not the only one – is that composites are inherently lighter than traditional metals.

A new Victrex material/technology combination is now set to be given an additional boost. Victrex AE™ 250-based composite solutions have shown weight savings of up to 60% under certain circumstances when compared to metals such as aluminium, stainless steel and titanium. This can translate into improved fuel efficiency and reduced CO₂ emissions. Equally important, these composites have also shown up to five times higher specific strength compared to metals.

The second environmental reason in favour of composites is that they can outperform metals in the manufacturing process, as traditional Aerospace metals frequently require surface preparation and finishing processes that can result in dangerous waste.¹

A further advantage of the next-generation, high strength, continuously reinforced composites is the reduction of

manufacturing time and system costs; this is due to a new kind of hybrid moulding technology which can enable smarter designs as well as the use of semi- or fully automated mass production techniques. Just like metals, the VICTREX™ PAEK-based composite structures can be over-moulded with short fibre reinforced VICTREX™ PEEK polymers. Environmental benefits include reduced energy consumption, elimination of secondary process steps such as autoclave curing, and the use of 100% recyclable materials that have unlimited shelf life.

Components manufactured in this way can perform extremely well under load. Target applications include brackets, clamps, clips and housings used throughout the aircraft in primary and secondary structures, from the cabin – including seats – to the engines and fuel tank.

A novel way for the Aerospace industry to address environmental challenges is 3D printing processes (additive manufacturing ('AM')). Victrex plays a lead role in driving innovation, by heading an industry consortium that explores the innovative use of new PAEK polymer grades. These will be specifically designed to work in additive manufacturing processes, for multiple applications. The consortium was announced in 2016 and includes Victrex, Exeter University and Airbus UK.

A key objective is the improvement of the recycle rate for powders used in the laser sintering ('LS') additive manufacturing technique, to significantly reduce polymer wastage and costs. High value, lower volume applications such as aircraft components are the types of applications that could benefit the most in the Aerospace sector, as well as in the medical industry.

Aerospace remains just one of the markets that Victrex can drive sustainability benefits from. All part of our 2023 Vision.

Sources

1. www.aerospace-technology.com/contractors/design/cincom-systems-australia/presssustainability-in-the-aerospace-industry.html.



Resource efficiency

A measure of how we are performing in maximising efficiency across our own operations and across the value chain is shown in our 2023 Vision on page 26.

Resource efficiency

The unique characteristics of our lightweight, versatile and durable products help our customers to be more environmentally sustainable and resource efficient. For example, Victrex polymers help our Aerospace and Automotive customers to reduce the weight of their aircraft and vehicles to improve fuel efficiency and reduce CO₂ emissions. Our bold target of reducing CO₂ emissions in Aerospace by 5 million tonnes shows the commitment we have in this area. In Medical, the wear characteristics of PEEK polymer is helping spinal fusion patients, whilst in the emerging area of polymer knees, our devices can be injection moulded to reduce surgery time.

At the same time, we have an impact on the environment through the resources that we use to make our products and the processes that we operate. This is where resource efficiency comes in. We are focused on controlling these impacts and, as we grow, are committed to continual improvement. Our priorities remain the efficient use of energy and waste minimisation and we are proactively delivering continual improvement to address these areas.

For example, this year a development programme has successfully focused on the optimisation of the manufacturing process for one of our special PAEK grades, Victrex ST. It was identified on laboratory scale that the manufacturing process reaction time could be significantly reduced. This was successfully scaled up to full production plant scale, significantly reducing energy consumption and waste, as well as improving product consistency. Successful scale-up has resulted in a 30% reduction in cycle time for the manufacture of this product and an improvement in product consistency. The latter improvement has eliminated the requirement for reprocessing of Victrex ST batches, which has further reduced energy usage and emissions.

To further help improve our understanding of the environmental impact of our operations, this year we completed a new product lifecycle analysis. The results are helping us to prioritise our efforts.

To better reflect our efforts to reduce our carbon impact, we are also introducing new CO₂ intensity targets.

Principal environmental impacts

The Group's operations and environmental impact are set out in the charts on page 32 and are different from the Group's overall GHG emissions (see overleaf). These show energy use, water use and waste from our UK activities, which include all of our manufacturing operations. The impact from our overseas gears facility and our technical and office facilities is not material and is not included.

We have reported data per unit of revenue to best align our indicators with our business strategy based on our varied product mix, along with absolute data to demonstrate our total impact. As noted elsewhere, environmental indicators weakened this year, due to lower sales volumes but more manufacturing capacity. As we move downstream into specialised manufacturing, CO₂ per unit of revenue will be more appropriate. CO₂ emissions are reported separately, as part of our greenhouse gas emissions report under the Companies Act 2006 (Directors' Report) Regulations 2013.

Compliance

Proactively staying well ahead of environmental standards is part of Victrex's philosophy across our operations.

Our manufacturing plants are regulated under Environmental Permitting Regulations and, as such, are subject to close regulatory review by the UK Environment Agency. We carry out extensive routine environmental monitoring to make sure our plants are well controlled. When we design and build new plants we work closely with the agency to make sure that the best available techniques to protect the environment are adopted.

We recorded one environmental notifiable event during the year. At our Hillhouse manufacturing plant in the UK, during routine environmental monitoring, we detected an instance when the emission of acetone from a plant vent was slightly elevated above agreed levels, but with no potential to cause an environmental impact.

There were no other environmental notifiable events at any of our other UK manufacturing sites.

During the year we successfully maintained ISO 14001:2004 accreditation for the environmental management system on our compounded pellets production plant, validating our high level commitment to environmental improvement.

Sustainability report continued



Resource efficiency continued

Greenhouse gas ('GHG') emissions

Our emissions have been calculated based on the GHG Protocol Corporate Standard. Emissions reported correspond with our financial year. We have included emissions from both our owned and leased assets for which we are responsible in the UK and overseas. This includes our manufacturing plant, technical centres and offices. No material Scope 1 or Scope 2 emissions are omitted. Emissions have been calculated using data gathered to fulfil our reporting requirements under Climate Change Agreements on two of our manufacturing sites (we operate under a tenancy agreement at our Seal Sands facility). National and regional emission conversion factors have been used. Whilst not a mandatory requirement, we have included Scope 3 emissions in our report for greater transparency. These include indirect emissions from employee travel and distribution of goods. Our GHG emissions are predominantly from gas and oil combustion and electricity use on our manufacturing plants in the UK. Emissions from our gears manufacturing facility in Grantsburg, USA, are relatively immaterial compared with the UK manufacturing plant. Additionally, emissions from our overseas technical facilities and offices are relatively immaterial to those from our UK activities, which explains our focus on UK reporting metrics.

In 2016, we took the opportunity to commission an independent review of our GHG reporting. Improvement findings from the review have been incorporated into the new submission.

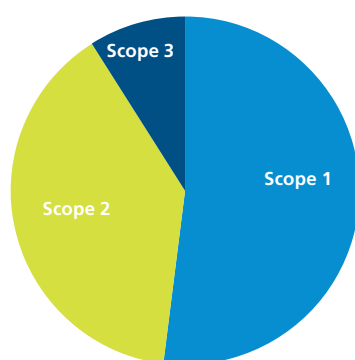
In addition, this year, in accordance with the updated GHG Protocol Scope 2 guidance we have calculated our scope 2 emissions using the market-based method (10,670 tonnes CO₂e). We have market-based data for 75% of our Scope 2 emissions based on supplier declarations.

Whilst absolute direct emissions increased this year, encouragingly, our indirect emissions from electricity purchased and from transport of goods and employees decreased.

Victrex also continues to participate in the Carbon Disclosure Project, where our performance ranking was 'Awareness C' this year (2015: 84D) in line with the industry average 'C' ranking.

Victrex greenhouse gas emissions 2016

Tonnes of CO₂ equivalent 2016 from PEEK manufacture and downstream products.


SCOPE 1
 Direct emissions resulting from combustion of fuels Tonnes CO₂e

2016	22,039
2015	21,194
2014	16,711
2013	14,330
2012	16,303

SCOPE 3
 Other indirect emissions from related activities such as transport of goods and employees Tonnes CO₂e

2016	2,699
2015	3,839
2014	2,815
2013	1,462
2012	1,936

SCOPE 2
 Indirect emissions resulting from electricity purchased (location-based method) Tonnes CO₂e

2016	15,871
2015	17,603
2014	14,985
2013	12,612
2012	13,268

INTENSITY MEASUREMENT (SCOPE 1 AND 2)
 Tonnes CO₂e/£m revenue

2016	150
2015	147
2014	125
2013	121
2012	135

Note: Following the independent review undertaken of our GHG reporting, all our prior year comparatives have been restated accordingly.

REACH

The EU Chemicals Policy known as REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals Regulations) is a well established regulatory regime for the chemical industry and Victrex has well established processes in place to comply with it.

We regularly monitor and review to ensure that raw materials involved in our manufacturing process are compliant and that REACH will not adversely impact on the security of supply, which is important both for Victrex and for our customers, who are focusing on long-term demand. There has not been, and we do not anticipate, any disruption to the supply of products arising from the regulations. Following the EU Referendum (Brexit), we are also monitoring any potential amendments to regulations such as REACH, or other EU-led legislation.

Health and safety

Protecting the occupational safety and health of all our employees, along with contractors and visitors to our sites, remains the highest priority for Victrex. We continue to have a strong track record and have won several accolades to mark our success in this area.

We received the Royal Society for the Prevention of Accidents ('RoSPA') Order of Distinction award this year. It is the 19th consecutive year that we have received an award and the fifth year running that we have received an Order of Distinction award, a great achievement and one which underlines our significant commitment to health and safety and consistent high level of performance.

Whilst we have a strong track record, we set targets to drive continual safety, health and environment ('SHE') performance improvement. During the year, well over 1.3 million employee hours were worked with no employee reportable injuries and no cases of reportable ill health. This has been achieved by establishing and maintaining a strong health and safety culture throughout the business from the Executive team to the shop floor. We have a strong business risk management culture and believe that good health and safety management is just one part of it.

The occupational health and safety of contractors working on our sites is of equal importance as our employees'. With ongoing investment in new projects, over 60,000 contractor hours have been worked on our UK manufacturing site at Hillhouse. We recorded only one contractor reportable injury when a contractor stumbled on a stairway and suffered an ankle injury. Health and safety management remains a priority during projects, achieved by working closely with project contractors to ensure that robust project health and safety procedures are in place and that they are actively monitored, audited and reviewed.



1.3m

employee hours worked
with no reportable injuries.

Sustainability report continued

Resource efficiency continued

This year, our environmental indicators have declined due to lower sales volumes in our expanded manufacturing assets. This has meant we have not seen beneficial economies of scale, although it should be noted that our recent manufacturing investments were made – in line with our previous investments – ahead of demand.

Energy use (UK operations)

In line with previous reporting, energy use is reported for our UK manufacturing sites. Energy per unit revenue has increased slightly this year and energy per unit of production has also increased. This is primarily because of lower volumes in our manufacturing plant. Whilst energy is a priority sustainability target for us as part of our resource efficiency focus, a focus on CO₂ per unit of revenue will become more appropriate and reflective of our strategy going forward.

Accordingly from FY 2017 this will be shown as CO₂ per unit of revenue.

Primary energy
Thousands GJ

2016	735
2015	731
2014	574
2013	518
2012	591

Primary energy per unit revenue
Thousands GJ/£m

2016	2.9
2015	2.8
2014	2.3
2013	2.3
2012	2.7

Water (UK operations)

Water use is reported for our UK operations. Our overseas water usage is not material. Our manufacturing operations are not in regions which experience water shortages. Pleasingly, total water usage and usage per unit revenue decreased, driven by lower volumes manufactured. Water use per unit of production has reduced.

Water usage
Thousands m³

2016	532
2015	602
2014	499
2013	377
2012	474

Water usage per unit revenue
Thousands m³/£m

2016	2.1
2015	2.3
2014	2.0
2013	1.7
2012	2.2

Waste (UK operations)

Whilst our manufacturing process generates hazardous waste, we work closely with licensed waste service providers to ensure that it is recovered, recycled or disposed of with minimal environmental impact.

We have invested in improving and optimising the production process to reduce waste, but we are already striving to reduce it further. This is a priority sustainability objective and there is an ongoing programme of work to examine how we can further minimise generation of waste at source and how we can also recover value from waste generated over the medium term. Pleasingly, waste per unit of production reduced further this year, following reductions in previous years.

Hazardous waste produced
Tonnes

2016	51,041
2015	60,908
2014	55,072
2013	47,254
2012	49,106

Hazardous waste produced per unit revenue
Tonnes/£m

2016	202
2015	231
2014	218
2013	213
2012	223

Hazardous waste disposed to landfill (after treatment)
Tonnes

2016	1
2015	12
2014	14
2013	15
2012	13

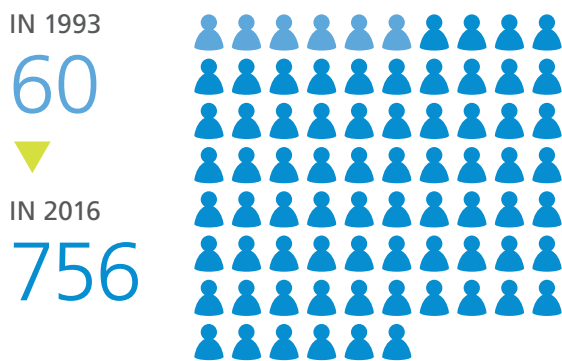
Hazardous waste disposed to landfill (after treatment) per unit revenue
Tonnes/£m

2016	0.00
2015	0.05
2014	0.06
2013	0.07
2012	0.06

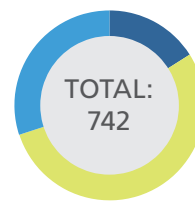
| Social responsibility

In line with our proactive vision to inspire the next generation of talent by supporting science, engineering, technology and maths education, our social responsibility focus has been enhanced this year, whilst maintaining our commitment to employees and the communities where we operate, both in the UK and globally.

Employees (as at year end)

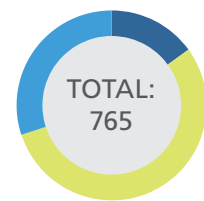


Average number of people employed during the year (including Directors), by category



IN 2015

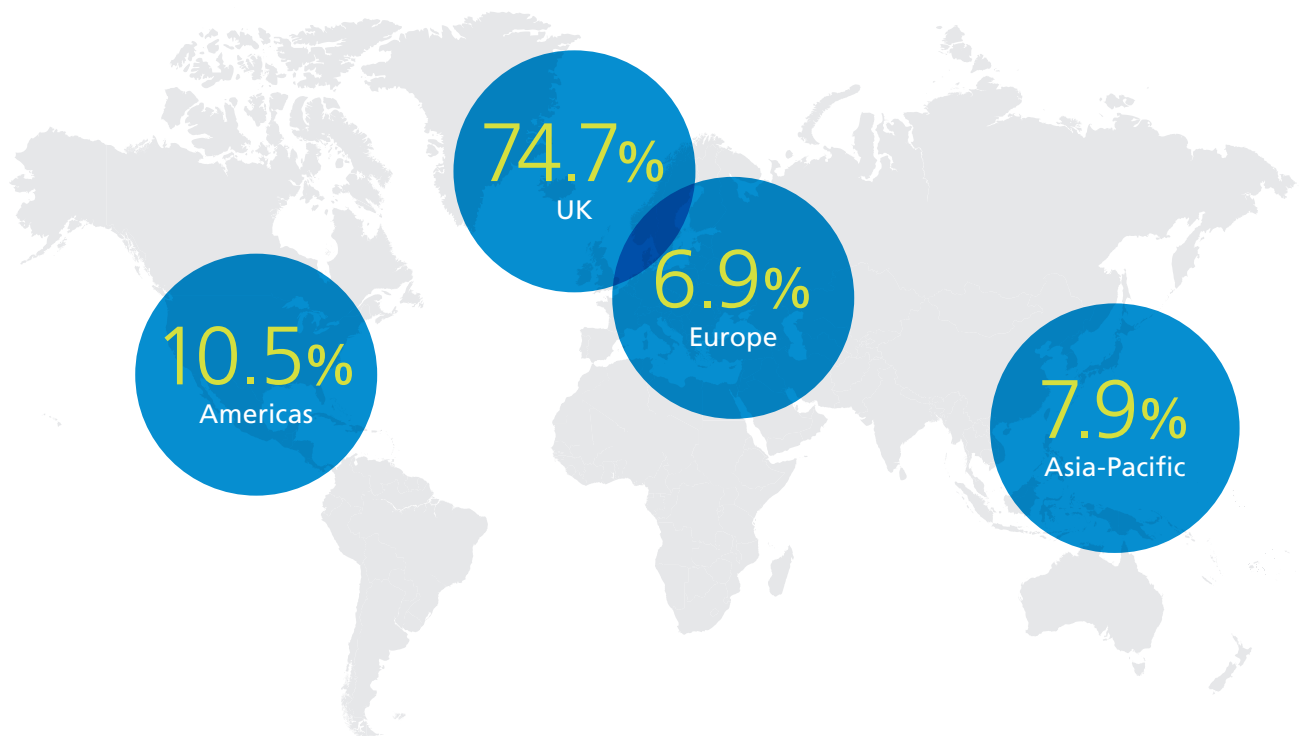
Make	401
Develop, Market and Sell	226
Support	115



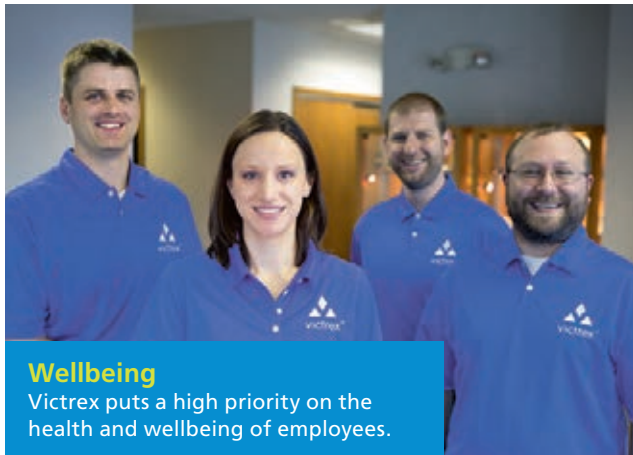
IN 2016

Make	416
Develop, Market and Sell	232
Support	117

Employees by regional breakdown



Social responsibility continued



Wellbeing

Victrex puts a high priority on the health and wellbeing of employees.



CEO awards

Recognising the efforts of our employees is important for Victrex.

Our employees

Our business success is a reflection of the depth of talent in our global workforce. In an increasingly competitive global market, ensuring that we attract, motivate and retain our people remains a consistent theme for Victrex. Our organisational capability strategy supports us to identify and develop the skills and experience we need to deliver our business strategy and shape our people strategy. This was led by the Chief Executive, supported by the Group Human Resources Director and the Managing Directors of each business unit.

Employee breakdown

As a company we continue to invest in appropriate skills and talent to support our future growth and focus on ensuring we have the right capability to support delivery of our downstream strategy. As part of becoming a more efficient and effective organisation and to provide a better platform to secure our future, we also saw some business efficiencies.

Employee turnover remained stable.

Our workforce continues to reflect diversity. Approximately 79% of our employees are male (as at 30 September 2016: 601) and 21% female (as at 30 September 2016: 155). On our ELT, one quarter of the team is female. 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 provide a healthy environment which will encourage good and productive working relationships within the organisation.

Development

We continue to invest in the development of all our employees, through both an informal and formal route. Assessment of individual training needs is a key element of the annual appraisal process which is undertaken by all employees. This year has seen us complete a global learning needs analysis and we continue to roll out programmes globally across different employee groups.

This is our tenth year of recruiting apprentices, and we have recruited 27 apprentices to date. Commitment to our apprenticeship programme continues at our Hillhouse manufacturing site in the UK, with twelve apprentices currently on the apprenticeship programme. It is also the first time we have included Polymer Processing in the Process Operations apprenticeship, which shows continued investment to ensure we have the capability in place to deliver our downstream strategy.

For the second year running, Amy Webber, one of our engineering apprentices, was a finalist for the BTEC Higher National Certificate Student of the Year from Blackpool and Fylde College, UK.

Wellbeing

Victrex puts a high priority on the health and wellbeing of employees and promotes this in a number of ways. Occupational health and private medical services are available for all employees in all locations. Our focus on wellbeing services includes on-site medical checks, provision of financial education sessions and driver safety for company car owners and frequent travellers.

12

apprentices currently on the apprenticeship programme.

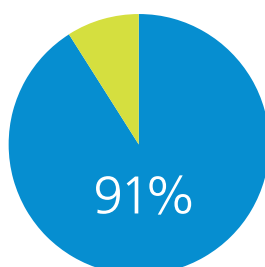
7%

Voluntary employee turnover

2016	2015	2014	2013
7%	7%	5%	2%

Overall, 95 employees participated and, over two years, spent 1,145 hours working in local communities.

Participation in employee share schemes



2016	2015	2014	2013
91%	87%	89%	86%

Note: Excludes recruitment during the year.

As a business we continue to:

- 1 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;
- 2 provide appropriate remuneration for work carried out and equal opportunities for development and career advancement;
- 3 be intolerant of any unacceptable working practices such as any form of discrimination, bullying or harassment;
- 4 prohibit illegal activities on our sites; and
- 5 promote fair, ethical and transparent business practices both within our business and in dealings with external stakeholders.

Sustainability report continued



Social responsibility continued

**Future scientists**

Our partnership with Catalyst Discovery Centre helps to enthuse pupils about science.

**Volunteering**

Victrex is active in the community.

Involvement

The Group places considerable emphasis on two-way communication and involving our employees in the business. We have a number of channels, both formal and informal, to keep employees informed on business news. These include a global monthly business briefing to keep employees aware of Company performance, quarterly global staff briefings, a weekly online employee news channel and, more formally, UK and regional employee forums and union partnership meetings.

The Company supports employee share ownership and offers the opportunity to participate in share schemes. As at 30 September 2016, approximately 91% (2015: 87%) of employees worldwide were participants in employee share schemes, principally as option holders under the Company's employee share option schemes.

We also sponsor pension plans for employees across most of our global operations. Details of the Group's principal pension schemes are set out in note 15 to the financial statements.

Largely as a result of the above approaches, Victrex has voluntary employee turnover on a par with many other companies.

Our communities

We have increased our work with local communities during 2016, ensuring that the Victrex name is synonymous with good business, and helping to establish our employer brand and reputation, in turn helping us to secure the right skills for our future development. With a clear vision and targets in line with our 2023 sustainability goals, we have made good progress in this area, developing our relationships with local community projects.

Our main focus is to get young people interested and excited about science, technology and engineering. Through being part of the Business in the Community's Business Class programme, which matches local businesses and schools together in a three-year partnership, we have developed a strong relationship with Fleetwood High School in the UK. We have also hosted work experience for year ten students as well as participated in the school's career events.

Our partnership with the Catalyst Science Discovery Centre in Runcorn, UK, goes from strength to strength, with attendance at its biannual Chemistry at Work events. These events are designed to enthuse young school pupils about science-based industries and how important they are to our everyday life.

Victrex has also participated in a range of activities within local communities, offering apprenticeships, promoting awareness in schools and advancement of research work at universities and providing work experience to students of all ages at varying stages of their academic careers. Overall, 95 employees participated and, over two years, we have spent over 1,145 hours working in local communities against our 2023 target of 10,000 hours. We took part in over 500 events.

Charitable giving

Donating to charity allows us, as a company, to help those groups in our community who are not in a position to fund specific activities themselves as well as to support our employees in their fundraising activities. This year we established a Community Investment team to look after the distribution of the charitable donations budget in the UK, through nominations made by employees. A similar approach is now in place for the US.

A total of £58,337 (2015: £140,958) has been made during this year. No political donations were made (2015: £nil). The year on year fall reflects some short-term donation programmes which have now completed.

Our employees remain active fundraisers, with many either cycling, running or baking to raise money for charity. We support this through our Community Investment teams, which we have established in the UK during 2016 and which will go live in the US in 2017. Alongside Company-led events, our employees continue to proactively support charities through volunteering their time. Employees from our Polymer Production business donated a day's work to building a 'dementia-friendly' learning garden at a local park in Lancashire. Geoff Small, one of our homeworkers, rode the London-Surrey 100-mile cycling event, raising money for Children with Cancer UK.



Directors' report – corporate governance

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Board of Directors



Larry Pentz
Chairman BS ChE MBA

Larry Pentz was appointed to the Board in 2008 and became Chairman in 2014. Larry is Chairman of the Nominations Committee. Larry has over 30 years' service within multi-national corporations in a variety of operational and general management positions. Larry has extensive experience in developing strategy for and successfully leading international growth businesses. He 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.

Larry retired as an executive director of Johnson Matthey Plc during 2016 where he held board-level responsibility for Johnson Matthey's Process Technologies and Fine Chemicals Divisions.



Pamela Kirby
Non-executive Director BSc PhD

Pamela Kirby was appointed to the Board in 2011 and Senior Independent Director in November 2014. 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. Pamela was previously chairman of Oxford Immunotec Limited and Scynexis Inc, and non-executive director of Novo Nordisk A/S and Smith & Nephew plc.

Pamela is a non-executive director of DCC plc, Hikma Pharmaceuticals plc and Reckitt Benckiser Group plc, and serves on the supervisory board of Akzo Nobel.



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.



Louisa Burdett
Group Finance Director BSc ACA

Louisa Burdett was appointed as Group Finance Director in February 2014. Louisa also has overall responsibility for the Group Legal function, as well as the Company Secretarial function. Louisa formerly held the position of chief financial officer and was an executive director at Optos plc. Prior to this, Louisa was chief financial officer at the Financial Times Group from 2008 to 2012. Louisa has also held roles at Chep Europe, a division of Brambles Ltd, the Australian listed pallet distribution company, GE Healthcare and GlaxoSmithKline plc. Louisa has also worked as an M&A Consultant at Charterhouse Bank and spent four years at KPMG in London.

She has a first class degree in biochemistry from Imperial College, London and is a member of the Institute of Chartered Accountants in England and Wales.



Tim Cooper
Executive Director BA

Tim Cooper was appointed as an Executive Director to the Board in October 2012. Tim joined Victrex in January 2010 as Managing Director of Victrex Polymer Solutions. 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.



Martin Court
Executive Director BSc (Eng) PhD

Martin Court was appointed to the Board as an Executive Director in April 2015. Martin joined Victrex in February 2013 as Managing Director of Invibio, Victrex's medical business. Martin has significant proven international experience in the medical and high performance materials and chemicals industries, including with Cytec Industries, and in a number of senior roles at both ICI and UCB. He is an INSEAD alumnus, holds a doctorate in the field of surface chemistry and fracture mechanics and a BSc (Eng) degree in mineral technology from Imperial College of Science and Technology, London.



Patrick De Smedt

Non-executive Director BSc MSc

Patrick De Smedt was appointed to the Board in 2008. Patrick is Chairman of the Remuneration Committee. Between 1983 and 2006, Patrick held a number of senior positions in Microsoft, during which time he founded the Benelux subsidiaries, led the development of the Western European business and in the period 2003 and 2006 served as chairman of Microsoft for Europe, Middle East and Africa. Patrick has previously worked with early stage ventures as well as large, established multi-nationals. He has a deep knowledge of international markets, technology and diverse industry sectors.

Patrick is senior independent director at PageGroup plc, KCOM Group plc and Morgan Sindall Group plc, where he is also chairman of the remuneration committee. He is a non-executive director of Kodak Alaris Holdings Limited and Nexinto Holding Ltd.



Andrew Dougal

Non-executive Director B Acc CA

Andrew Dougal was appointed to the Board in March 2015 and was appointed Audit Committee Chairman effective from October 2015. Andrew is a Chartered Accountant and brings a wealth of experience to the Board, from a lengthy executive and non-executive career of over 35 years in industrial, manufacturing and services companies.

Andrew is a non-executive director and Chair of the Audit Committee at Carillion plc. He was previously a non-executive director and Audit Committee Chair of Taylor Woodrow Plc, Taylor Wimpey Plc and Creston Plc and a non-executive director of BPB Plc and Premier Farnell plc. Formerly, Andrew served as Chief Executive of Hanson plc, the international building materials group, following its demerger from Hanson, the Anglo-American conglomerate, where he was finance director.

Andrew is a member of the Council of the Institute of Chartered Accountants of Scotland ('ICAS').



Jane Toogood

Non-executive Director MA Hons

Jane Toogood was appointed to the Board in September 2015. Jane has a wealth of experience across a number of senior marketing, sales and business development roles within the global chemical industry, including Borealis, ICI and Uniqema, and held a non-executive director role with NHS Harrogate and District Foundation Trust.

Jane holds an MA in natural sciences (chemistry) from the University of Oxford.

Jane is Divisional Director, Precious Metal Products at Johnson Matthey Plc.

KEY TO COMMITTEES

- Audit Committee
- Nominations Committee
- Remuneration Committee

Corporate governance

The Board of Directors (the 'Board') recognises the importance of sound governance and its role in achieving sustainable growth. The Board is committed to the highest standards of corporate governance and it supports the principles laid down in the UK Corporate Governance Code. Victrex continues to maintain and review its systems, processes and policies to support its sustainability and governance practices. The Financial Reporting Council published a revised code in April 2016 (the '2016 Code'), which takes effect for companies with accounting periods beginning on or after 17 June 2016. We have taken into consideration the areas of change arising from the 2016 Code, which also reflect the implementation of the European Union's Audit Regulation and Directive. In preparing this report and reflecting our emphasis on continuous improvement, we have considered how we comply with the new elements embodied within the 2016 Code.

Introduction from the Chairman

To our shareholders and stakeholders

The Board is accountable to our shareholders and stakeholders for the Group's activities and is responsible for the effectiveness of corporate governance. The Board is committed to good governance. We believe good governance establishes the foundation for how we should operate, providing important principles which the Board actively promotes in the adherence to appropriate policies and procedures and sound business practices, informing how we work together as a company and in our engagement with customers, suppliers and wider stakeholders. This in turn is an enabler to achieving our strategy and growth aims for the long-term success of the Company. The responsibilities of the Board include setting the Group's strategic aims, providing the leadership to deliver them, holding management to account in the conduct of the business and reporting to our shareholders.

Our Corporate Governance Report is set out on pages 40 to 64, including the Directors' Remuneration Report on pages 51 to 64. This section of the Annual Report sets out how we manage the Group and comply with the provisions of the UK Corporate Governance Code (the 'Code'). It also outlines any governance initiatives undertaken in the year.

As I reported last year, three new Directors joined the Board during 2015. Two are non-executive Directors, Andrew Dougal and Jane Toogood, and one is an executive Director, Martin Court, together representing one third of our Board. Reflecting on our recently completed internal performance evaluation, it is pleasing to note how the Board has worked effectively together in the past twelve months. The balance of skills, experience and industry sectors from which our various Directors are drawn are complementary and contribute to the business of the Board and its Committees.

Arising from last year's externally supported board evaluation, we chose areas for specific focus which included how the Group evaluates and reports on risk and how we support the development of our people. This is consistent with our philosophy of continuous improvement which is encouraged throughout the organisation. We have refined the approach to the assessment, ranking and reporting of risk, facilitating the evaluation of the Group's overall risk management framework. The changes which have been introduced have served to further enhance visibility at Board level on the fundamental factors used in determining ranking, the mitigation of risks and in allowing the Board to challenge and offer guidance to management.

We provide more information on our approach to the identification and management of risks on pages 20 to 24.

Our people are an important part of the success of Victrex, whether that be in developing new technologies, products and solutions, or working with our customers and suppliers to ensure the delivery of high performance Victrex products, day in day out. The Board recognises that for Victrex to remain a world leader, we need to adapt and change. Part of that involves equipping our people with the skills and knowledge that allows them to develop as individuals and contribute to the Group in fulfilling its strategy and within sound and safe working practices. In several of its meetings this year, the Board considered the development of our people, including opportunities for advancement, the provision of training, and the implementation of programmes intended to support our people in personal development.

We remain cognisant of the strong relationship between ethics and governance and the role the Board plays in demonstrating ethical leadership. We continue to embed our Victrex Global Code of Conduct across all areas of the business and all territories. Further information on ethics and social responsibility is contained in our Sustainability report on pages 25 to 36.

We operate a clear line of distinction between management, which is led by David Hummel, Chief Executive, who is responsible for the day to day running of the business, and the Board, acting under my leadership, which provides constructive challenge to management ensuring an open culture of debate that contributes to creating and preserving value for our shareholders.

Finally, our Statement of Compliance with the UK Corporate Governance Code is set out to the right.

Larry Pentz

Chairman

6 December 2016



For more information visit
www.victrexplc.com

Corporate governance framework



Statement of compliance

A detailed review has been performed of the Company's compliance with the Code published by the Financial Reporting Council ('FRC') in September 2014 and which was effective for year ends beginning on or after 1 October 2014. As mentioned in the introduction, in our most recent review, the Board also reflected upon the updated code which the FRC published in April 2016 and which applies to companies with financial years starting on or after 17 June 2016, within which the more material changes concerned the impact of the EU's Audit Regulation and Directive. As part of the review, we have amended the terms of reference of the Audit Committee and given full consideration to the impact of changes to section C.3 of the Code. We have been mindful to consider how we comply not just with the principles of the Code but also the spirit of the Code and our report below reflects this assessment.

This report, including the Directors' Remuneration Report on pages 51 to 64, describes how the main principles of good governance have been applied throughout our business.

Except as referred to below, the Company has complied with all relevant provisions of the Code throughout the year ended 30 September 2016 and from that date up to the date of publication of this Annual Report.

The Company has not complied in full with part of provision C.3.7, which states that 'FTSE 350 companies should put the external audit contract out to tender at least every ten years'. As noted on page 49, KPMG has been our auditor since the management buy out in 1993. Consistent with good governance principles, we review independence and objectivity annually as part of our annual review of the effectiveness of the external audit process. As explained in more detail on pages 49 to 50, the Company will put our external audit contract out to tender during 2017 and seek shareholder approval for the proposed new audit firm at the 2018 AGM.

Leadership

The role of the Board

The role of the Board is to provide entrepreneurial leadership and the Directors are collectively responsible for the long-term success of the Company. The Board also acts as custodian of the Company's values and of its long-term vision and provides strategic direction and guidance for the Company. The names, biographical details and significant time commitments of the members of the Board are set out on pages 38 and 39.

In discharging its responsibilities, the Board also seeks to set, promote and demonstrate adherence to our values and ethical standards for the Company. It remains mindful of the need to observe the duties owed by Directors in law, including promoting the sustainable success of the Company, not only for our shareholders, but also for our stakeholders, which includes our employees, suppliers, customers and the wider community.

The offices of the Chairman and the Chief Executive Officer ('CEO') are separate and clearly distinct. The division of their responsibilities is set out in writing and has been approved by the Board. The role and responsibilities of the Senior Independent Director ('SID') are also set out in writing and approved by the Board. The CEO is responsible for the day to day running of the Group, carrying out the agreed strategy and implementing specific Board decisions.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chairman is also responsible for creating the right board dynamic and for promoting a culture of openness and debate, in addition to ensuring constructive and productive relations between executive and non-executive Directors. The Chairman is also an ambassador for the Company to shareholders and wider stakeholders.

The executive Directors are responsible for the running of the business. The non-executive Directors are responsible for exercising independent and objective judgement in respect of Board decisions, developing corporate strategy with senior management and scrutinising and constructively challenging the actions of senior management.

Our Senior Independent Director, Pamela Kirby, acts as a sounding board to the Chairman and serves as an intermediary for other Directors when necessary. She is also available to meet with shareholders should they have any concerns, where contact through the normal channels maybe inappropriate. She is also responsible for leading the review of the Chairman's performance, as part of the annual Board evaluation.

The Group Company Secretary reports to the Chairman on governance matters and is responsible for keeping the Board up to date on all legislative, regulatory and governance matters. He is also responsible for supporting the Chairman and other Board members as necessary, including the management of Board and Committee meetings and their evaluation, advising on Directors' duties and facilitating appropriate, high quality and timely information flows between the business and the Board.

Corporate governance continued

Leadership continued

Operation of the Board

The Board is responsible for the Group's strategic development, monitoring achievement of its business objectives and maintaining a system of effective corporate governance, which includes the responsibility for health, safety, environmental, social and ethical matters. It also monitors the Company's risk management and internal control systems and carries out a review of their effectiveness, and has reported on this in the report on pages 45 and 46.

The Board discharges these responsibilities through scheduled meetings, which include regular reviews of financial performance and business issues and benchmarking performance against our strategic plan and objectives.

The Board's agenda is determined against a pre-planned programme of business to ensure that, in addition to the day to day matters requiring its consideration, all necessary matters are covered and to allow sufficient time for debate and challenge, particularly on areas such as strategy. That programme of business is subject to periodic review and assessment of its sufficiency to enable the Board to set strategic aims, engage with management in order to provide an informed assessment of performance against appropriate objectives and understand the evolution of the business.

During 2016, as part of its programme, the Board visited the Group's office in Germany. The visit included meeting with all staff and attending presentations from management which enabled particular focus on the regional considerations associated with

implementation of the Group's strategy. Board members then participated in visits to key customers and partners, feedback on which was given at the subsequent meeting of the Board.

Matters reserved for the Board and delegation of authority

There are certain matters that are deemed significant enough to be reserved for Board decision only. A documented schedule of matters reserved for the Board's decision is reviewed annually by the Board to ensure it continues to be appropriate for the activities of the Group. These matters include:

- setting the Group's strategy and approval of the Company's long-term objectives;
- approval of half-yearly reports, any preliminary announcements of the final results and other announcements concerned with the financial performance of the Group;
- changes to the Company's capital structure;
- approval of the dividend policy;
- major contracts and capital expenditure;
- approval of risk management policy and framework;
- major investments and acquisitions; and
- treasury and cash management policy.

The Board delegates day to day and business management control to the executive Directors, who in turn delegate as appropriate to senior management.

Attendance at meetings

Directors' attendance at the Board and Committee meetings convened in the year to 30 September 2016:

◆ Attended ◇ Not attended

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings	◆◆◆◆◆◆◆◆◆◆	◆◆◆	◆◆◆◆	◆◆
Chairman				
L C Pentz	◇◆◆◆◆◆◆◆◆◆	◆◆◆	◆◆◆◆	◆◆
Executive Directors				
D R Hummel	◇◆◆◆◆◆◆◆◆◆	n/a	n/a	n/a
L S Burdett	◆◆◆◆◆◆◆◆◆◆	n/a	n/a	n/a
T J Cooper	◇◇◆◆◆◆◆◆◆◆	n/a	n/a	n/a
M L Court	◆◆◆◆◆◆◆◆◆◆	n/a	n/a	n/a
Non-executive Directors				
P J M De Smedt	◇◆◆◆◆◆◆◆◆◆	◆◆◆	◆◆◆◆	◆◆
P J Kirby	◆◆◆◆◆◆◆◆◆◆	◆◆◆	◆◆◆◆	◆◆
A J H Dougal	◆◆◆◆◆◆◆◆◆◆	◆◆◆	◆◆◆◆	◆◆
J E Toogood	◆◆◆◆◆◆◆◆◆◆	◆◆◆	◆◆◆◆	◆◆

Although not a member of the Committees, when appropriate to the business under consideration Larry Pentz, David Hummel, Louisa Burdett, Tim Cooper and Martin Court may be invited to attend meetings of the Committees.

Disclosure Committee

Chairman – Larry Pentz, David Hummel or Louisa Burdett

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 as appropriate to the subject matter from the Company's broker, external auditor and legal advisors, on the form and content of any disclosure under consideration. The remit of the Disclosure Committee, its conduct and terms of reference have been considered in light of the Market Abuse Regime, which came into effect during 2016.

The Committee comprises all Directors of the Company and the Group Company Secretary, with a quorum being any two Directors which must include one of the Chairman, the CEO or the Finance Director. 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.

The Chief Executive's Committee

In discharging his responsibilities, the Chief Executive is assisted by the Executive Leadership Team ('ELT'). The ELT comprises the four executive Directors, David Hummel, Louisa Burdett, Tim Cooper and Martin Court. They are supported in their duties by the Group HR Director, the Group Company Secretary and the General Counsel. This team is responsible for making recommendations to the Board on matters that are reserved for their decision, such as strategy, corporate development and annual budgets. Formal meetings of the ELT are held twelve times a year, as well as participating in other forums which support the conduct of the Group's business.

Board Committees

The Board has delegated certain responsibilities to Board Committees namely:

- the Nominations Committee;
- the Audit Committee;
- the Remuneration Committee; and
- the Disclosure Committee.

The Board has ultimate responsibility for the annual approval of the treasury and cash management policy and continues to be supported in its work by the Currency Committee. The Currency Committee is chaired by the Group Finance Director, Louisa Burdett, and meets on a monthly basis to manage the application of the Group's treasury policy. Further details on the policy and the activities of the Currency Committee are included in note 14 to the financial statements.

The Nominations, Audit and Remuneration Committee reports are set out on pages 47 to 64 and that for the Disclosure Committee is shown opposite. These Committees operate under terms of reference and report to the Board at each Board meeting via the Committee Chairmen. The terms of reference are reviewed at least annually, with any revisions proposed by the respective Committees and then approved by the Board. The Board has provided its Committees with sufficient resources to undertake their duties, including access to the services of the Group Company Secretary and external advisors, where appropriate.

 **Nominations Committee Report**
Page 47

 **Audit Committee Report**
Page 48

 **Remuneration Committee Report**
Page 51

The terms of reference of the Nominations, Audit and Remuneration Committees are available on the Company's website (www.victrexplc.com) and in paper form on request from the registered office of the Company.

Corporate governance continued

Board effectiveness

Composition, independence and diversity of the Board

At the date of this report, the Board comprised a non-executive Chairman, four other non-executive Directors and four executive Directors. The Code requirement that at least half the Board should be independent non-executive Directors has continued to be met throughout the year. The non-executive Directors (including the Chairman, Larry Pentz, who was independent on his appointment) are all considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

The composition of the Board is intended to ensure that its membership represents a mix of backgrounds, skills and experience that will enhance the quality of its deliberations and decisions. Diversity in Board composition is considered to be an important part of overall Board effectiveness. As a result, in looking for prospective Directors, there is regard to the skills and experience of the Board at that time, the need to address longer-term succession and business priorities, inherent qualities, as well as cultural background. The annual formal evaluation of the Board takes board diversity into account and is instrumental in identifying any new skill requirements, as well as possible shortcomings, gaps or inefficiencies. At its most recent effectiveness review, the Board concluded that any future appointments to the Board should give due consideration to cultural and ethnic background which would be of value as the Group continues to extend its global reach.

Current female representation on the Board is 33% and, therefore, exceeds the minimum target representation level as recommended by the Davies Review. The Board recognises the importance of gender diversity at the level below the Board and is committed to ensuring an appropriate level of gender diversity, in particular at senior management level. There is a commitment in the Company to support women in overcoming the barriers they face in rising to the top of the management structure. The female representation on the ELT is 25%. Further information on the total female representation on our workforce is provided in our Sustainability report on page 34.

As already mentioned above, 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 page 34.

Re-election of Directors

Consistent with best practice, all the Directors will retire at the AGM being held in February 2017. Being eligible all the Directors will offer themselves for re-election by shareholders. The Board is recommending that shareholders vote in favour of the re-elections, having given due consideration to performance and terms of office, with particular consideration as to the proposed re-appointment of Patrick De Smedt.

Mr De Smedt was appointed as a non-executive Director in July 2008. He is currently the chairman of the Remuneration Committee. The Board recognises that the proposed re-appointment of Mr De Smedt at the forthcoming AGM will mean that, during the course of the year, he will have served as a non-executive Director for more than nine years. The Board is mindful of this and therefore in considering whether to recommend Mr De Smedt for re-appointment has given particular regard for his continued independence both in character and judgement, as to which the Board is fully satisfied. The Board also considered the work which has been done in preparing a revised Remuneration Policy (see page 52) and which will be separately considered by shareholders at the AGM to be held on 8 February 2017. The Board took into consideration the important part Mr De Smedt has provided in developing the revised policy, and felt it appropriate that he should during 2017 lead the implementation of such policy in the event the shareholders approve it for adoption or address any amendments which might otherwise be required.

The Notice of AGM on page 100 gives details of the Directors. Further information on both the appointment and replacement of Directors is given in the Directors' report on page 66.

Conflicts of interest

Under the Companies Act 2006, a director must avoid a situation where a direct or indirect conflict of interest may occur and procedures are in place to deal with any situation where a conflict may be perceived. The Board confirms that it has considered and authorised any conflicts or potential conflicts of interest in accordance with these procedures. The Board has specifically considered the other appointments held by Directors, details of which are contained in their biographies on pages 38 to 39, 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.

Board evaluation

The Board recognises that a rigorous performance evaluation is important to optimise Board effectiveness. A formal evaluation of the Board, Board Committees and individual Directors' performance is carried out annually. The most recent externally facilitated Board evaluation was conducted in 2015 with Stone Court Consulting. The results of that evaluation were taken into consideration in setting the programme of business for the Board and Committees which were implemented in 2016.

As explained in our 2015 annual report, in the current year, the performance evaluation was conducted internally through use of a questionnaire which was prepared by the Group Company Secretary following consultation with chairs of the Board and Committees. As well as questions designed to support the assessment, the questionnaire also incorporated sections that invited respondents to provide comments and observations on aspects of the business of the Board and Committees.

The results of completed questionnaires were shared with the Chairman of the Board and chairs of the respective committees and discussed at subsequent meetings held in September. The overall conclusion was that the Board and its committees were performing satisfactorily and that solid progress had been made in addressing areas which the Directors had previously identified as meriting additional attention.

The Board considers that performance evaluation should form an important part of evolving practice not just at Board level but helping to improve performance through the organisation. For example, as part of continuous improvement, during the year, the Board enhanced the internal reporting on assessment, ranking and mitigation of risks. Led by the Director of Risk and Compliance, a project was implemented which reviewed in depth the risks faced by the Group, their relative internal ranking and mitigation measures. The Board concluded that the work has improved the quality of reporting, helping the Board to better understand, track and evaluate the effectiveness of the management of risk.

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 Chairman's performance is reviewed by the Board, without the Chairman present. This was led by the SID in the current year.

During the year, pursuant to the Code, the Chairman met with the other non-executive Directors without the executive Directors present, and the SID met with the other non-executive Directors without the Chairman present.

Induction and training

All new non-executive Directors receive a personalised induction programme, tailored to their experience, background and particular area of focus. The programme has evolved over time to take into account feedback from Directors. It includes a wide range of meetings with other Directors and senior management, attending results and broker briefings and opportunities to visit the Group's operations outside of the UK. New executive Directors also receive an induction focused on their new role and wider responsibilities which includes briefings on areas such as directors' duties and corporate governance guidelines and best practice. Induction programmes cover matters such as Group structure and strategy, industry and competitive environment, Group risk profile and our approach to risk and safety, health and environmental matters. Training (including social, environmental and ethical matters) is also provided. The Board evaluation process also considers specific training or development needs. In the current year, the Board has received training in connection with the new Market Abuse Regime which was also implemented for senior managers and those deemed to have responsibilities which may from time to time mean they could have access to inside information.

Information and support

The Company has robust processes in place to ensure the Board receives management information and reports on strategic and operational matters on a timely basis. The CEO also updates the Board on progress against the Group's strategic plan. Briefings by operational management also take place regularly to enhance the Board's understanding of the business.

Directors can take independent professional advice where necessary at the Company's expense and have access to the services of the Group Company Secretary. The Group Company Secretary is responsible for ensuring that Board procedures are followed and for providing advice to the Board on corporate governance. Both the appointment and removal of the Group Company Secretary are matters for the Board as a whole.

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 67.

Accountability

Financial and business reporting

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects. Reporting is at a divisional level with the head of each division reporting to the Board through a standardised reporting process. The Group has a comprehensive annual budgeting process and the annual budget is approved by the Board. Reforecasts are presented to the Board during the course of the year.

The statement that gives the reasons why the Directors continue to adopt the going concern basis for preparing the financial statements is given in the Directors' Report – strategic report on page 24. In accordance with provision C.2.2 of the Code, the Directors have assessed the prospect of the Company over a longer period than the twelve months required by the 'Going Concern' provision. This assessment is outlined in our Viability Statement on page 24.

Risk management and internal control procedures

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. It is ultimately responsible for maintaining sound risk management systems (including financial controls, controls in respect of the financial reporting process and controls of an operational and compliance nature). The Board is supported in assessing the risk framework and internal reporting by the Audit Committee and our Risk Management Committee (which reports to the ELT).

A sound system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. 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.

Corporate governance continued

Accountability continued

Risk management and internal control procedures continued

As explained on page 44 (see section on Board Evaluation), during the year the Board has undertaken a review of the effectiveness of the risk management framework and policies. In addition, twice a year, the Board reviews the principal risks, allowing it the opportunity to review the level of risk it is prepared to accept in pursuit of the Group's strategic objectives. This process will continue in 2017.

The Board confirms that it has carried out a robust assessment of the principal risks, that the principal risks remain within its risk appetite and that there is a framework of continual and ongoing processes in place for identifying, evaluating, monitoring and managing the principal risks faced by the Company, as outlined above. These processes were reviewed during the year by the ELT Risk Management Committee, and the findings reported to the Audit Committee, which has responsibility for reviewing the risk management systems and the effectiveness of these systems and reporting to the Board.

The Board's view of the key strategic and operational risks and how we seek to manage those risks is set out on pages 20 to 24.

The independent Risk and Compliance function supports the Board in its review of the effectiveness of the system of internal control. There is a rolling programme of business assurance review carried out across the Group, co-ordinated by the Director of Risk and Compliance, who reports to the Chairman of the Audit Committee in relation to business assurance matters. The Audit Committee reviews the annual business assurance plan, its findings, effectiveness, allocation of appropriate resources and risk management activities and priorities.

In addition to the controls described above, there are further steps to provide assurance over the completeness and accuracy of our reporting process, which include review and recommendation by the Audit Committee and review and approval by the Board.

The Group has a whistleblowing policy, which is subject to periodic review for assurance that it reflects good practice and is compliant with relevant local regulations within each of the territories in which we operate. The most recent detailed review of the policy was undertaken during 2016. 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 Company continues to operate its Global Code of Conduct policy and embed this throughout the Group. This policy includes areas such as anti-bribery, data protection and conflicts of interest. It is an important element in our drive to promulgate practices and standards which we recognise contribute to our reputation as a business and our standing with all stakeholder groups.

The Board and Audit Committee have reviewed the effectiveness of the internal control system, including financial, operational and compliance controls, and risk management in accordance with the Code. As a result of this process, we are satisfied that there have been no significant failings or weaknesses. We confirm that the Group has complied with the Code provisions on internal control by operating throughout the year ended 30 September 2016 (and up to the date of approval of this Annual Report) appropriate procedures in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Further details of the risk management framework operating at Victrex are given on pages 20 to 21.

Relations with shareholders

The Board as a whole has a responsibility for ensuring that satisfactory engagement with shareholders takes place, based on the mutual understanding of objectives. The Board achieves this through dialogue with shareholders and analysts, led by the Chief Executive, Group Finance Director and Head of Investor Relations.

The Board believes that appropriate steps have been taken during the year to ensure that all members of the Board and, in particular the non-executive Directors, develop an understanding of the views of major shareholders. Such steps include, for example, analyst and broker briefings, a standing Board agenda item covering investor relations matters, consideration by the Board of monthly brokers' reports and feedback from shareholder meetings on a six-monthly basis. The canvassing of major shareholders' views for the Board in a detailed investor survey is conducted during the year by our brokers, J P Morgan. 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.

Institutional investor relations activity is normally concentrated in the periods following the announcement of the half year and full year results, although the Group participates in investor conferences and UK and overseas investor roadshows throughout the year. Additional presentations and site visits are arranged where appropriate and we hosted a number of such visits during 2016.

All shareholders will have the opportunity to ask questions at the forthcoming AGM, which is being held on 8 February 2017. The Chairs of the Audit, Nominations and Remuneration Committees will be available to answer questions at that meeting. Proxy votes lodged on each AGM resolution are announced at the meeting, published on the Company's website and announced via the Regulatory Information Service.

Larry Pentz
Chairman of the
Nominations
Committee



Nominations Committee report

The Committee is responsible for regularly reviewing the structure, size, diversity and composition of the Board. This is to ensure that the Company has the right leadership to effectively deliver the Company's strategy.

Membership

The Nominations Committee comprises all of the non-executive Directors and is chaired by the Chairman of the Board, Larry Pentz.

The Committee met on two occasions during the year.

Responsibilities

The Committee is responsible for regularly reviewing the structure, size, diversity and composition of the Board. This is to ensure that the Company has the right leadership to effectively deliver the Company's strategy. It is also responsible for succession planning and identifying and recommending appropriate candidates for membership of the Board when vacancies arise. The Committee has applied the UK Corporate Governance Code provisions in developing the Company's policies on succession planning and appointments.

In considering an appointment, the Committee evaluates the balance of skills, knowledge, independence 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. During the year, meetings of the Committee considered the Company's initiatives for the training and development of employees, including that to support succession planning and career progression to senior positions in the Group, which the Board recognises can in turn support future considerations on the appointment of internal candidates to executive positions, but also plays an important part in enabling the Group to fulfil its strategic objectives.

The Nominations Committee also reviews the time required from each non-executive Director and any other significant commitments of the Chairman. The 2016 review found the non-executives' time commitments to be sufficient to discharge their responsibilities effectively.

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

Boardroom diversity

The Board's Statement on diversity, which has been published on our website, is as follows:

'The Board of Victrex plc welcomed the publication in February 2011 of the Davies Review on Women on Boards. Our current female representation on the Board is 33% and is therefore in excess of the minimum representation level 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.'

Corporate governance continued

Andrew Dougal
Chairman of the
Audit Committee



Audit Committee report

During 2016, an integrated ERP system was implemented in the UK which was commissioned over the summer, following earlier rollout in the US. The introduction of the new system is in response to the continued evolution of the Group. At each of its meetings, the Committee received reports from management on the detailed planning, preparation and training for implementation.

I am pleased to present the report of the Audit Committee for the year ended 30 September 2016. The Audit Committee is integral to the scrutiny which is given by the Board to the performance of management and the standing of the Group as a whole.

The Committee has three scheduled meetings each year, in addition to which I meet with members of the executive and management outside of those formal meetings to discuss matters which fall within the Committee's terms of reference. This allows me to enhance my understanding of the business, its priorities and challenges and facilitates engagement with management in addressing actions agreed by the Committee.

In submitting to shareholders the report of the Committee for this year, we have been mindful of the FRC Guidance on Audit Committees published during 2016 and these considerations are reflected within the following disclosures on the principles which the FRC has promulgated.

Membership

I am a member of the Institute of Chartered Accountants of Scotland, and in addition to serving as chairman of an audit committee for another FTSE 250 company, I have previously served as Group Finance Director for a FTSE 100 business. The Board is satisfied that I have recent and relevant financial experience as required by the Code. The other members of the Audit Committee are Patrick De Smedt, Pamela Kirby and Jane Toogood. The qualifications of the Audit Committee members are outlined in the Directors' biographies on pages 38 and 39.

The members of the Audit Committee have been selected with the aim of providing a wide range of financial and commercial expertise which includes competence relevant to the sector in which the Company operates and which enables the Committee to fulfil its function. The function of the Committee as a whole and the effectiveness in fulfilling its remit were considered as part of the most recent evaluation of performance which was completed in the summer and reported to the Board in September.

Committee meetings

The Committee believes it is important to have regular engagement with senior management as part of addressing items of business effectively. Accordingly in addition to the members of the Committee, the Chairman, the Finance Director, the Director of Risk and Compliance and the External Audit Engagement Partner routinely attend each meeting, and other executive Directors may also attend as appropriate. In addition, other members of the management team may be asked to attend certain meetings to provide further insight into specific issues and developments. The Committee also meets with the auditor twice each year without management being present.

Responsibilities

The Audit Committee undertakes its activities in line with a programme of business based on its terms of reference which are reviewed annually and approved by the Board. The terms of reference were reviewed in September 2016 and revised to reflect the FRC Audit Committee Guidance. The terms of reference are available on our website, www.victrexplc.com. The key responsibilities of the Committee are to:

- review the financial statements (half yearly and annual reports) and announcements relating to the financial performance of the Company;
- monitor the financial reporting process;
- review the risk management systems and the effectiveness of those systems;
- monitor and review the effectiveness of the internal audit function;
- review and challenge actions and judgements of management in relation to financial statements;
- review significant legal and regulatory matters;
- review the Company's internal financial controls (that is, the systems established to identify, assess, manage and monitor financial risks) and the Company's internal control management systems;
- review the Committee's terms of reference, carrying out an annual performance evaluation exercise and assessing the operation of the Committee;
- review all matters associated with the appointment, terms, remuneration, independence, objectivity and effectiveness of the external audit process and to review the scope and results of the audit; and
- report to the Board on how the Committee has discharged the aforementioned responsibilities, including an assessment of whether the financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Within its routine business, the Committee assesses the Group's financial integrity, as part of which it also considers the systems of controls associated with financial reporting. During 2016, an integrated ERP system was implemented in the UK which was commissioned over the summer, following earlier roll-out in the US. The introduction of the new system is in response to the continued evolution of the Group. At each of its meetings, the Committee received reports from management on the detailed planning, preparation and training for implementation. In addition, it considered separate reports from an independent consultant, engaged by the Director of Risk and Compliance which evaluated the steps being followed as part of assessing and mitigating potential risks associated with the launch.

In the following sections, we explain how the Committee fulfils its responsibilities and highlight matters which have been addressed during the course of the year.

Financial reporting

The primary role of the Committee in relation to financial reporting is to review with both management and the external auditor, and report to the Board where requested or required, the appropriateness of the half year and annual financial statements concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the external auditor;
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The statement incorporating the conclusion of this assessment is included on page 69; and
- any correspondence from regulators in relation to our financial reporting.

In addition to the above, the Committee supports the Board in completing its assessment of the adoption of the going concern basis of preparing the financial statements. For the first time in the 2015 Annual Report, the Directors included a viability statement concerning the prospects of the Company over a five-year period, as required by section C.2.2 of the Code. During 2016, the Committee reviewed the approach taken by the Directors in preparing and reporting on the Viability Statement with due regard for wider market practice and developing guidance. As a result of that review, the Committee was satisfied that the approach adopted was appropriate. The Viability Statement for the 2016 financial year was prepared on a consistent basis with that reported in 2015 and is on page 24.

In the preparation and final approval of the financial statements, the Committee has discussed with management the key sources of estimation and critical accounting judgements outlined in note 20. The significant areas of focus considered by the Committee in relation to the 2016 financial statements and how these have been addressed are set out below. In concluding that these represented the primary areas of judgement, the Audit Committee considered a report by management which referenced both quantitative and qualitative judgement factors across each significant account balance, assessing the impact on the user of the financial statements. These are also areas of higher audit risk and, accordingly, KPMG reported to the Committee on, and the Audit Committee discussed, these judgements.

Carrying value of inventory: the Committee reviews the nature of the costs absorbed into inventory, the variances between standard cost and actual cost and the reasons for movements in inventory value period to period. The basis for and level of provisioning, including those areas which are judgemental, is presented to the Committee by management. The Committee concluded, based on the information provided, that the valuation of inventory and level of provisioning were reasonable.

- **Defined benefit accounting:** the valuation of the defined benefit scheme is dependent on a number of assumptions that are inherently judgemental. Following the closure of the scheme on 31 March 2016, judgement on future salary growth rates ceased, but judgement over future interest and inflation rates remain with sensitivities of +/-1% in either having a material impact on the value of scheme liabilities. The Audit Committee assesses these judgements based on reports received from management and the Group's actuarial advisors. The Committee concluded that the assumptions used and the resulting valuation were reasonable.

To aid the conduct of reviews, the Committee considers reports from the Group Finance Director and the Group Financial Controller and also reports from the external auditor on the outcomes of its half-year review and annual audit. As a Committee, we also monitor the activities of KPMG in order to obtain assurance of their continuing independence and objectivity.

External audit

Appointment, independence and effectiveness

KPMG was re-appointed as auditor at the 2016 AGM. The Committee considers the re-appointment of the external auditor each year, whilst assessing its independence and effectiveness on an ongoing basis. The Committee reports its findings to the Board alongside its recommendation.

The Audit Committee actively considers the effectiveness of the external audit process on an ongoing basis. This process commences in advance of the audit with the identification by the Committee of the key risks to audit quality and effectiveness. The Committee then assesses the auditor against these key risks twice during the annual audit cycle. This focused approach is supplemented by a detailed questionnaire provided to Committee members and management following the completion of the audit. The questionnaire covers the external auditor (with consideration of the audit partner, the approach, communication, independence, objectivity, audit quality, interaction with internal audit and reporting) and assesses the role of relevant functions within the Company in the context of audit findings and, in addition, their facilitation and engagement with the audit process as a whole. The results of the questionnaire are reported to and discussed by the Committee and subsequently presented to the Board for consideration.

In addition to the above, this year the Committee also considered the Financial Reporting Council's (FRC's) Audit Quality Review (AQR) team's report on KPMG's audit of the 2015 Annual Report and Accounts. The AQR's findings and KPMG's responses to these findings were discussed with KPMG and included where appropriate in the aforementioned risk assessment of audit quality. The AQR's findings primarily relate to the communication of changes to their detailed audit plan and the sufficiency of work performed on revenue recognition in some components, and the inclusion of membership data as a significant risk in determining the pension obligation. KPMG reported to the Audit Committee as part of their final report on both of these matters, with the Audit Committee concluding that both had been addressed satisfactorily.

When assessing KPMG's continued effectiveness, independence and re-appointment, the Committee considered the length of their tenure. KPMG has been our auditor since 1993 (23 years), during which time the audit has never been put to tender. The Committee continues to consider KPMG to be independent and effective in their role as auditor. Accordingly, the Committee has provided the Board with its recommendation to the shareholders to re-appoint KPMG as external auditor for the year ending 30 September 2017.

Corporate governance continued

Audit Committee Report continued

External audit continued

Appointment, independence and effectiveness continued

The Committee has considered FRC guidance, including the provisions of the 2014 Code, concerning the need to put the external audit to tender at least every ten years. Taking account of the prevailing requirements under the Companies Act, the Committee has determined that an audit tender will be conducted in 2017 in order to allow the new audit firm to be in place for the year ending 30 September 2018. This timeline aligns with the final year of the current partner's term being the year ending September 2017. Given the length of KPMG's tenure they will not be invited to participate in the process. At each of its meetings in 2016, the Committee has discussed the appropriate steps with due regard for prevailing guidance and legislation.

Specifically, at the meeting in September 2016, the Committee considered a paper on the proposed tender process, which also outlined proposals on the selection approach, with due regard for guidance and best practice in accordance with C.3.2 of the Code. The Committee will be leading the process, but has approved the appointment of a subcommittee which, led by me, has responsibility for defining and managing the process, collating information to be provided to the tendering firms and developing the selection criteria. Following approval of the above by the Audit Committee, the subcommittee shall run the first stage of the tender process and make a recommendation, based on the pre-defined criteria, of two shortlisted firms for consideration by the full Committee. It is expected that the timing of the final decision will allow the new audit firm to observe the audit which will be undertaken by KPMG for the 2017 financial year and then be fully in place as auditor for the year ending September 2018. As part of its preparations for the tendering process, the Committee has satisfied itself that there are no contractual obligations that restrict the Committee's choice of external auditor and has put in place measures to identify and manage conflicts of interest throughout the process. The Committee has been mindful of the new regulations requiring a 'cooling in' period, which precludes the performance of certain non-audit services for the year preceding appointment as auditor.

Non-audit services

To further safeguard the independence and objectivity of the external auditor, non-audit services provided by the external auditor are considered and where appropriate authorised by the Committee in accordance with a non-audit services policy. The policy is outlined in an appendix to the Committee's terms of reference, which are published on our website. This policy places constraints on the quantum and type of services undertaken by our auditor with the aim of safeguarding the independence and objectivity of our auditor. Non-audit fees for the year ended 30 September 2016 were

£51,800 (2015: £68,000). The non-audit fees primarily related to the interim review, the pension scheme audit and completion of the pension advisory work in respect of the Defined Benefit pension scheme closure which commenced in 2015. Alternative providers were considered but not deemed practical in the specific circumstances. No approval was given to any non-audit services not in accordance with the APB's Ethical Standards for Auditors. When awarding non-audit work to KPMG, the Committee is cognisant of the EU Audit Regulation, including the cap on non-audit fees of 70% of the audit fee, and the ongoing consultations on how this will be implemented into UK regulation. Non-audit services in the 2016 financial year represented 35% (2015: 49%) of the audit fee.

Risk management, internal control and internal audit

The Audit Committee has responsibility for reviewing the risk management systems and effectiveness of these systems. The responsibilities and processes in respect of risk management are described separately on pages 20 to 24 and pages 45 to 46.

The Audit Committee also monitors the effectiveness of the Group's internal control systems.

The Director of Risk and Compliance, as appointed by the Committee, has responsibility for internal audit and independently reports to the Chairman of the Audit Committee in relation to internal control matters. In addition to attendance by invitation at meetings of the Committee, I have met on three separate occasions during the year with the Director of Risk and Compliance to consider findings from internal audit and progress being made as we evolve our practices associated with the identification and reporting of risk.

The programme of business for the internal audit function is considered and approved each year by the Committee. In reviewing the proposed programme, the Committee gives consideration to the Group's strategic priorities and specific initiatives which are being undertaken, which could impact the business and also the findings and actions arising from the assessment of the Group's risk register. Thereafter, together with findings from audits which are presented at each meeting, the Committee considers progress against agreed objectives as part of ensuring the robustness and proper resourcing of the function to enable it to perform effectively. Where appropriate to the nature of the work being undertaken, reviews are supported by other independent assurance providers, in particular the review during 2016 of work associated with implementing the new ERP System.

The Committee has reflected upon the FRC Guidance on Audit Committees and was satisfied that the principles concerning internal audit are reflected in the prevailing responsibilities and function of the Company's Internal Audit department.

Directors' remuneration report

Patrick De Smedt
Chairman of the
Remuneration
Committee



Remuneration Committee Report

A significant proportion of the annual reward for our executive Directors is linked to a combination of the financial performance of the business and personal objectives.

Annual Statement

Dear shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 30 September 2016.

Victrex has made further progress during 2016 in its strategy to be the leading provider of innovative high performance polymer solutions using our proprietary PEEK and PAEK technologies.

Against the backdrop of the prevailing economic environment, we have continued to invest in programmes which reflect our confidence for the future and which positions Victrex as a provider of differentiated products and solutions that will drive growth and create value for our shareholders over the longer term.

We give more detail on our strategy on pages 2 to 8 and explain the investment in our mega-programmes in support of our strategy on page 14.

Victrex experienced a challenging 2016, reflecting a combination of the wider macro-economic environment and a slowdown in demand within certain of our target markets (most particularly in Consumer Electronics), which was partially offset by growth in other areas (for example, Aerospace and Automotive). Supported by improved performance in the second half of the year, the Company delivered revenues for 2016 in line with market expectations of £252.3m, although this was 4% lower than 2015 (£263.5m).

Group profit before tax of £100.3m (2015: £106.4m) also reflected these impacts and the higher fixed costs from our new manufacturing assets, although our enhanced focus on efficiency helped to reduce variable costs. Earnings per share of 96.8p (2015: 98.1p) was down 1%. A more detailed assessment of our financial performance can be found on pages 12 to 15.

A significant proportion of the annual reward for our executive Directors is linked to a combination of the financial performance of

the business and personal objectives. The Remuneration Committee sets targets each financial year which it judges to be suitably balanced between delivering performance over both the near and longer term and which are appropriately stretching.

Whilst recognising the overall progress which has been made in delivering certain strategic objectives (for example, revenues in the Magma Oil and Gas mega-programme (explained on page 13)), in light of the financial performance, the Committee determined that no cash bonus would be paid.

A separate analysis of the relevant financial performance targets for the Long Term Incentive Plan concluded that the targets had not been satisfied with the result that there would be no vesting.

There will be no increase in the basic salary of executive Directors for the 2017 financial year.

Remuneration Policy

As we explain in more detail on the following pages, the current Remuneration Policy of the Company was first adopted by shareholders at our AGM in 2014 and, under Company Law, shareholders must be asked to approve a new policy which will run for a maximum three-year period. Accordingly, we will be submitting a policy to shareholders to vote on at the AGM to be held on 8 February 2017. In preparing for that submission, the Committee has reviewed the present policy and we consider it to remain appropriate, save for a couple of changes we are proposing to strengthen alignment with shareholders and the link between pay and performance. The changes do not seek to increase the limits to base salary, pension, benefits or incentive arrangements for the executive Directors.

Alignment with shareholders

In making the proposals for a revised policy, the Committee has given consideration to feedback from our major shareholders, as well as prevailing sentiment on reward and pay for executive Directors.

We remain committed to a remuneration policy and implementation which we feel provides suitable opportunity for our executive Directors to be rewarded for their contribution to the business, aligned with the interests of all stakeholders. We value the support which shareholders have provided, as reflected in the feedback from engagement and the vote given for our Remuneration Report at our 2016 AGM of 99%. I trust that I can count on your continued support.

Patrick De Smedt
Chairman of the Remuneration Committee
6 December 2016

Directors' remuneration report continued

Directors' Remuneration Policy

This part of the report sets out the Company's policy for the remuneration of executive and non-executive Directors (referred to as either 'the Remuneration Policy' or 'the Policy'). The Policy is determined by the Remuneration Committee and is not subject to audit by the external auditor.

The Remuneration Policy approved by shareholders in 2014 expires. The Committee has taken the opportunity over the past several months to undertake a thorough and detailed review of the existing Policy. As a result of that review, the Committee is satisfied that, subject to only minor amendments, the Policy remains appropriate.

The revised Policy below includes these amendments and, for clarity, does not seek to increase any of the approved limits for any element of pay, other than a small change to align the Policy limits for the all employee plans with revised legislative limits.

Should shareholders approve the changes which are being sought at the 2017 AGM, the new Policy would be effective from the date of the AGM.

The Committee considers that the changes strengthen the link between Victrex's strategy and executive remuneration and increase alignment between the interests of executives and shareholders over the long term.

In considering the scope of these changes, the Committee undertook an engagement with major shareholders.

Changes are as follows:

Pay element	Current Policy	New Policy
Salary	No changes	
Benefits	No changes	
Annual Bonus	<ul style="list-style-type: none"> → Maximum bonus 125% of salary → Any bonus paid in excess of 100% of salary deferred into ordinary shares (in practice this was applied to the CEO only) → Bonus measured based on a combination of Group profit growth before tax and personal performance 	<ul style="list-style-type: none"> → No change to maximum bonus opportunity → 25% of any bonus earned mandatorily deferred into ordinary shares under normal circumstances for 3 years (for all executive Directors) → Bonus measured on a combination of Group profit before tax, strategic objectives and personal performance
Long Term Incentive Plan (in the form of equity)	<ul style="list-style-type: none"> → Maximum award of 150% of salary (normal limit) or 200% (exceptional limit, for example in recruitment or retention) → After the three-year performance period, awards vest in equal tranches at the end of 3, 4, and 5 years from grant → Performance measured based on a combination of EPS and TSR 	<ul style="list-style-type: none"> → No change to maximum awards → After the three-year performance period, a two-year holding period will normally apply → Performance measured based on a combination of EPS and TSR, with the option to introduce one or more other measures over the course of the Policy if deemed appropriate
All employee share plans	→ A number of plans are offered. Limits were set as per legislation at the time the Policy was approved	→ Approved plan limits will allow for changes to legislation in the relevant jurisdiction (e.g. under UK and US legislation)
Share ownership guidelines	No changes	
Pension	No changes	
Non-executive Director fees and benefits	<ul style="list-style-type: none"> → Cash fee paid → No reference to benefits 	<ul style="list-style-type: none"> → No change to fees approach → Reasonable benefits may be provided to non-executive Directors as appropriate
Approach to recruitment and termination	No changes	

Directors' Remuneration Policy continued

Policy overview

The Company aims to provide a remuneration structure that is aligned with shareholder interests and, as such, is competitive in the marketplace to retain and motivate executive Directors of the calibre required in order to deliver the Company's strategy and enhance earnings over the long term, thereby driving growth in value to our shareholders.

Company policy is that performance related components should form a significant portion of the overall remuneration opportunity, with maximum total potential rewards being earned through the achievement of appropriately stretching performance targets based on measures that the Committee believes also reflects and takes account of the interests of shareholders.

Consideration of shareholder views

The Remuneration Committee considers shareholder feedback received in relation to the AGM each year at a meeting following the AGM. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Company's annual review of remuneration policy. In addition, the Remuneration Committee seeks to engage directly with major shareholders and their representative bodies should any material changes be made to the Remuneration Policy (for example, this has been done in respect of the proposed changes to the Policy outlined above).

Details of votes cast for and against the resolution to approve last year's remuneration report and any matters discussed with shareholders during the year are set out in the Annual Report on Remuneration (see page 64).

Consideration of employment conditions elsewhere in the Group

The Committee considers the general basic salary increase for the broader employee population when determining the annual salary increases and remuneration for the executive Directors. Employees have not been consulted in respect of the design of the Company's senior executive remuneration policy to date, although the Committee will keep this under review and is mindful of wider practices on reward. For example, as explained on page 51, reflecting the wider pay freeze for the 2017 financial year, the Committee determined not to increase the basic salary for any of the executive Directors.

Remuneration policy

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance targets
Salary	<p>To provide competitive fixed remuneration</p> <p>To attract and retain executive Directors of the calibre required in order to deliver the Company's strategy and enhance earnings over the long term</p>	<p>The basic salary for each executive Director is reviewed annually by the Remuneration Committee</p> <p>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</p>	<p>There is no prescribed maximum annual increase.</p> <p>The Committee will take into account the general increase for the broader employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role</p> <p>Current salary levels are set out on page 59</p>	Not applicable
Benefits	<p>To provide market consistent benefits, including insured benefits to support the individual and their family during periods of ill health, accidents or in the event of death</p> <p>Car or car allowances to facilitate effective travel</p>	<p>Current benefit provision includes a company car or car allowance and private medical insurance. Other benefits may be payable where appropriate</p>	<p>There is no defined maximum as the costs of benefits can vary year on year</p>	Not applicable

Directors' remuneration report continued

Directors' Remuneration Policy continued

Remuneration policy continued

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance targets
Bonus	<p>Assessed annually against achievement of both financial and non-financial performance targets</p> <p>Maximum bonus only payable for achieving suitably demanding targets</p>	<p>Not pensionable</p> <p>A minimum of 25% of earned bonus is deferred into shares under normal circumstances for three years, with the remainder paid in cash</p> <p>Clawback and malus provisions apply in the event of material misstatement of results and/or an error in the calculation of the bonus outcome</p>	Up to 125% of salary	<p>A combination of Group profit before tax, strategic objectives and executives' personal performance achievement level</p> <p>The profit measure will represent no less than 50% of the total bonus opportunity</p> <p>The bonus for personal and/or strategic performance is payable only if, in the opinion of the Remuneration Committee, underlying financial and operating performance of the business is sufficient in that year to warrant payment</p>
Victrex Long Term Incentive Plan (2009) ('LTIP')	Designed to align the strategic objective of delivering sustainable earnings growth over the longer term with the interests of shareholders	<p>Annual grant of nil-cost options, conditional share awards and/or forfeitable shares which vest subject to continued employment and achievement of performance targets measured over a three-year period</p> <p>At the end of the performance period, a further two-year holding period will normally apply to vested shares, net of any amount sold to settle tax and social security obligations</p> <p>Nil-cost options are normally exercisable for seven years from the vesting date. If a participant exercises their options prior to the fifth anniversary of grant, the net amount of the shares which vest must normally be held until the fifth anniversary of grant</p> <p>Participants will receive a payment (in the form of cash and/or additional 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. Alternatively, participants may have their award increased as if dividends were paid on the shares which vest and are reinvested in further shares</p> <p>Clawback and malus provisions apply in the event of the material misstatement of results and/or an error in the calculation of the vesting outcome</p>	<p>Plan limits:</p> <p>150% of salary (normal limit)</p> <p>200% of salary (exceptional limit – e.g. recruitment or retention)</p>	<p>The performance period for the LTIP is three years. Targets will be based on a combination of EPS and TSR</p> <p>Targets based on one or more other financial measures linked to the long-term strategy of the business may also be applied, as deemed appropriate by the Remuneration Committee</p> <p>The Committee retains discretion to alter the weightings of the individual measures over the course of the Policy, including to zero. 20% of the EPS element and 25% of the TSR element of an award vests at threshold performance (0% vests below this) increasing pro-rata to 100% vesting for maximum performance</p> <p>If a new measure is introduced, 25% of that element of the award will vest at threshold performance</p>

Directors' Remuneration Policy continued

Remuneration policy continued

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance targets
All employee share plans	To encourage employee share ownership and therefore increase alignment with shareholders	<p>2005 and 2015 UK Sharesave Plans</p> <p>HMRC approved plan under which regular monthly savings are made over a three or five-year period and can be used to fund the exercise of an option, where the exercise price is discounted, currently by up to 20%. Provides tax advantages to UK employees</p> <p>All-Employee Share Ownership Scheme</p> <p>HMRC approved plan that provides employees with a tax-efficient way of purchasing shares and allows the grant of free shares</p> <p>US Employee Stock Purchase Plan</p> <p>Tax favourable plan under which US employees can purchase stock at a discount to the fair market value using payroll deductions</p>	<p>2005 and 2015 UK Sharesave Plans</p> <p>Maximum permitted savings of £500 per month, or up to relevant HMRC limits across all Sharesave contracts</p> <p>All-Employee Share Ownership Scheme</p> <p>An employee can agree to purchase shares with a market value up to the relevant HMRC limits (in 2016 this was £1,800). The market value of free shares that can be allocated to an employee in any tax year must not exceed relevant HMRC limits (in 2016 this was £3,600)</p> <p>All-Employee Share Ownership limits will be aligned with HMRC legislation</p> <p>US Employee Stock Purchase Plan</p> <p>The maximum value of shares that an employee can purchase under the ESPP is limited as per US tax legislation (in 2016 this was \$25,000)</p> <p>Amounts which can be saved under the US Employee Stock Purchase Plan can be changed to reflect the maximum permitted by US law</p>	Not applicable
Share ownership guidelines (Not part of the approved Policy)	To increase alignment between executives and shareholders	Executive Directors are required to retain 50% of the net of tax vested LTIP shares until the guideline is met	100% of salary	Not applicable
Pension	To attract and retain high calibre executive Directors To provide retirement benefits	<p>Defined benefit, defined contribution and/or salary supplement arrangements</p> <p>Where the promised levels of benefits cannot be provided through the appropriate scheme, the Group may provide benefits through the provision of salary supplements</p>	A maximum of 25% of salary can be contributed to a defined benefit, defined contribution pension or equivalent arrangement, subject to limits under prevailing legislation, with the option in the event such limits are reached, for salary supplements to be paid. Such supplements are subject to tax deductions	Not applicable
Non-executive Director fees and benefits (Determined by the Board)	<p>Reflects time commitments and responsibilities of each role</p> <p>Reflects fees paid and benefits provided by similarly sized companies</p>	<p>Cash fee paid</p> <p>The Chairman, the SID and Chairs of the Audit and Remuneration Committees receive additional fees</p> <p>Fees are reviewed on an annual basis</p> <p>Non-executive Directors may be eligible to such cash and non-cash benefits as the Company deems appropriate from time to time</p>	<p>As per executive Directors, there is no prescribed maximum annual increase. The Board is guided by the general increase in the non-executive Director market and for the broader employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role</p> <p>Current fee levels are set out on page 60</p>	<p>Not applicable</p> <p>Non-executive Directors do not participate in variable pay arrangements and do not receive retirement benefits</p>

Directors' remuneration report continued

Directors' Remuneration Policy continued

Notes

- (1) A description of how the Company intends to implement the Policy set out in this table, subject to approval by shareholders at the AGM being held in February 2017, is also contained in the Annual Report on Remuneration.
- (2) The following differences exist between the Company's policy for the remuneration of executive Directors as set out above and its approach to the payment of employees generally:
 - A lower level of maximum annual bonus opportunity (or zero bonus opportunity) may apply to employees other than the executive Directors and certain senior executives.
 - Benefits offered to other employees generally comprise provision of healthcare and company car benefits where required for the role or to meet market norms.
 - The majority of employees participate in local defined contribution pension arrangements. A small number of employees have retirement benefits held in a UK defined benefits scheme (the 'UK DB Scheme'). The UK DB Scheme was closed to future accrual on 31 March 2016. No further employee or employer regular contributions are made to the UK DB Scheme. All former UK DB Scheme members now participate in the UK DC scheme offered by the Company. The Company continues to fund the trustee board which includes the on-going governance and investment activity required for the closed UK DB Scheme.
 - Participation in the LTIP is limited to the executive Directors and certain selected senior managers. Other employees are eligible to participate in the Company's share option schemes.

In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the fact that, in the case of the executive Directors and senior executives, a greater emphasis tends to be placed on performance related pay.
- (3) The choice of the performance metrics applicable to the annual bonus scheme reflects the Committee's belief that any incentive compensation should be appropriately challenging and tied to the delivery of financial, strategic and specific individual objectives.
- (4) The performance conditions applicable to the LTIP were selected by the Remuneration Committee on the basis that they reward the delivery of long-term returns to shareholders and the Group's financial results against pre-determined targets and are consistent with the Company's objective of delivering superior levels of long-term value to shareholders. The TSR performance condition is monitored on the Company's behalf by Willis Towers Watson, whilst the Group's EPS is derived from the Group's published financial statements.
- (5) The Committee operates share plans in accordance with their respective rules and in accordance with the Listing Rules and HMRC requirements where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plans.
- (6) All employee share plans (SAYE and SIP) do not operate performance conditions. Executive Directors do not participate in the Victrex 2005 and 2015 Executive Share Option Plans ('ESOP') (which are the primary share incentive arrangements for below Board executives).
- (7) For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given for the Company to honour any commitments entered into with current or former Directors prior to the implementation and approval of this Policy (such as the payment of a pension or the vesting/exercise of past share awards), provided that any such commitments complied with the Remuneration Policy in effect at the time they were given. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

Directors' Remuneration Policy continued

Service contracts for executive Directors

The service agreements of the executive Directors are not fixed term and are terminable by either the Company or the Director on twelve months' notice and make provision, at the Board's discretion, for early termination by way of payment of salary in lieu of twelve months' notice. Incidental expenses may also be payable where appropriate. In calculating the amount payable to a Director on termination of employment, the Board would take into account the commercial interests of the Company. The Remuneration Committee reviews the contractual terms for new executive Directors to ensure these reflect best practice.

Provision	Detailed terms
Notice period	12 months
Termination payment	Up to 12 months' salary
Remuneration entitlements	A bonus may be payable (pro-rated where relevant) and outstanding share awards may vest
Change of control	No executive Director's contract contains additional provisions in respect of change of control

Approach to recruitment and promotions

The remuneration package for a new executive Director – i.e. basic salary, benefits, pension, annual bonus and long-term incentive awards – would be set having regard to the terms of the Company's prevailing approved remuneration policy at the time of appointment and would reflect the experience of the individual. The salary for a new executive may be set below the normal market rate, with phased increases over the first few years, as the executive gains experience in their new role. Annual bonus potential will be limited to 125% of salary and long-term incentives will be limited to 150% of salary (200% of salary in exceptional circumstances). In addition, the Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company (and therefore shareholders) to take account of remuneration relinquished when leaving the former employer and would where possible reflect the nature, time horizons and performance requirements attaching to that remuneration. Shareholders will be informed of any such payments at the time of appointment.

For an internal executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

Approach to leavers

Annual bonus may be payable with respect to the period of the financial year served, although it will be pro-rated for time and paid at the normal payout date. Any share-based entitlements granted to an executive Director under the Company's share plans will be determined based on the relevant plan rules. The default treatment under the 2009 LTIP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill health, disability, retirement or other circumstances at the discretion of the Committee, 'good leaver' status may be applied. For good leavers, awards will normally vest on cessation, subject to the satisfaction of the relevant performance conditions at that time and reduced pro-rata to reflect the proportion of the performance period actually served. However, the Remuneration Committee has discretion to determine that awards vest at a later date and/or to dis-apply time pro-rating. The default treatment for deferred bonus awards is that any outstanding awards lapse on cessation of employment. However, in certain 'good leaver' circumstances (as described under the 2009 LTIP above), awards will normally vest in full on the date of cessation (unless the Remuneration Committee determines otherwise).

In the event of a compromise or settlement agreement, the Committee may make payments it considers reasonable in settlement of potential legal claims, e.g. unfair dismissal or where agreed under a settlement agreement. This may include an entitlement to compensation in respect of their statutory rights under employment protection legislation and such reasonable reimbursement of fees for legal and/or tax advice in connection with such agreements and/or costs of outplacement services.

Outside appointments

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 their 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

Non-executive Directors are appointed under arrangements that may generally be terminated by either party on between 1 and 3 months notice and their appointment is reviewed annually.

Directors' remuneration report continued

Annual Report on Remuneration

Implementation of the Remuneration Policy for the year ended 30 September 2016

A summary of how the Directors' Remuneration Policy was applied for the year ended 30 September 2016 is set out below.

Remuneration received by Directors for the year ended 30 September 2016 (audited)

	Salary and fees ¹ £	Taxable benefits ² £	Pension ³ £	Annual bonus ⁴ £	Long-term incentives ⁵ £	Total £
D R Hummel						
2016	521,903	6,950	139,358	—	—	668,211
2015	470,773	5,319	126,583	132,428	—	735,103
L S Burdett						
2016	316,573	16,133	62,333	—	—	395,039
2015	308,100	16,124	57,837	69,323	—	451,384
T J Cooper						
2016	274,363	16,198	48,938	—	—	339,499
2015	267,020	15,658	47,567	60,079	—	390,324
M L Court						
2016	264,068	16,380	48,594	—	—	329,042
2015	128,500	8,184	22,414	46,260	—	205,358
L C Pentz						
2016	170,000	—	—	—	—	170,000
2015	157,900	—	—	—	—	157,900
P J Kirby						
2016	52,600	—	—	—	—	52,600
2015	49,883	—	—	—	—	49,883
P J M De Smedt						
2016	55,600	—	—	—	—	55,600
2015	53,300	—	—	—	—	53,300
A J H Dougal						
2016	56,600	—	—	—	—	56,600
2015	26,425	—	—	—	—	26,425
J E Toogood						
2016	46,600	—	—	—	—	46,600
2015	3,775	—	—	—	—	3,775

The remuneration for executive and non-executive Directors comprising salary (or fees), taxable benefits, bonus and pension contributions was £2.1m (2015: £2.1m).

Notes and additional information

1. Salary and fees

D R Hummel received a salary of \$746,321, converted at an average exchange rate of £1/\$1.43 (2015: £1/\$1.54).

The salaries and fees paid respectively to M L Court, A J H Dougal and J E Toogood shown in the table above for the financial year 2015, reflect the fact that each was appointed during the course of that year.

2. Taxable benefits

The taxable benefits for T J Cooper, L S Burdett and M L Court comprise eligibility for a company car and membership of a private medical scheme, covering themselves and their immediate families.

3. Pensions

The pension contributions for T J Cooper, L S Burdett and M L Court are based on the value of their salary supplements following their withdrawals from the scheme in 2014 (T J Cooper) and 2016 (L S Burdett and M L Court).

4. Annual bonus payments

The annual bonus outturn presented in the table above was based on performance against growth in Group profit before tax ('PBT') and performance against both shared and individual personal performance objectives measured over the relevant financial year. As explained in the introductory letter from the chairman (see page 51), no bonus was awarded to the executive Directors for the financial year to 30 September 2016.

Annual Report on Remuneration continued

Implementation of the remuneration policy for the year ended 30 September 2016 continued

Notes and additional information continued

4. Annual bonus payments continued

	Maximum (% of salary)	PBT required for threshold bonus £m	Growth in PBT required for maximum bonus %	Actual PBT £m	Actual (% of salary)
D R Hummel	125	106.4	15	100.3	—
L S Burdett	100	106.4	15	100.3	—
T J Cooper	100	106.4	15	100.3	—
M L Court	100	106.4	15	100.3	—

5. Vesting of LTIP awards

The LTIP awards granted on 16 December 2013, 13 January 2014 and 27 May 2014 were based on performance to the year ended 30 September 2016. The performance targets for these awards and actual performance against those targets were as follows:

Metric	Performance condition	Threshold target	Stretch target	Actual	% vesting
Earnings per share	Normalised EPS growth of RPI + 5% p.a. (10% vesting) to RPI + 12% p.a. (50% vesting) over three financial years	105.1p	127.1p	96.8p	—
Total shareholder return	TSR against the constituents of the FTSE 250 Index (excluding investment trusts). 12.5% vesting for median performance and 50% vesting for upper quartile performance or above. TSR measured over three financial years with a three-month average at the start and end of the performance period	22.9%	59.8%	6.7%	—
Total vesting					—

The vesting details for the executive Directors are therefore as follows:

Executive	Grant date	Vest date	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Dividend equivalent on shares to vest £	Estimated value £
D R Hummel	16 Dec 2013	16 Dec 2016	33,076	—	33,076	—	—
T J Cooper	16 Dec 2013	16 Dec 2016	15,834	—	15,834	—	—
L S Burdett	13 Jan 2014	13 Jan 2017	16,484	—	16,484	—	—
M L Court	27 May 2014	27 May 2017	13,296	—	13,296	—	—

Salaries and fees

Executive Directors

The Remuneration Committee determined there would be no increase for executive Director base salary levels for 2017. The Group's employees will also not receive a salary increase for the 2017 financial year.

	2017	2016	% increase
D R Hummel	\$746,321	\$746,321	—
L S Burdett	£316,573	£316,573	—
T J Cooper	£274,363	£274,363	—
M L Court	£264,068	£264,068	—

Directors' remuneration report continued

Annual Report on Remuneration continued

Salaries and fees continued

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.

The fees for non-executive Directors will remain unchanged for the 2017 financial year.

Provision	2017	2016	% increase
Chairman	£170,000	£170,000	—
Base fee	£46,600	£46,600	—
Additional fees:			
Senior Independent Director	£6,000	£6,000	—
Audit Committee Chair	£10,000	£10,000	—
Remuneration Committee Chair	£9,000	£9,000	—

Annual bonus

The maximum bonus potential for the year ending 30 September 2017 will remain at 125% of salary for the Chief Executive and 100% of basic salary for the other executive Directors. Subject to approval by shareholders at the AGM of the revised Policy, of which more detail is given on page 54, awards will be determined based on a combination of Group profit before tax (weighted at 50%), strategic objectives (weighted at 30%) and an executive's personal performance achievement level (weighted at 20%). The Company believes that this combination of financial, strategic and personal performance objectives reflects the strategic focus on Group profit while maintaining a measurement of progression against strategic milestones and personal contribution across key operational goals for the business. The Committee will continue to run a thorough annual review of strategic and personal objectives to ensure they are measurable, robust and aligned with overall Group-wide objectives. The bonus for personal and/or strategic performance is payable only if, in the opinion of the Committee, underlying financial and operating performance of the business is sufficient in that year to warrant payment. 25% of all paid bonuses will be deferred into shares for a period under normal circumstances of 3 years.

Pension arrangements

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; if a member dies whilst in pensionable service, the value of the members' retirement account will be used by the trustees to provide either or both a lump sum and a pension payable to dependents.

D R Hummel participates in a defined contribution scheme and a life assurance plan operated in respect of the Group's US 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.

During the year under review D R Hummel received pension contributions of 25% of basic salary into his defined contribution arrangement operated in respect of the Group's US employees.

Following his withdrawal from the pension scheme in 2014, T J Cooper received a cash supplement of 12% of salary, subject to statutory deductions. L S Burdett and M L Court received pension contributions of 12% of basic salary into the Group's UK defined contribution arrangement until they withdrew from the scheme at 1 June 2016. From that date, they received a cash supplement of 12%, subject to statutory deductions. The aforementioned contributions of 12% applied up to the Notional Earnings Limit ('NEL') for basic salary. Above the NEL, participants received a cash supplement of up to 25% of basic salary.

Details of the value of pension contributions received by the executive Directors in the year under review are provided in the 'Pensions' column of the 'Remuneration received by Directors' table and the footnotes to the table on page 58.

None of the Directors are accruing pension benefits under defined benefit schemes (2015: none).

Long-term incentives

The extent to which LTIP awards which will be granted for the 2016/17 financial year will vest, will be dependent on two independent performance conditions – 25% determined by reference to the Company's total shareholder return ('TSR') and 75% 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 cumulative EPS exceeds 330 pence over the three-year period. This element of the award is reduced to 20% on a pro-rata basis if cumulative EPS is 302 pence over the three year period and is reduced to nil if cumulative EPS over the period fails to exceed 302 pence.

As set out in the Directors' Remuneration Policy, awards granted from December 2013 onwards are subject to a clawback provision.

Annual Report on Remuneration continued

Long-term incentives granted during the year (audited)

On 14 December 2015, the following LTIP awards were granted to executive Directors:

Executive	Type of award	Basis of award granted	Share price at date of grant	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over
D R Hummel	Conditional	125% of salary	£17.90	34,256	£613,182	22.5	Three financial years to 30 September 2018
L S Burdett	Nil-cost option	100% of salary	£17.90	17,685	£316,562	22.5	
T J Cooper	Nil-cost option	100% of salary	£17.90	15,327	£274,353	22.5	
M L Court	Nil-cost option	100% of salary	£17.90	14,752	£264,061	22.5	

Outstanding share awards

The table below sets out details of outstanding share awards held by executive Directors. The table shows changes in the options held by each Director, taking into account grants made, options which have lapsed and any options exercised. The closing position at the end of the financial year 2016 is shown in bold.

Plan	Grant date	Exercise price	No. of share awards at 1 October 2015	Granted during the year	Vested/ exercised during the year ⁽¹⁾	Lapsed during the year	No. of share awards at 30 September 2016	End of performance period	Date from which exercisable ⁽²⁾	Expiry date
D R Hummel										
LTIP	13/12/2010	Nil	2,033	—	2,033 ⁽³⁾	—	—	30/09/2013	13/12/2013	13/12/2020
	12/12/2012	Nil	35,349	—	—	35,349	—	30/09/2015	12/12/2015	12/12/2022
	16/12/2013	Nil	33,076	—	—	—	33,076	30/09/2016	n/a	n/a
	15/12/2014	Nil	29,749	—	—	—	29,749	30/09/2017	n/a	n/a
	14/12/2015	Nil	—	34,256	—	—	34,256	30/09/2018	n/a	n/a
L S Burdett										
LTIP	13/01/2014	Nil	16,484	—	—	—	16,484	30/09/2016	13/01/2017	13/01/2024
	15/12/2014	Nil	15,848	—	—	—	15,848	30/09/2017	15/12/2017	15/12/2024
	14/12/2015	Nil	—	17,685	—	—	17,685	30/09/2018	14/12/2018	14/12/2025
SAYE	30/01/2014	£14.51	620	—	—	—	620	n/a	01/03/2017	31/08/2017
T J Cooper										
LTIP	13/12/2010	Nil	460	—	460	—	—	30/09/2013	13/12/2013	13/12/2020
	12/12/2012	Nil	16,742	—	—	16,742	—	30/09/2015	12/12/2015	12/12/2022
	16/12/2013	Nil	15,834	—	—	—	15,834	30/09/2016	16/12/2016	16/12/2023
	15/12/2014	Nil	13,735	—	—	—	13,735	30/09/2017	15/12/2017	15/12/2024
	14/12/2015	Nil	—	15,327	—	—	15,327	30/09/2018	14/12/2018	14/12/2025
SAYE	27/01/2011	£11.78	1,292	—	1,292	—	—	n/a	01/03/2016	31/08/2016
	01/04/2016	£12.66	—	710	—	—	710	n/a	01/04/2019	30/09/2019
M L Court										
LTIP	03/06/2013	Nil	12,338	—	—	12,338	—	30/09/2015	03/06/2016	03/06/2023
	27/05/2014	Nil	13,296	—	—	—	13,296	30/09/2016	27/05/2017	27/05/2024
	15/12/2014	Nil	12,679	—	—	—	12,679	30/09/2017	15/12/2017	15/12/2024
	14/12/2015	Nil	—	14,752	—	—	14,752	30/09/2018	14/12/2018	14/12/2025
SAYE	30/01/2014	£14.51	620	—	—	620	—	n/a	01/03/2017	31/08/2017
	05/03/2015	£16.33	551	—	—	551	—	n/a	01/04/2018	30/09/2018
	01/04/2016	£12.66	—	710	—	—	710	n/a	01/04/2019	30/09/2019

(1) The vested amount during the year represents one third of the options capable of vesting following the application of the performance condition as each award will normally vest in three equal tranches on the third, fourth and fifth anniversary of grant date.

(2) The 2013, 2014 and 2015 awards to D R Hummel were conditional awards and therefore no exercise period applies.

(3) The awards exercised by D R Hummel of 2,033 shares, vested on 13 December 2015 and represented the third and final tranche of options originally granted on 13 December 2010, the first tranche of which was exercisable from 13 December 2013.

The vesting of all LTIP awards are subject to satisfying EPS and TSR conditions.

Directors' remuneration report continued

Annual Report on Remuneration continued

Outstanding share awards continued

During the year ended 30 September 2016, the Directors shown below either received or exercised nil-cost options which had vested in previous financial years. The table below shows the gains for each of the Directors, totalling £45,038 (aggregate gains made by Directors in 2015 were: £464,265). The gain made by the highest paid Director in 2016 was £36,728 (2015: £361,762).

Name	Description of options	Number exercised	Gain 2016
D R Hummel	LTIP 2009 (vested 2013)	2,033	£36,728
T J Cooper	LTIP 2009 (vested 2013)	460	£8,310

Payments to past Directors (audited)

No payments were made to past Directors during the year ended 30 September 2016. As previously disclosed, P E Bream (resigned 6 October 2011) received 50% of his 2010 LTIP award with vesting at the normal vesting dates, subject to satisfaction of the performance conditions. Following the end of the performance period (30 September 2013) and the assessment of the performance conditions, on each of 13 December 2013 and 13 December 2014, 575 shares vested and on 13 December 2015, 574 shares vested together with the relevant dividend equivalent shares.

In addition, A S Barrow (resigned 31 May 2014) retained his 2009 and 2010 LTIP awards with vesting at the normal vesting dates, subject to satisfaction of the performance conditions. Following the end of the performance period (30 September 2012 and 30 September 2013 respectively) and the assessment of the performance conditions, from the 2009 award 4,596 shares vested on 14 December 2014, and from the 2010 award 432 shares vested on both 13 December 2013 and 13 December 2014, and 431 shares vested on 13 December 2015.

Payments for loss of office (audited)

No payments for loss of office were made during the year ended 30 September 2016.

Statement of Directors' shareholdings and share interests (audited)

Director	Beneficially owned at 1 October 2015	Beneficially owned at 30 September 2016 ⁽¹⁾	Outstanding LTIP awards at 30 September 2016	Outstanding deferred share awards	Outstanding share awards under all-employee share plans	Shareholding as a % of salary at 30 September 2016
D R Hummel	3,014,895	3,014,895	97,081	—	—	8,124%
L S Burdett	—	—	50,017	—	620	0%
T J Cooper	5,922	7,589	44,896	—	710	42%
M L Court	696	791	40,727	—	710	5%
L C Pentz	2,000	4,000	—	—	—	n/a
P J Kirby	3,000	3,000	—	—	—	n/a
P J M De Smedt	2,000	2,000	—	—	—	n/a
A J H Dougal	1,000	1,000	—	—	—	n/a
J E Toogood	—	—	—	—	—	n/a

(1) The table above includes the holdings of connected persons with each of the Directors.

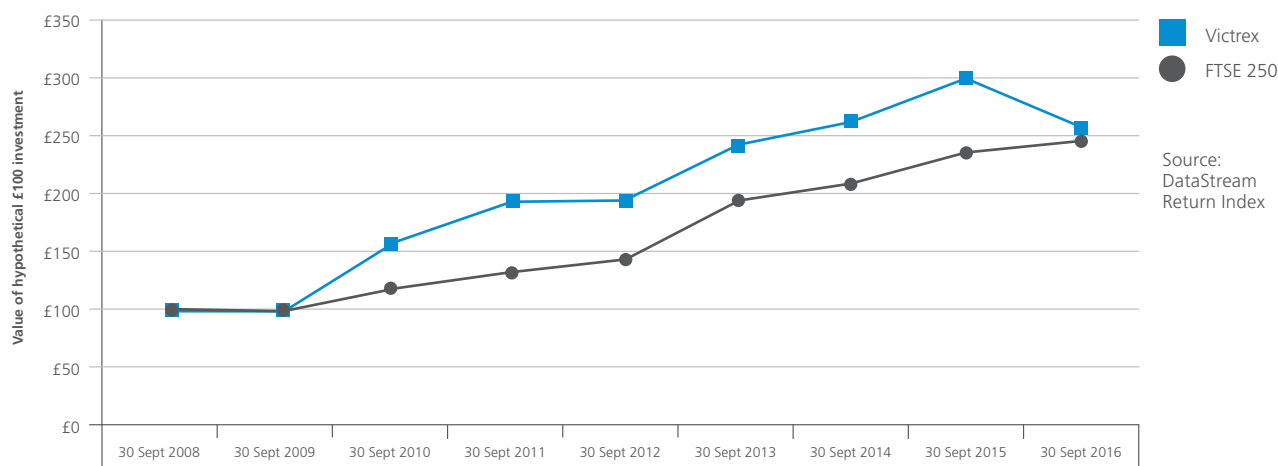
T J Cooper and M L Court acquired an additional 15 shares each during the period from 1 October 2016 to the date of this report through their participation in the All-Employee Share Ownership Scheme.

Executive Directors are required to hold shares in the Company worth 100% of salary and must retain 50% of the net of tax value of any vested LTIP shares until the guideline is met. The shareholding as a percentage shown above is based on the average share price during September 2016 of £15.30.

Annual Report on Remuneration continued

Total Shareholder Return graph

The following graph shows the cumulative total shareholder return of the Company over the last nine 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. TSR is a measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends. Data is averaged over three months at the end of each financial year.



CEO Total Remuneration

The total remuneration figures for the Chief Executive during each of the last eight financial years are shown in the table below. The total remuneration figure includes the annual bonus based on that year's performance and LTIP awards based on three-year performance periods ending in the relevant year. The annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

Year ended 30 September	2009	2010	2011	2012	2013	2014	2015	2016
Total remuneration	£598,306	£1,357,393	£2,382,086	£1,532,239	£709,288	£832,147	£735,103	£668,211
Annual bonus (% of maximum)	0%	81.3%	71.5%	17.3%	0%*	53.1%	22.5%	0%
LTIP vesting (% of maximum)	23.68%	91.23%	100%	100%	16.56%	0%	0%	0%

* There were no bonus payments made to Directors in 2013 as they waived their entitlement to receive bonus payments.

Percentage change in Chief Executive's remuneration

The table below shows the percentage change in the Chief Executive's salary, benefits and annual bonus between the financial years ended 30 September 2015 and 30 September 2016, compared to that of the total amounts for all UK employees of the Group for each of these elements of pay.

	2015	2016	% change
Salary			
Chief Executive (\$000)	726	746	2.7
UK employee average (£000)	48	49	2.1
Benefits			
Chief Executive (\$000)	8	8	—
UK employee average (£000)	1	1	—
Annual bonus			
Chief Executive (\$000)	204	—	-100
UK employee average (£000)	2	—	-100
Average number of UK employees	588	605	2.9

UK employees have been selected as the most appropriate comparator pool, given our headquarters are located in the UK.

Directors' remuneration report continued

Annual Report on Remuneration continued

Relative importance of spend on pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends, tax and profits for the year attributable to owners of the parent:

	2015 £m	2016 £m	% change
Staff costs	54.3	53.6	-1
Dividends*	39.9	39.9	—
Tax	22.9	17.8	-22
Profits for the year attributable to owners of the parent	83.5	82.5	-1

* 2016 includes a proposed final dividend of 35.09p.

£1.8m (2015: £1.9m) of the staff costs figures relate to pay for the Directors, of which £0.5m relates to the highest paid Director (2015: £0.6m). Total pension contributions were £0.3m (2015: £0.3m) and for the highest paid Director were £0.1m (2015: £0.1m).

The dividend figures relate to amounts payable in respect of the relevant financial year.

Consideration by the Directors of matters relating to Directors' remuneration

The role of the Committee is to determine and recommend to the Board a fair and responsible remuneration framework for the Company's Chairman and executive Directors. The members of the Committee (all of whom were independent non-executive Directors) during the year under review were as follows:

- P J M De Smedt (Remuneration Committee Chairman)
- A J H Dougal
- P J Kirby
- J E Toogood

Biographical information on the Committee members and details of attendance at the Committee's meetings during the year are set out on pages 38 and 39.

The Committee has access to independent advice where it considers it appropriate. Willis Towers Watson is our appointed Remuneration Consultant and has advised the Committee during the year. Willis Towers Watson is a member of the Remuneration Consultants Group and abides by the Remuneration Consultants Group Code of Conduct, which requires its advice to be objective and impartial.

The fees paid to Willis Towers Watson for providing advice in relation to executive remuneration over the financial year under review were £173,000.

Statement of voting at general meeting

At the 2016 AGM, the following votes were received from shareholders:

	Remuneration Report		Remuneration Policy ⁽¹⁾	
Votes cast in favour ⁽²⁾	67,510,486	99%	n/a	n/a
Votes cast against	683,943	1%	n/a	n/a
Total votes cast	68,194,429	100%	n/a	n/a
Abstentions	17,565		n/a	n/a

(1) The Remuneration Policy approved by shareholders at the 2014 AGM expires and the new Policy detailed in pages 52 to 57 will be put to vote by shareholders at the 2017 AGM, in line with Directors' remuneration guidelines.

(2) Includes Chairman's discretionary votes.

Approved by the Board on 6 December 2016

Patrick De Smedt

Chairman of Remuneration Committee

Directors' report – Other statutory information

The Directors present the Annual Report and Financial Statements to shareholders for the year ended 30 September 2016.

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.

Strategic Report

The Strategic Report required by the Companies Act 2006 can be found on pages 2 to 36. The report sets out the business model and strategy, contains a review of the business and describes the development and performance of the Group's business during the financial year and the position at the end of the financial year. It also contains a description of the principal risks and uncertainties facing the Group.

Research and development

The Group's spend on research and development is disclosed in note 9. Such information is incorporated into this report by reference and is deemed to form part of this report.

Results and dividends

Group profit after tax for the year was £82.5m (2015: £83.5m).

The Directors recommend the payment of a final dividend of 35.09p per ordinary share that, subject to shareholder approval at the Company's Annual General Meeting being held on 8 February 2017, will be paid on 17 February 2017 to all shareholders on the register of members as at 6pm on 3 February 2017. Together with the interim dividend paid in July 2016, this makes a total regular dividend of 46.82p per ordinary share for the year (2015: 46.82p per ordinary share).

The Company has established employee benefit trusts ('EBTs') in connection with the obligation to satisfy future share awards under certain employee share incentive schemes. The trustees of the EBTs have waived their rights to receive dividends on those ordinary shares of the Company held in the EBTs. Such waivers represent less than 1% of the total dividend payable on the Company's ordinary shares.

Post balance sheet events

There have been no post balance sheet events that either require adjustment to the financial statements or are important in the understanding of the Company's current position, financial performance or results.

Related party transactions

During the year ended 30 September 2016, the Company did not have any material transactions or transactions of an unusual nature with, and did not make loans to, related parties in which any Director has or had a material interest.

Share capital

The Company has a single class of shares in the form of ordinary shares with a nominal value of 1 pence per share which are listed on the premium segment of the Official List maintained by the UK Listing Authority. Details of the Company's share capital and reserves for own shares are given in note 18. During the year 76,773 shares were issued in respect of options exercised under employee share schemes. Details of these schemes are summarised in note 17. The information in notes 17 and 18 is incorporated into this report by reference and is deemed to form part of this report.

Rights and obligations attaching to shares

The holders of ordinary shares are entitled to receive dividends when declared, to receive the Company's Annual Report, 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 and except also where the Company suspends voting rights as referred to above in the event of non-disclosure of an interest as permitted by the Articles of Association. 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

As at the date of this report, the Company does not hold any shares as Treasury Shares. Details of the Company's share capital are given in note 18 to the financial statements. A summary of the Directors' powers in relation to buying back shares is set out below in the paragraph entitled 'Powers of the Directors in relation to share capital'. As part of routine resolutions which are proposed to shareholders, the Directors will be seeking to renew the authority allowing the Company to purchase its own shares, which is set out in Resolution 20 of the notice of the AGM and which can be found on page 101.

No market purchases of the Company's own shares were made during the year.

A total of 222,070 ordinary shares are held by the EBTs in order to satisfy the exercise of options by Directors under the Company's 2009 Long Term Incentive Plan ('LTIP'). No shares were purchased by the EBTs in the financial year to 30 September 2016. The Directors are beneficiaries of the EBTs.

AGM

The notice of the 2017 AGM of the Company and explanatory notes are given on pages 100 to 107.

Directors' report – Other statutory information continued

Major interests in shares

The following information has been disclosed to the Company on request, in respect of interests in the Company's issued share capital as at the dates stated below the table.

	Number of ordinary shares held	Percentage
Threadneedle Asset Management Limited ⁽³⁾	5,994,818	7.01%
T. Rowe Price Associates, Inc. ⁽⁵⁾	5,251,153	6.14%
Mondrian Investment Partners Limited ⁽⁴⁾	4,910,969	5.74%
Prudential plc group of companies ⁽²⁾	4,260,684	4.98%
Baillie Gifford & Co ⁽¹⁾	3,954,567	4.62%
Franklin Templeton Fund Management Limited ⁽²⁾	3,614,000	4.22%
Schroders plc ⁽³⁾	3,424,253	4.00%
BlackRock, Inc. ⁽³⁾	3,106,097	3.63%
David Hummel ⁽³⁾	3,014,895	3.52%
Aberdeen Asset Investments Limited ⁽²⁾	3,008,665	3.52%
Aberdeen Asset Managers Limited ⁽²⁾		
Legal & General Investment Management Limited ⁽⁴⁾	2,971,233	3.47%

The positions stated above represent the holdings in shares either in their own right or on behalf of third parties and may not represent the total voting rights (or authority to vote).

(1) Respondents provided details of their holding as at 28 November 2016

(2) Respondents provided details of their holding as at 25 November 2016

(3) Respondents provided details of their holding as at 30 November 2016

(4) Respondent provided details of their holding as at 24 November 2016

(5) Respondent provided details of their holding as at 30 September 2016

Directors

The following served as Directors during the financial year:

- Larry Pentz
- Louisa Burdett
- Tim Cooper
- Martin Court
- Patrick De Smedt
- Andrew Dougal
- David Hummel
- Pamela Kirby
- Jane Toogood

Details of the Directors of the Company are given on pages 38 and 39. Details of Directors' interests in shares are provided in the Directors' Remuneration Report on page 62.

At the forthcoming Annual General Meeting, resolutions will be proposed for the re-election of all members of the Board in compliance with the Company's Articles of Association and as recommended by 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 fewer than two, unless otherwise determined by the Company by Ordinary Resolution. Directors may be appointed by an Ordinary Resolution of the members or by a resolution of the Directors.

A Director appointed by the Board during the year must retire at the first AGM following their appointment and such Director is eligible to offer themselves for election by the Company's shareholders. Additionally, the Company's Articles of Association require the

retirement at each AGM of (i) any Director who has held office at the time of the two preceding Annual General Meetings and who did not retire at either; and (ii) any non-executive Director who has been in office for a continuous period of nine years or more.

Notwithstanding the retirement provisions in the Company's Articles of Association, it is the Company's current practice that all Directors retire from office at each AGM in accordance with the recommendations of the UK Corporate Governance Code.

In addition to the statutory power, a Director may be removed by Special Resolution of the Company. A Director must also automatically cease to be a Director if (i) they are removed from office under the Articles or they cease to be a Director by virtue of any law or they become prohibited by law from being a Director; or (ii) they become bankrupt or make any arrangement or composition with their creditors generally; or (iii) they suffer from mental or physical ill health and the Directors resolve to remove them from office; or (iv) they resign from office by notice in writing to the Company, or in the case of an executive Director, their appointment is terminated or expires and the Directors resolve that the office be vacated; or (v) they are absent for more than six consecutive months without permission of the Directors from meetings of the Directors and the Directors resolve that the office be vacated; or (vi) they are requested in writing, or by electronic form, by all the other Directors to resign.

Amendment of Articles of Association

The Company's Articles of Association may only be amended by Special Resolution of the Company at a general meeting of its shareholders.

Powers of the Directors in relation to share capital

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 Company's Directors were granted authority at the Annual General Meeting ('AGM') in 2016 to allot shares in the Company or to grant rights to subscribe for or to convert any securities into shares in the Company up to (a) a maximum aggregate nominal amount of £284,834 (being approximately one-third of the issued share capital prior to that AGM) and (b) a further maximum aggregate nominal amount of £284,834 (being approximately one-third of the issued share capital prior to the AGM) in connection with a rights issue only. This authority is due to lapse at the Annual General Meeting in 2017. At the 2017 AGM, shareholders will be asked to renew the authority. Specific details of the resolution and the number of shares covered by the renewed authority can be found in resolution 17 on page 100 of the Notice of the AGM.

The Directors were empowered at the 2016 Annual General Meeting to make non-pre-emptive issues for cash up to a maximum aggregate nominal amount of £42,725 (being approximately 5% of the issued share capital prior to that AGM). This power is also due to lapse at the Annual General Meeting in 2017 and shareholders will be asked to grant a similar power, (resolution 18 of the AGM notice on page 101).

Resolution 19 is in addition to resolution 18. As supported by the Pre-Emption Group's Statement of Principles, as updated in March 2015, resolution 19 will enable the Directors to allot shares for cash or sell shares out of treasury up to a further nominal amount of £42,783, representing approximately 5% of the issued ordinary share capital as at 2 December 2016 (the latest practicable date before the publication of the Notice), other than to existing shareholders without first having to offer them to existing shareholders in proportion to their holdings. In respect of the authority under resolution 19, the Board confirms that it will only allot shares or sell shares out of treasury pursuant to this authority where the relevant acquisition or specified capital investment is announced contemporaneously with the allotment, or has taken place in the preceding six-month period and is disclosed in the announcement of the allotment. The Directors have no current intention of exercising this authority. If this authority is used, the Company will publish details of the placing in its next Annual Report and Accounts.

The Directors recommend that shareholders vote in favour of Resolutions 17 to 19 to maintain the Company's flexibility in relation to future share issues, including any issues to finance business opportunities should appropriate circumstances arise.

The Directors were also authorised at the 2016 Annual General Meeting under a Special Resolution to make market purchases of the Company's own ordinary shares up to a maximum aggregate number of 8,545,023 shares (being approximately 10% of the issued share capital prior to that AGM) and subject to the conditions as to pricing set out in the authority. This authority is also due to lapse at the Annual General Meeting in 2017 when it is proposed that shareholders grant a similar authority.

The authority contained in the Special Resolution will expire at the earlier of 8 May 2018, or the conclusion of the Annual General Meeting to be held in 2018. It is the current intention of the Directors to renew this authority annually. In the event that shares are purchased pursuant to the authority granted under Resolution 20, the shares would either be cancelled (and the number in issue would be reduced accordingly) or, subject to the legislation referred to below, retained as treasury shares. The Directors will only make purchases after consideration of the possible effect on earnings per share, the long-term benefits to shareholders and in consultation with advisors.

Notice required for shareholder meetings

The Shareholders Rights Directive was implemented in the UK by the Companies (Shareholders' Rights) Regulations 2009 on 3 August 2009. The Regulations implementing this Directive increased the notice period for general meetings of the Company to 21 days, unless shareholders agree to a shorter notice period. On the basis of a resolution passed at the 2016 Annual General Meeting, the Company is currently able to call general meetings (other than an Annual General Meeting) on 14 days' notice. The Company would like to preserve this ability and resolution 21 seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. In accordance with the Directive, the Company will offer an electronic voting facility for a general meeting called on 14 days' notice.

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.

Environmental matters

Information on our greenhouse gas emissions required to be disclosed by the Companies Act 2006 (Strategic Report and Directors' report) Regulations 2013 is set out in the Sustainability report on pages 25 to 36. Such information is incorporated into this report by reference and is deemed to form part of this report.

Directors' indemnities

The Company has granted indemnities in favour of all of its Directors under Deeds of Indemnity ('Deeds'). These Deeds were in force during the year ended 30 September 2016 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 on Monday to Friday (excluding public holidays) at the Company's registered office and will also be available at the Company's AGM from at least 15 minutes before the meeting until it ends.

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. The rules of the Company's employee share plans set out the consequences of a change in control of the Company on participants' rights under the plans.

Generally such rights will vest and become exercisable on a change of control subject to a separate determination as to the satisfaction of performance conditions.

Employment policies

The Group's policies as regards the employment of disabled persons and a description of actions the Group has taken to encourage greater employee involvement in the business are set out on pages 34 to 36. Such information is incorporated into this report by reference and is deemed to form part of this report.

Directors' report – Other statutory information continued

UK Corporate Governance Code

The Company's statement on corporate governance can be found in the Corporate governance report on pages 38 to 50. The Corporate governance report forms part of this report and is incorporated into it by reference.

Financial instruments

Information on the Group's financial risk management objectives and policies and its exposure to credit risk, liquidity risk, interest rate risk and foreign currency risk can be found in note 14. Such information is incorporated into this report by reference and is deemed to form part of this report.

Branches

The Company and its subsidiaries have established branches in a number of different countries in which they operate.

Donations

No political donations were made during the year (2015: £nil).

FCA's Disclosure Guidelines and Transparency Rules

For the purposes of the Financial Conduct Authority's Disclosure Guidelines and Transparency Rules (DTR 4.1.5R(2) and DTR 4.1.8R), this report and Directors' report – Strategic report on pages 65 to 68 and pages 2 to 36 together comprise the 'management report'.

Information required by LR 9.8.4R

There is no information required to be disclosed under LR 9.8.4R save in respect of allotments of equity securities for cash and dividend waivers, which can be found on pages 65 and 66 respectively of this Annual Report.

Disclosure of information to auditor

The Directors in office at the date of approval of this report each confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that they have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The Board has decided to recommend KPMG LLP be re-appointed as external auditor to the Company and KPMG has expressed their willingness to continue. Accordingly a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the Board

Brett Gladden

Group Company Secretary

6 December 2016

Statement of Directors' responsibilities

In respect of the Annual Report and the financial statements

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the 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 the 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 then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs 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 the 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 Strategic Report, 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 financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, 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 Strategic Report, includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Board considers that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Louisa Burdett
Group Finance Director
6 December 2016

Independent auditor's report

to the members of Victrex plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Victrex plc for the year ended 30 September 2016 set out on pages 73 to 97. 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 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

Valuation of inventories £61.8m (2015: £57.4m) Risk vs 2015: ◀ Refer to page 49 (Audit Committee Report), page 87 (accounting policy and financial disclosure) and page 96 for (Critical judgements and key sources of estimation uncertainty).

- The risk – The Group has significant levels of inventory and a number of estimates are involved in its valuation. Significant estimates are made relating to identification of normal production levels for the purposes of absorbing the manufacturing costs; and the Group's assessment of provisions required in respect of slow moving and obsolete inventories. Given the level of judgements and estimates involved this is considered to be a key audit risk.
- Our response – In respect of adjustments relating to the determination of fully absorbed manufacturing cost our audit procedures included: challenging the Group's assessment of the normal levels of production for absorption costing purposes by comparing actual and budgeted levels of production over the past two years; critically assessing the impact of manufacturing variances relating to production output.

In critically assessing provisions for slow moving and obsolete inventories our audit procedures included:

- testing the design and effectiveness of the Group's controls to identify slow moving and obsolete inventories;
- comparison, by product grade, of inventory levels to sales data in the year for a sample of stock lines;
- assessment of historical accuracy of provisioning by comparing the Group's expected recoveries of slow moving inventories at the previous year-end date to the actual realisations during the year (for a sample of stock lines); and
- attending the year-end stock take, at the main manufacturing site at Hillhouse, to gain further comfort over the level of slow moving and obsolete inventories, where we also gained an understanding of the process for the identification of slow moving and obsolete inventories through enquiry and observation.

We also considered the adequacy of the Group's disclosures in respect of inventory.

Retirement benefit obligations £10.6m, net obligations (2015: £5.8m, net obligations) Risk vs 2015: ▶

Refer to page 49 (Audit Committee Report), pages 90 to 92 (accounting policy and financial disclosure) and page 96 for (Critical judgements and key sources of estimation uncertainty).

- The risk – Significant assumptions are made in valuing the Group's defined benefit pension schemes obligations, including the discount rate, inflation rates and the average life expectancy as explained in note 15. Small changes in the assumptions used could have a significant effect on the results and financial position of the Group.
- Our response – A valuation of the scheme liabilities is provided by an external actuary on behalf of the Group based on various assumptions. With the support of our own actuarial specialists we challenged the key assumptions applied by the Group to determine the net defined benefit obligations, being inflation rate and discount rate. This included comparison against internally developed benchmarks and externally derived data. In addition, we considered the adequacy of the Group's disclosures in relation to the defined benefit pension schemes.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £5.0m (2015: £5.4m), determined with reference to a benchmark of Group profit before taxation, of which it represents 5% (2015: 5%).

We report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £250,000 (2015: £270,000), in addition to other audit misstatements that warranted reporting on qualitative grounds.

We performed audits for Group reporting purposes at seven (2015: seven) of the Group's 18 (2015: 18) reporting components, and a review of financial information, including enquiry, at a further component in Japan (2015: same). The latter was not individually significant enough to require an audit for Group reporting purposes, but we performed a review of financial information due to its comparatively remote geographical location and its operational significance to the Group's operations in the Asia-Pacific region.

The level of coverage from audits for Group reporting purposes and review of the Japan component are as follows.

		A %	B %	C %
Total assets	2016	83	1	16
	2015	82	1	17
Revenue	2016	80	7	13
	2015	89	6	5
Profit before taxation ⁽¹⁾	2016	96	1	3
	2015	99	1	—

A Audit for group reporting purposes.

B Review of Japan component.

C Analysis at aggregated group level.

(1) This is the total profit and losses as a percentage of the total profits and losses that made up Group profit before tax.

The audits of components for group reporting purposes were performed by the Group audit team and the review was performed by component auditor. The Group team instructed the component auditor as to the significant areas to be covered, which included the relevant risks of material misstatement detailed above, and set out the information required to be reported back to the Group audit team. The Group audit team determined the component materialities, which ranged from £1.0m to £2.0m, having regard to the mix of size and risk profile of the businesses within the Group. For the remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Strategic Report on pages 20 to 24, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the 5 years to 30 September 2021; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee report does not appropriately address matters communicated by us to the Audit Committee.

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' statements, set out on page 24, in relation to going concern and long-term viability; and
- the part of the Corporate governance statement on pages 40 to 50 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' responsibilities statement, set out on page 69, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Stuart Burdass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
6 December 2016



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Consolidated income statement

for the year ended 30 September

	Note	2016 £m	2015 £m
Revenue	2	252.3	263.5
Cost of sales	3	(93.6)	(95.3)
Gross profit		158.7	168.2
Sales, marketing and administrative expenses	3	(58.4)	(61.9)
Operating profit	2	100.3	106.3
Financial income		0.3	0.3
Financial expenses		(0.3)	(0.2)
Profit before tax		100.3	106.4
Income tax expense	5	(17.8)	(22.9)
Profit for the year attributable to owners of the Parent		82.5	83.5
Earnings per share			
Basic	6	96.8p	98.1p
Diluted	6	96.7p	97.9p
Dividend per ordinary share			
Interim	18	11.73p	11.73p
Final	18	35.09p	35.09p
	18	46.82p	46.82p

A final dividend in respect of 2016 of 35.09p per ordinary share has been recommended by the Directors for approval at the Annual General Meeting in February 2017.

Financial statements

Consolidated statement of comprehensive income

for the year ended 30 September

	Note	2016 £m	2015 £m
Profit for the year		82.5	83.5
Items that will not be reclassified to profit or loss			
Defined benefit pension schemes' actuarial (losses)/gains	15	(11.6)	1.4
Income tax on items that will not be reclassified to profit or loss	5	2.0	(0.3)
		(9.6)	1.1
Items that may be reclassified subsequently to profit or loss			
Currency translation differences for foreign operations		2.5	0.9
Effective portion of changes in fair value of cash flow hedges		(23.8)	(2.3)
Net change in fair value of cash flow hedges transferred to profit or loss		14.3	(0.9)
Income tax on items that may be reclassified to profit or loss	5	1.7	(0.1)
		(5.3)	(2.4)
Total other comprehensive expense for the year		(14.9)	(1.3)
Total comprehensive income for the year attributable to owners of the Parent		67.6	82.2

Balance sheets

as at 30 September

		Group		Company	
	Note	2016 £m	2015 £m	2016 £m	2015 £m
Assets					
Non-current assets					
Property, plant and equipment	8	255.5	251.3	—	—
Intangible assets	9	23.5	20.4	—	—
Investments	10	10.0	—	111.6	111.6
Deferred tax assets	11	8.9	6.7	—	—
		297.9	278.4	111.6	111.6
Current assets					
Inventories	12	61.8	57.4	—	—
Current income tax assets		—	1.4	—	—
Trade and other receivables	13	46.9	33.5	9.4	9.1
Derivative financial instruments	14	2.1	2.0	—	—
Cash and cash equivalents		64.0	53.8	—	1.3
		174.8	148.1	9.4	10.4
Total assets		472.7	426.5	121.0	122.0
Liabilities					
Non-current liabilities					
Deferred tax liabilities	11	(19.2)	(19.2)	—	—
Retirement benefit obligations	15	(10.6)	(5.8)	—	—
		(29.8)	(25.0)	—	—
Current liabilities					
Derivative financial instruments	14	(19.5)	(4.4)	—	—
Current income tax liabilities		(5.4)	(4.9)	—	(0.2)
Trade and other payables	16	(28.9)	(33.6)	(8.5)	(21.8)
		(53.8)	(42.9)	(8.5)	(22.0)
Total liabilities		(83.6)	(67.9)	(8.5)	(22.0)
Net assets		389.1	358.6	112.5	100.0
Equity					
Share capital	18	0.9	0.9	0.9	0.9
Share premium	18	37.8	36.8	37.8	36.8
Translation reserve	18	4.2	1.7	—	—
Hedging reserve	18	(9.2)	(1.6)	—	—
Retained earnings	18	355.4	320.8	73.8	62.3
Total equity attributable to owners of the Parent		389.1	358.6	112.5	100.0

These financial statements of Victrex plc, registered number 2793780, were approved by the Board of Directors on 6 December 2016 and were signed on its behalf by:

D R Hummel **L S Burdett**
Chief Executive **Group Finance Director**

Cash flow statements

for the year ended 30 September

	Note	Group		Company	
		2016 £m	2015 £m	2016 £m	2015 £m
Profit after tax for the year		82.5	83.5	49.6	37.8
Income tax expense	5	17.8	22.9	—	0.5
Net financing income		—	(0.1)	—	(1.5)
Dividends received from subsidiaries		—	—	(50.0)	(35.8)
Operating profit		100.3	106.3	(0.4)	1.0
Adjustments for:					
Depreciation	8	14.8	12.5	—	—
Amortisation	9	0.8	0.4	—	—
Loss on disposal of non-current assets	8	—	0.3	—	—
(Increase)/decrease in inventories		(3.4)	(11.3)	—	—
(Increase)/decrease in receivables		(13.4)	(1.4)	1.5	71.0
(Decrease)/increase in payables		(3.3)	2.9	(13.3)	13.3
Equity-settled share-based payment transactions	17	1.8	1.8	—	—
Losses on derivatives recognised in income statement that have not yet settled	14	5.4	1.0	—	—
Retirement benefit obligations charge less contributions		(7.0)	(0.6)	—	—
Cash generated from operations		96.0	111.9	(12.2)	85.3
Net financing interest received		0.1	0.3	—	1.5
Tax paid		(12.7)	(24.6)	(0.2)	(0.5)
Net cash flow from operating activities		83.4	87.6	(12.4)	86.3
Cash flows from investing activities					
Acquisition of investments		(10.0)	—	—	(7.5)
Acquisition of property, plant and equipment and intangible assets		(25.9)	(41.2)	—	—
Dividends received		—	—	50.0	1.3
Cash consideration of acquisitions		—	(4.1)	—	—
Cash acquired with acquisitions		—	0.1	—	—
Net cash flow from investing activities		(35.9)	(45.2)	50.0	(6.2)
Cash flows from financing activities					
Proceeds from issue of ordinary shares exercised under option	18	1.0	2.4	1.0	2.4
Dividends paid	18	(39.9)	(81.2)	(39.9)	(81.2)
Net cash flow from financing activities		(38.9)	(78.8)	(38.9)	(78.8)
Net increase/(decrease) in cash and cash equivalents		8.6	(36.4)	(1.3)	1.3
Effect of exchange rate fluctuations on cash held		1.6	0.6	—	—
Cash and cash equivalents at beginning of year		53.8	89.6	1.3	—
Cash and cash equivalents at end of year		64.0	53.8	—	1.3

Consolidated statement of changes in equity

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
Equity at 1 October 2014		0.9	34.4	0.8	0.9	316.4	353.4
Total comprehensive income for the year							
Profit		—	—	—	—	83.5	83.5
Other comprehensive income/(expense)							
Currency translation differences for foreign operations		—	—	0.9	—	—	0.9
Effective portion of changes in fair value of cash flow hedges		—	—	—	(2.3)	—	(2.3)
Net change in fair value of cash flow hedges transferred to profit or loss		—	—	—	(0.9)	—	(0.9)
Defined benefit pension schemes' actuarial gains	15	—	—	—	—	1.4	1.4
Tax on other comprehensive income	5	—	—	—	0.7	(1.1)	(0.4)
Total other comprehensive income/(expense) for the year		—	—	0.9	(2.5)	0.3	(1.3)
Total comprehensive income/(expense) for the year		—	—	0.9	(2.5)	83.8	82.2
Contributions by and distributions to owners of the Company							
Share options exercised	18	—	2.4	—	—	—	2.4
Equity-settled share-based payment transactions	17	—	—	—	—	1.8	1.8
Dividends to shareholders	18	—	—	—	—	(81.2)	(81.2)
Equity at 30 September 2015		0.9	36.8	1.7	(1.6)	320.8	358.6
Total comprehensive income for the year							
Profit		—	—	—	—	82.5	82.5
Other comprehensive income/(expense)							
Currency translation differences for foreign operations		—	—	2.5	—	—	2.5
Effective portion of changes in fair value of cash flow hedges		—	—	—	(23.8)	—	(23.8)
Net change in fair value of cash flow hedges transferred to profit or loss		—	—	—	14.3	—	14.3
Defined benefit pension schemes' actuarial losses	15	—	—	—	—	(11.6)	(11.6)
Tax on other comprehensive income	5	—	—	—	1.9	1.8	3.7
Total other comprehensive income/(expense) for the year		—	—	2.5	(7.6)	(9.8)	(14.9)
Total comprehensive income/(expense) for the year		—	—	2.5	(7.6)	72.7	67.6
Contributions by and distributions to owners of the Company							
Share options exercised	18	—	1.0	—	—	—	1.0
Equity-settled share-based payment transactions	17	—	—	—	—	1.8	1.8
Dividends to shareholders	18	—	—	—	—	(39.9)	(39.9)
Equity at 30 September 2016		0.9	37.8	4.2	(9.2)	355.4	389.1

Company statement of changes in equity

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total £m
Equity at 1 October 2014		0.9	34.4	103.9	139.2
Total comprehensive income for the year					
Profit (includes dividends from subsidiaries of £35.8m)		—	—	37.8	37.8
Contributions by and distributions to owners of the Company					
Share options exercised	18	—	2.4	—	2.4
Equity-settled share-based payment transactions	17	—	—	1.8	1.8
Dividends to shareholders	18	—	—	(81.2)	(81.2)
Equity at 30 September 2015		0.9	36.8	62.3	100.0
Total comprehensive income for the year					
Profit (includes dividends from subsidiaries of £50.0m)		—	—	49.6	49.6
Contributions by and distributions to owners of the Company					
Share options exercised	18	—	1.0	—	1.0
Equity-settled share-based payment transactions	17	—	—	1.8	1.8
Dividends to shareholders	18	—	—	(39.9)	(39.9)
Equity at 30 September 2016		0.9	37.8	73.8	112.5

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 2016 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 6 December 2016.

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 Strategic Report on pages 1 to 36. In addition, note 14 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 September 2017. This facility was undrawn at 30 September 2016 and remained undrawn at 6 December 2016 when these consolidated financial statements were approved for issue by the Board of Directors.

The Directors have performed a robust assessment, including a review of the budget for the year ended 30 September 2017 and longer-term strategic forecasts and plans including consideration of the principal risks faced by the Company, as detailed on pages 22 to 24. Following this review the Directors are satisfied that the Company and the Group have adequate resources to continue to operate and meet their liabilities as they fall due for a period of at least twelve months from the date of signing these financial statements. For this reason they continue to adopt the going concern basis for preparing the financial statements. Details of the Group's policy on liquidity risk and capital management are included in note 14 to the financial statements.

On publishing the Company financial statements here together with the consolidated financial statements, the Company is taking advantage of section 408 of the 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 ending 30 September 2016, which included:

- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Annual Improvements to IFRSs – 2012–2014 Cycle
- Disclosure (Initiative Amendments to IAS 1)

None of these have had a material impact to the Group's consolidated result or financial position.

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

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 gross profit. Management of sales, marketing and administration functions servicing both business units is consolidated and reported at a Group level.

The Group's business is strategically organised as two business units (operating segments): Industrial (Victrex Polymer Solutions), which focuses on our Automotive, Aerospace, Electronics and Energy markets, and Medical (Invibio Biomaterial Solutions), which focuses on providing specialist solutions for medical device manufacturers.

	Industrial 2016 £m	Medical 2016 £m	Group 2016 £m	Industrial 2015 £m	Medical 2015 £m	Group 2015 £m
Revenue from external sales	201.5	50.8	252.3	213.0	50.5	263.5
Segment gross profit	114.2	44.5	158.7	123.9	44.3	168.2
Sales, marketing and administrative expenses			(58.4)			(61.9)
Operating profit			100.3			106.3
Net financing income			—			0.1
Profit before tax			100.3			106.4
Income tax			(17.8)			(22.9)
Profit for the year attributable to owners of the Parent			82.5			83.5

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 maximum 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	
	2016 £m	2015 £m
United Kingdom	7.6	7.0
Europe, Middle East and Africa ('EMEA')	104.0	106.5
Americas	71.3	70.6
Asia-Pacific	69.4	79.4
	252.3	263.5

Information about major customers

In the current year one customer contributed more than 10% to Group revenue (2015: one customer). Sales to this customer were made from the Industrial (Victrex Polymer Solutions) operating segment.

3. Expenses by nature

	Note	2016 £m	2015 £m
Staff costs	4	53.6	54.3
Depreciation of property, plant and equipment	8	14.8	12.5
Loss on disposal of property, plant and equipment	8	—	0.3
Operating lease rentals	8	1.5	1.2
Amortisation of intangibles	9	0.8	0.4
Other costs of manufacture		59.4	64.5
Other sales, marketing and administrative expenses		21.9	24.0
		152.0	157.2

Notes to the financial statements continued

3. Expenses by nature continued

Exceptional items were as follows:

	2016 £m	2015 £m
Included within sales, marketing and administrative expenses:		
Pension curtailment gain	2.6	—
Costs of pension change	(1.5)	—
Restructuring costs	(1.6)	—
Exceptional items before tax	(0.5)	—
Tax on exceptional items	0.1	—
Exceptional items	(0.4)	—

Exceptional items are those which are, in aggregate, material in size and/or unusual or infrequent in nature.

Closure of defined benefit section of the pension scheme

The closure of the defined benefit section of the pension scheme to future benefit accrual on 31 March 2016, resulted in a curtailment gain of £2.6m. This non cash gain represented a one-off reduction in accounting liabilities as benefits are no longer linked to future salary increases. The scheme had been closed to new members in 2001. Offsetting this gain is a charge of £1.5m for transitional benefits to active pension scheme members and the costs of closing the scheme.

As part of the closure of the defined benefit section of the pension scheme the company made a one-off contribution of £3.6m in January 2016 (see note 15).

Restructuring costs

Restructuring costs have been incurred relating to a reorganisation at the group's manufacturing sites.

Auditor's remuneration was as follows:

	2016 £000	2015 £000
Audit services relating to:		
– Victrex plc Annual Report	45	43
– The Company's subsidiaries, pursuant to legislation	101	96
	146	139
Interim review	14	14
Pension advisory services	25	42
Other services	13	12
	52	68
	198	207

4. Staff costs

	Note	2016 £m	2015 £m
Wages and salaries		43.1	42.0
Social security costs		4.4	4.8
Defined contribution pension schemes		6.0	3.8
Defined benefit pension schemes	15	(1.7)	1.9
Equity-settled share-based payment transactions	17	1.8	1.8
		53.6	54.3

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

	2016	2015
Make	416	401
Develop, Market and Sell	232	226
Support	117	115
	765	742

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	2016 £m	2015 £m
Current tax			
UK corporation tax on profits for the year		16.8	20.2
Overseas tax on profits for the year		1.7	1.4
Tax adjustments relating to prior years		(1.3)	0.6
		17.2	22.2
Deferred tax			
Origination and reversal of temporary differences	11	2.2	0.3
Deferred tax adjustments relating to prior years	11	0.3	0.4
Reduction in tax rate	11	(1.9)	—
Total tax expense in income statement		17.8	22.9

Reconciliation of effective tax rate

	2016		2015	
	%	£m	%	£m
Profit before tax		100.3		106.4
Tax expense at UK corporation tax rate	20.0	20.1	20.5	21.8
Effects of:				
– Expenses not deductible for tax purposes		0.5		0.6
– Higher rates of tax on overseas earnings		0.6		0.5
– UK research and development tax credits and other allowances		(0.2)		(1.0)
– Corporation tax adjustments relating to prior years		(1.3)		0.6
– Deferred tax adjustments relating to prior years		0.3		0.4
– Difference in rates between deferred tax and corporation tax		(0.3)		—
– Restatement of opening deferred tax balances from 20% to 17%		(1.9)		—
Effective tax rate	17.7	17.8	21.5	22.9

The deferred tax assets/liabilities at 30 September 2016 have been calculated at a rate of 17% (2015: 20%), being the UK tax rate substantively enacted at the respective balance sheet dates.

Tax credit/(charge) recognised in other comprehensive income

	2016 £m	2015 £m
Cash flow hedges	1.9	0.7
Defined benefit pension schemes	2.0	(0.3)
Equity-settled transactions	(0.2)	(0.8)
	3.7	(0.4)

Notes to the financial statements continued

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 18).

	2016	2015
Earnings per share		
– basic	96.8p	98.1p
– diluted	96.7p	97.9p
Profit for the financial year	£82.5m	£83.5m
Weighted average number of shares used:		
– Issued ordinary shares at beginning of year	85,441,991	85,192,469
– Effect of own shares held	(222,839)	(233,424)
– Effect of shares issued during the year	39,703	146,858
Basic weighted average number of shares	85,258,855	85,105,903
Effect of share options	84,335	183,053
Diluted weighted average number of shares	85,343,190	85,288,956

7. Acquisition

The acquisition method is used to account for business combinations. Goodwill represents the difference between the acquisition date fair value of the consideration transferred and the net of the acquisition date fair values of the identifiable assets acquired, including intangibles, and liabilities assumed, including contingent liabilities as required by IFRS 3. In the event that this difference is negative, the amount is recognised directly in the consolidated income statement.

Any contingent consideration is measured at fair value at the date of acquisition. Subsequent changes to the fair value of contingent consideration that are not classified as equity are recognised in the consolidated income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Prior year acquisitions

Acquisition of Kleiss Gears

On 18 June 2015, the Group acquired 100% of the issued share capital of Kleiss Gears, Inc (a Wisconsin corporation) and Kleiss Precision Tool Corp. (a Wisconsin corporation) for a cash consideration of \$5.8m (£3.8m). In addition, debt of \$0.4m (£0.3m) was paid on behalf of Kleiss Gears, Inc and Kleiss Precision Tool Corp, taking total consideration to \$6.2m (£4.1m).

The net identifiable assets on acquisition of \$3.4m (£2.2m) included intangible assets of \$0.9m (£0.6m), representing the fair value of Kleiss' unique computer software and customer relationships, and property, plant and equipment of \$1.9m (£1.2m) including a building purchased from Kleiss Environmental LLC, a related party of Kleiss Gears, as part of the purchase agreement.

The Board believes that the excess of consideration paid over the fair value of the net identifiable assets of \$2.4m (£1.6m, see note 9) is best considered as goodwill on acquisition representing employee expertise and anticipated future operating synergies. See note 9 for further details. All of the goodwill recognised is expected to be deductible for income tax purposes.

The measurement period concluded in the year ended 30 September 2016, with no measurement adjustments being made to the fair values in this period.

8. 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	30–50 years
Plant and machinery	10–30 years
Fixtures, fittings, tools and equipment	5–10 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.

Depreciation on assets classified as in the course of construction commences when the assets are ready for their intended use.

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

8. Property, plant and equipment continued

	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
Cost						
At 1 October 2014	30.0	174.3	7.5	2.4	98.3	312.5
Exchange differences	(0.1)	0.2	—	—	—	0.1
Additions	0.3	4.3	1.2	0.1	32.9	38.8
Acquisitions (see note 7)	0.5	0.7	—	—	—	1.2
Disposals	(0.3)	(0.3)	(2.1)	—	—	(2.7)
Transfer to intangible assets	—	—	—	—	(3.6)	(3.6)
Reclassification	21.4	100.6	—	0.4	(122.4)	—
At 30 September 2015	51.8	279.8	6.6	2.9	5.2	346.3
Exchange differences	0.3	0.6	0.1	0.5	—	1.5
Additions	0.7	5.0	0.7	0.1	11.7	18.2
Disposals	—	—	(0.1)	—	—	(0.1)
Reclassification	1.1	1.3	—	—	(2.4)	—
At 30 September 2016	53.9	286.7	7.3	3.5	14.5	365.9
Depreciation						
At 1 October 2014	5.5	73.3	4.9	1.2	—	84.9
Disposals	(0.2)	(0.1)	(2.1)	—	—	(2.4)
Depreciation charge	1.2	9.6	1.3	0.4	—	12.5
At 30 September 2015	6.5	82.8	4.1	1.6	—	95.0
Exchange differences	0.1	0.2	0.1	0.3	—	0.7
Disposals	—	—	(0.1)	—	—	(0.1)
Depreciation charge	1.4	11.8	1.2	0.4	—	14.8
At 30 September 2016	8.0	94.8	5.3	2.3	—	110.4
Carrying amounts						
At 30 September 2016	45.9	191.9	2.0	1.2	14.5	255.5
At 30 September 2015	45.3	197.0	2.5	1.3	5.2	251.3
At 1 October 2014	24.5	101.0	2.6	1.2	98.3	227.6

Reclassification relates to the movement from assets under construction to the relevant asset category when the assets are ready for their intended use. Details of significant projects reclassified are included in the Financial Review.

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.

Non-cancellable operating lease rentals are payables as follows:

As at 30 September	2016 £m	2015 £m
Not later than one year	1.4	1.0
Later than one year but not later than five years	1.5	2.0
Later than five years	2.3	2.5
	5.2	5.5

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

Operating lease rentals of £1.5m (2015: £1.2m) relating to the lease of property, plant and equipment are included in the income statement (see note 3).

Notes to the financial statements continued

9. Intangible assets

	Goodwill £m	Computer software £m	Customer relationships £m	Assets in course of construction £m	Total £m
Cost					
At 1 October 2014	10.1	—	—	—	10.1
Transfer from tangible assets	—	—	—	3.6	3.6
Additions	—	—	—	4.9	4.9
Acquisitions (see note 7)	1.6	0.3	0.3	—	2.2
Reclassification	—	2.9	—	(2.9)	—
At 30 September 2015	11.7	3.2	0.3	5.6	20.8
Additions	—	—	—	3.9	3.9
Reclassification	—	9.5	—	(9.5)	—
At 30 September 2016	11.7	12.7	0.3	—	24.7
Amortisation					
At 1 October 2014	—	—	—	—	—
Amortisation charge	—	0.4	—	—	0.4
At 30 September 2015	—	0.4	—	—	0.4
Amortisation charge	—	0.7	0.1	—	0.8
At 30 September 2016	—	1.1	0.1	—	1.2
Carrying amounts					
At 30 September 2016	11.7	11.6	0.2	—	23.5
At 30 September 2015	11.7	2.8	0.3	5.6	20.4
At 1 October 2014	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.

Goodwill recognised is measured against discounted future cash flow projections for the relevant CGU. Management has prepared cash flow projections for a five-year period derived from the approved budget for the 2017 financial year and the five-year strategy. These forecasts include assumptions around volumes and sales prices, costs of manufacture, operating costs, working capital movements and capital expenditure.

£1.6m of goodwill was recognised in the prior period on the acquisition of Kleiss Gears. This element of goodwill is measured against the discounted future cash flow projections of the Kleiss Gears business. The long-term average growth rate used was 2.0% (2015: 2.0%) and the risk adjusted discount rate was 11.0% (2015: 11.0%). Based on the impairment results, it has been determined to be unlikely that any reasonably possible changes in any of the key assumptions would result in an impairment of goodwill.

The remaining goodwill comprises £10.1m in Victrex Polymer Solutions relating to acquisitions associated with the supply of our key raw material BDF in 1999 and 2005 (£7.4m) and the residual balance of our Japanese joint venture in 2007 (£2.7m). This element of goodwill is measured against the discounted future cash flow projections of our Victrex Polymer Solutions business unit (excluding Kleiss Gears). The long-term average growth rate used was 2.0% (2015: 2.0%) and the risk adjusted discount rate was 8.0% (2015: 8.0%). 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.

Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and any provisions for impairment. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

9. Intangible assets continued

Amortisation

Amortisation is charged to the income statement over the estimated useful economic lives as follows:

Computer software	5–7 years straight line
Customer relationships	10 years systematic

Amortisation on assets classified as in the course of construction commences when the assets are ready for their intended use, the point of which they are reclassified from assets under construction, on the same basis as other assets of that class.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised within 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.

Research and development expenditure of £14.1m (2015: £13.7m) was expensed to the income statement in the year within sales, marketing and administrative expenses.

10. Investments

Investments

In the Company's financial statements, investments are stated at cost less any impairment in the value of the investment.

In the Group's financial statements accounting for investments is driven by the level of control that can be exerted. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Where there is deemed to be an ability to affect the return, investments are consolidated from the date that ability commences until the date that it ceases. Where there is not deemed to be an ability to affect the return, investments are held at fair value. The initial fair value is deemed to be cost where transactions are at arm's length. For investments in unquoted companies, cost will continue to be used as a proxy for fair value unless there is a clear indication for a change in value, which could be illustrated by significant performance variations to plan or the value implied by subsequent funding rounds or other equity transactions.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which 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.

Investment in Magma Global

On 23 September 2016, the Group acquired a minority equity interest in its joint development partner, Magma Global Limited ('Magma'), for a cash consideration of £10 million.

This strategic investment is in line with Victrex's strategy to invest further in selected downstream semi-finished or finished products and accelerate or underpin its portfolio of 'mega-programmes'. Magma, which in partnership with Victrex, has developed m-pipe®, a PEEK and carbon fibre high performance pipe for the Oil & Gas industry, is one of Victrex's 'mega-programmes'. The Magma programme delivered first meaningful revenues for Victrex of £1m–£2m in the year ended 30 September 2016.

Group

	Investments £m
Cost and carrying value	
At 1 October 2014 and 30 September 2015	—
Investment in Magma Global Limited	10.0
At 30 September 2016	10.0

Company

	Shares in Group undertakings £m
Cost and carrying value	
At 1 October 2014	48.2
Cash equity injection	7.5
Capitalisation of intragroup loans	55.9
At 30 September 2015 and 30 September 2016	111.6

Company continued

The following is a full list of the Company's subsidiaries:

(1) Directly held by Victrex plc.
(2) Kleiss Gears, Inc. and Kleiss Tools Precision Corporation were acquired on 18 June 2015 and merged into Kleiss Gears, Inc. on 30 September 2015, see note 7.

11. Deferred tax assets and liabilities

	Note	Property, plant and equipment £m	Employee benefits £m	Inventories £m	Other £m	Total £m
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At 1 October 2014		(17.8)	2.7	3.6	0.8	(10.7)
Prior period adjustment	5	(0.4)	—	—	—	(0.4)
Recognised in income statement	5	(1.0)	0.2	0.5	—	(0.3)
Recognised in other comprehensive income	5	—	(1.1)	—	—	(1.1)
At 30 September 2015		(19.2)	1.8	4.1	0.8	(12.5)
Prior period adjustment	5	(0.3)	—	—	—	(0.3)
Reclassification from current income tax liabilities	5	—	—	—	1.0	1.0
Change in rate on opening balance from 20% to 17%	5	2.9	(0.3)	(0.6)	(0.1)	1.9
Recognised in income statement	5	(2.6)	(0.4)	0.5	0.3	(2.2)
Recognised in other comprehensive income	5	—	1.8	—	—	1.8
At 30 September 2016		(19.2)	2.9	4.0	2.0	(10.3)

12. 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). Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Further details on inventory valuation and provisions are included in note 20.

As at 30 September	2016 £m	2015 £m
Raw materials and consumables	23.7	22.7
Work in progress	5.1	4.8
Finished goods	33.0	29.9
	61.8	57.4

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

13. Trade and other receivables

As at 30 September	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Trade receivables	37.7	25.3	—	—
Amounts owed by subsidiary undertakings	—	—	9.4	9.1
Prepayments	7.7	6.3	—	—
Other	1.5	1.9	—	—
	46.9	33.5	9.4	9.1

The fair value of trade and other receivables approximates to their carrying value.

14. Financial risk management

Group

Currency risk

Currently, the Group exports 97% of sales from the UK and also makes raw material purchases overseas.

Currency risk is managed by the Currency Committee, which is chaired by the Group Finance Director and comprises the Chief Executive and senior finance executives. It meets monthly to review and manage the Group's currency hedging activities, in line with the hedging policy approved by the Board.

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

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 2016 is £5.0m, £3.3m and £0.7m (2015: £5.8m, £3.7m and £0.7m) respectively. The impact of a 5% movement in the average Sterling/US Dollar, Sterling/Euro and Sterling/Yen rates on equity for 2016 is £2.8m, £0.4m and £0.6m (2015: £2.9m, £0.5m and £0.4m) 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

14. Financial risk management continued

Group continued

Cash flow hedges

The Group hedges a proportion of forecast sales, purchases and capital expenditure denominated in a foreign currency. The Board is responsible for setting the hedging policy which is detailed on page 87. 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 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.

Any cumulative gain or loss existing in equity at the time when the forecast transaction occurs, or when a hedge no longer meets the criteria for hedge accounting, is recognised in the income statement. The timing of the gain or loss impacting the income statement is aligned to the timing of the hedged transaction impacting the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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 2016		As at 30 September 2015	
	Notional contract amount £m	Carrying amount and fair value £m	Notional contract amount £m	Carrying amount and fair value £m
Current assets	(22.1)	2.1	22.2	2.0
Current liabilities	196.9	(19.5)	161.1	(4.4)
	174.8	(17.4)	183.3	(2.4)

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 2016				As at 30 September 2015			
	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	(22.1)	(24.3)	1.1	1.1	22.2	14.9	6.5	0.8
– Liabilities	196.9	122.4	68.3	6.2	161.1	83.5	68.8	8.8
	174.8	98.1	69.4	7.3	183.3	98.4	75.3	9.6

Gains and losses deferred in the hedging reserve in equity on forward foreign exchange contracts at 30 September 2016 will be recognised in the income statement during the period in which the hedged forecast transaction affects the income statement, which is typically 1–2 months prior to the cash flow occurring. At 30 September 2016, 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, losses of £5.8m (2015: losses of £0.4m) relating to forward exchange contracts on the balance sheet at 30 September 2016 were released to the income statement.

Gains and losses recognised in the income statement on contracts which are yet to settle are adjusted as a non-cash movement on the cash flow statements. This equated to a loss of £5.4m in the year (2015: £1.0m loss).

14. Financial risk management continued

Group continued

Credit risk

The Group manages exposure to credit risk at many levels ranging from Executive Leadership Team 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. All customers are assigned a credit limit which is subject to annual review.

Trade receivables can be analysed as follows:

As at 30 September	2016 £m	2015 £m
Amounts neither past due nor impaired	35.2	21.4
Amounts past due but not impaired:		
– Less than 30 days	2.3	2.9
– 30–60 days	0.2	0.9
– More than 60 days	—	0.1
Total past due but not impaired	2.5	3.9
Amounts impaired (all more than 60 days past due)	0.5	0.5
Impairment allowances	(0.5)	(0.5)
Carrying amount of impaired receivables	—	—
Trade receivables net of allowances	37.7	25.3

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:

	2016 £m	2015 £m
At beginning of year	0.5	0.5
Charge in the year	—	—
Release of allowance	—	—
At end of year	0.5	0.5

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 whose credit ratings are monitored on an ongoing basis.

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.

As at 30 September 2016, the maximum exposure with a single bank for deposits was £28.0m (2015: £14.3m) for the Group. As at 30 September 2016, the largest mark to market exposure for gains on forward foreign exchange contracts to a single bank was £1.0m (2015: £1.0m). The amounts on deposit at the year end represent the Group's maximum exposure to credit risk on cash and deposits.

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 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 expires in September 2017.

As at 30 September 2016, the Group had a cash and cash equivalents balance of £64.0m.

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 2017, although there is a resolution proposed at each 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.

Notes to the financial statements continued

14. Financial risk management continued

Group continued

Capital management continued

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

As at 30 September	2016 £m	2015 £m
Total equity	389.1	358.6
Total assets	472.7	426.5
Equity ratio	82%	84%

Summary of categories of financial assets and liabilities

As at 30 September	Note	Carrying amount and fair value 2016 £m	Carrying amount and fair value 2015 £m
Financial assets			
Derivative instruments in designated hedge accounting relationships		2.1	2.0
Trade and other receivables	13	39.2	27.2
Cash and cash equivalents		64.0	53.8
Financial liabilities			
Derivative instruments in designated hedge accounting relationships		(19.5)	(4.4)
Trade and other payables	16	(5.8)	(8.7)

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 88 and 89.

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 UK subsidiary undertakings, which are financial assets designated as loans and receivables.

15. 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 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 (Revised) – 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. Outside the UK, the Company operates defined contribution pension schemes.

The principal scheme operated by the Group is a funded UK pension scheme in which employees of UK 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.

15. Retirement benefit obligations continued

Employee benefits continued

Defined benefit pension schemes continued

In December 2015 we communicated a proposal to consult on the closure of Victrex's UK defined benefit scheme to future accrual. The scheme closed on 31 March 2016, with employees in the defined benefit scheme eligible to join the defined contribution scheme. As part of the closure, Victrex made a cash contribution of £3.6m into the defined benefit scheme. A non-cash curtailment gain of £2.6m was recognised in the income statement, representing the one-off reduction in accounting liabilities as benefits are no longer linked to future salary increases. This gain has been reduced by a charge of £1.5m, for transitional benefits provided to active pension scheme members and the costs of closing the scheme.

IAS 19 disclosures relating to defined benefits are as follows:

Principal actuarial assumptions

As at 30 September	2016	2015
Discount rate	2.40%	4.00%
RPI inflation	3.50%	3.50%
CPI inflation	2.50%	2.50%
Future salary increases	n/a	3.50%
Future pension increases	3.30%	3.40%
Mortality tables	S2NA CMI 2015 (1.25%)	S1NA CMI 2014 (1.25%)
Life expectancy from age 62 of current pensioners:		
– Male	25.3 yrs ⁽¹⁾	25.1 yrs ⁽²⁾
– Female	27.5 yrs ⁽¹⁾	27.7 yrs ⁽²⁾
Life expectancy from age 62 of active and deferred members:		
– Male	26.8 yrs ⁽³⁾	26.7 yrs ⁽⁴⁾
– Female	29.1 yrs ⁽³⁾	29.4 yrs ⁽⁴⁾

(1) Life expectancy from age 62 for members aged 62 in 2016.

(2) Life expectancy from age 62 for members aged 62 in 2015.

(3) Life expectancy from age 62 for members aged 45 in 2016.

(4) Life expectancy from age 62 for members aged 45 in 2015.

The average duration of the benefit obligation at the end of the reporting period is 23 years (2015: 23 years).

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation rate and expected salary increase. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant:

Change in assumption	Increase in fund deficit as at 30 September 2016	Increase in fund deficit as at 30 September 2015
Reduce discount rate by 1% p.a.	£22.7m	£15.2m
Increase inflation expectations by 1% p.a.	£18.6m	£13.6m
Increase salary inflation by 1% p.a.	—	£3.1m
Increase life expectancy by 1 year	£2.7m	£1.5m

In reality one might expect interrelationships between the assumptions, especially between discount rate and expected salary increases that both depend to a certain extent on expected inflation rates. The above analysis does not take the effect of these interrelationships into account.

Amounts recognised in the balance sheet

As at 30 September	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Present value of funded obligations	(82.4)	(60.4)	(60.2)	(51.4)	(45.5)
Fair value of schemes' assets	71.8	54.6	52.4	47.8	41.5
Net liability before deferred taxation	(10.6)	(5.8)	(7.8)	(3.6)	(4.0)
Related deferred taxation asset	1.8	1.2	1.6	0.7	0.9
Net liability after deferred taxation	(8.8)	(4.6)	(6.2)	(2.9)	(3.1)
Change in assumptions and experience adjustments arising on schemes' liabilities	(22.2)	1.1	(6.3)	(2.7)	(2.0)
Experience adjustments arising on schemes' assets	10.6	0.3	1.1	2.0	3.3

Changes in the present value of the funded obligation

	2016 £m	2015 £m
Defined benefit obligation at beginning of year	(60.4)	(60.2)
Exchange difference	(0.4)	0.1
Service cost	(0.8)	(1.7)
Past service cost	2.6	—
Interest cost	(2.4)	(2.4)
Actuarial (losses)/gains	(22.2)	1.1
Benefits paid	1.2	2.7
Defined benefit obligation at end of year	(82.4)	(60.4)

Notes to the financial statements continued

15. Retirement benefit obligations continued**Changes in the present value of the funded obligation** continued

During the year ending 30 September 2017, the Group will make the third of four deficit funding contributions of £0.9m.

Contribution rates prior to the closure of the scheme were based on the triennial valuation as at 31 March 2013.

Changes in the fair value of the schemes' assets

	2016 £m	2015 £m
Fair value of schemes' assets at beginning of year	54.6	52.4
Exchange difference	0.2	(0.1)
Interest income on assets	2.2	2.1
Actuarial gains	10.6	0.3
Contributions by employer	5.3	2.5
Contributions by employee	0.1	0.1
Benefits paid	(1.2)	(2.7)
Fair value of schemes' assets at end of year	71.8	54.6

Major categories of schemes' assets

As at 30 September	2016 £m	2015 £m
UK equities	1.6	1.4
Non-UK equities	26.8	19.9
Bonds	10.7	15.3
Gilts	18.4	8.7
Cash	4.8	0.6
Diversified growth	7.8	7.4
Insurance policies	1.7	1.3
Fair value of schemes' assets at end of year	71.8	54.6

Amounts recognised in the income statement

	Note	2016 £m	2015 £m
Current service cost		(0.8)	(1.7)
Past service cost		2.6	—
Contributions by employees		0.1	0.1
Interest on liabilities		(2.4)	(2.4)
Interest income on assets		2.2	2.1
Total included in 'staff costs'	4	1.7	(1.9)

Of the total included in staff costs, £0.7m is included within cost of sales (2015: £1.3m) and £(2.4m) is included within sales, marketing and administrative expenses (2015: £0.6m).

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

	2016 £m	2015 £m
Cumulative amount at beginning of year	(15.0)	(16.4)
Movement in year	(11.6)	1.4
Cumulative amount at end of year	(26.6)	(15.0)

16. Trade and other payables

	Group		Company	
As at 30 September	2016 £m	2015 £m	2016 £m	2015 £m
Trade payables	3.9	7.2	—	—
Amounts owed to Group undertakings	—	—	8.5	21.8
Accruals	23.1	24.9	—	—
Other	1.9	1.5	—	—
	28.9	33.6	8.5	21.8

The fair value of trade and other payables approximates to their carrying value.

17. 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 2005/2015 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 in each financial year. 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) and achieving the performance condition where applicable. The level of awards vesting will vary depending on EPS growth. In order for awards to reach the threshold level of vest, the EPS growth of the Group must exceed the Retail Prices Index by 2% per annum. For awards over 33% of salary, the threshold increases to 3%, and then to 4% for awards over 66%. Straight line vesting will occur to the extent that EPS growth falls between these annual EPS growth targets. These options are exercisable from the date of vest to the ten-year anniversary of the grant date.

Victrex 2005/2015 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.

Victrex 2005/2015 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 2009 Long-Term Incentive Plan ('2009 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 54.

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 2014	1,378p	933,342	1,122p	284,178	—	—	nil p	280,628
Granted during the year	1,958p	263,806	1,633p	196,604	1,607p	8,547	nil p	91,721
Forfeited during the year	1,244p	(275,874)	1,510p	(20,171)	—	—	nil p	(66,652)
Exercised during the year	1,062p	(99,485)	899p	(141,490)	1,607p	(8,547)	nil p	(29,172)
Outstanding at 30 September 2015	1,648p	821,789	1,511p	319,121	—	—	nil p	276,525
Granted during the year	1,770p	289,357	1,266p	348,712	1,319	10,833	nil p	98,942
Forfeited during the year	1,726p	(40,635)	1,552p	(210,821)	—	—	nil p	(93,534)
Exercised during the year	1,198p	(28,135)	1,301p	(37,805)	1,319	(10,833)	nil p	(3,498)
Outstanding at 30 September 2016	1,691p	1,042,376	1,305p	419,207	—	—	nil p	278,435
Range of exercise prices								
2016	434.3p–2,052p		906p–1,633p		—		nil p	
2015	434.3p–2,052p		906p–1,633p		—		nil p	
Weighted average contractual life (years)								
2016	7.5		2.3		0.4		8.0	
2015	7.8		2.9		0.4		8.3	
Exercisable at end of year								
2016	1,407p	284,871	—	—	—	—	—	—
2015	1,110p	122,665	—	—	—	—	—	—

Notes to the financial statements continued

17. Share-based payments continued

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.

All share-based payment costs are recharged to the trading entities.

Fair value of share options and weighted average assumptions

	As at 30 September 2016				As at 30 September 2015			
	ESOP	Sharesave Plan	Stock Purchase Plan	LTIP	ESOP	Sharesave Plan	Stock Purchase Plan	LTIP
Fair value at measurement date	427p	306p	424p	1,339p	451p	440p	423p	1,273p
Share price at grant	1,694p	1,518p	1,890p	1,808p	1,661p	1,817p	1,912p	1,109p
Exercise price	1,690p	1,305p	n/a	nil p	1,648p	1,506p	n/a	nil p
Expected volatility	33%	26%	26%	25%	35%	28%	24%	28%
Option life	10 yrs	4 yrs	1 yr	10 yrs	10 yrs	4 yrs	1 yr	10 yrs
Expected dividends	2.4%	3.0%	2.4%	2.5%	2.4%	2.3%	2.3%	2.4%
Risk-free interest rate	1.6%	0.8%	0.4%	1.1%	1.8%	1.0%	0.5%	1.0%

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 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 is taken into account in the grant date measurement of fair value.

Staff costs – equity-settled share-based payment transactions

	Note	2016 £m	2015 £m
ESOP		1.0	0.9
Sharesave Plan		0.5	0.4
LTIP		0.3	0.5
	4	1.8	1.8

18. Share capital and reserves

Share capital

	2016		2015	
	Number	£m	Number	£m
Allotted, called up and fully paid shares of 1p each				
At beginning of year	85,441,991	0.9	85,192,469	0.9
Issued for cash	76,773	—	249,522	—
At end of year	85,518,764	0.9	85,441,991	0.9

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.

Share premium

During the year 76,773 (2015: 249,522) shares were issued for cash, resulting in an increase in share premium of £1.0m (2015: £2.4m).

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 2016 was 222,070 (2015: 225,606). 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.

	2016 £m	2015 £m
Year ended 30 September 2014		
– Final dividend paid February 2015 at 33.76p per ordinary share	—	28.7
– Special dividend paid February 2015 at 50.00p per ordinary share	—	42.5
Year ended 30 September 2015		
– Interim dividend paid July 2015 at 11.73p per ordinary share	—	10.0
– Final dividend paid February 2016 at 35.09p per ordinary share	29.9	—
Year ended 30 September 2016		
– Interim dividend paid July 2016 at 11.73p per ordinary share	10.0	—
	39.9	81.2

A final dividend in respect of 2016 of £29.9m (35.09p per ordinary share) has been recommended by the Directors for approval at the Annual General Meeting in February 2017. These financial statements do not reflect this dividend.

Notes to the financial statements continued

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	
	2016 £m	2015 £m
Trading transactions with subsidiaries		
Administrative expenses paid on Company's behalf by subsidiaries	0.4	0.4
Management charge to subsidiaries	1.9	1.9
Amounts receivable from subsidiaries	9.4	9.1
Amounts owed to Group undertakings	8.5	21.8
Financing transactions with subsidiaries		
Dividends received from subsidiaries	50.0	35.8
Cash transfers received from subsidiaries	40.1	18.2
Cash transfers made to subsidiaries	52.2	67.0

The Group's retirement benefit plans are related parties and the Group's and Company's transactions with them are disclosed in note 15.

Details of transactions during the year relating to the Company's investments in subsidiaries can be found in note 10.

Details of loan balances between the Company and its subsidiaries can be found in note 14.

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 51 to 64.

Directors of the Company control 3.55% of the voting shares of the Company, details of which are given on page 62.

Details of Directors' indemnities are given on page 67.

20. Critical judgements and key sources of estimation uncertainty

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.

The following are the critical judgements and key sources of estimation uncertainty that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Management has discussed these with the Audit Committee. These should be read in conjunction with the significant accounting policies provided in the notes to the financial statements.

Inventory valuation

The valuation of inventory includes the absorption of manufacturing costs over a normal level of production. Judgement is used both in identification of directly attributable costs and normal production. The assessment of normal production considers actual, prior period and budgeted production when concluding on the appropriate level. Management use their detailed experience in this process. Inventory provisions are put in place for slow moving and potentially obsolete inventory where cost is considered to be higher than net realisable value. The level of provisioning being a judgement based on ageing, customer order profiles, alternative routes to market and the option to re-process.

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 pension increases, inflation, the discount rate applied, investment returns and member longevity, which underpin the valuations. Note 15 contains information about the assumptions relating to retirement benefit obligations.

Property, plant and equipment

In relation to 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 change in the useful economic life or a potential impairment of the carrying value of such assets. Historically, changes in carrying value, useful lives or residual values have not resulted in material changes to either the carrying value of the Group's assets or the annual depreciated expense.

20. Critical judgements and key sources of estimation uncertainty continued

Tax provisioning

The Group operates in a number of geographies and different tax jurisdictions. There is an inherent uncertainty in some of these jurisdictions requiring judgement at period ends over the amount of taxation payable. Management use their experience of each geography along with that of their advisors in estimating the tax charge for the period and any provision required for previous periods.

Provisions and contingent liabilities

The nature of the Group's business is such that financial obligations can come from a range of sources. IAS 37 – Provisions, Contingent Liabilities and Contingent Assets sets out strict criteria on when provisions and contingent liabilities can be recognised in a number of common scenarios; including restructuring, claims and onerous contracts. Recognition is based on an assessment of a potential financial obligation, whether legal or constructive, when the obligation arose and its probability of arising along with the likelihood of a transfer of economic benefit. Processes are in place to capture the potential obligations and then assess them against the criteria outlined in IAS 37. Management use their judgement, experience and external expertise to assess the probability and magnitude of potential liabilities where appropriate. The assessment performed covers both recognition and disclosure of potential provisions and contingent liabilities.

Research and development expenditure

The Group incurs significant expenditure on research and development, both in respect of internal process improvement and product and application development. IAS 38 – Intangible Assets sets out strict criteria in respect of capitalising development costs, which require an element of judgement to assess if these have been made. The nature of our business is such that new products and applications often need to go through lengthy client testing and regulatory approval, the success of which is inherently uncertain and therefore predicting the outcome requires a significant level of judgement. As such, until these phases are complete the expenditure is not considered to meet the IAS 38 criteria, by which point the significant majority of development expenditure has been incurred. Accordingly no development expenditure has been capitalised in the current or prior years.

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. In addition, where an exchange difference arises on an intragroup monetary item that, in substance, forms part of the entity's net investment in a foreign operation, these differences are recognised in other comprehensive income in the consolidated financial statements and accumulated in equity until the disposal of the foreign operation.

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 financial statements under the Group's accounting policies are:

	2016		2015	
	Average	Closing	Average	Closing
US Dollar	1.54	1.31	1.63	1.51
Euro	1.35	1.18	1.24	1.36
Yen	179	135	175	181

Five year financial summary

for the year ended 30 September

	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Results					
Revenue	219.8	221.9	252.6	263.5	252.3
Profit before tax	94.5	94.6	102.7	106.4	100.3
Balance sheet					
Property, plant, equipment and intangible assets	153.7	185.8	237.7	271.7	279.0
Investments	—	—	—	—	10.0
Inventories	48.6	51.1	44.2	57.4	61.8
Net cash	83.9	91.6	89.6	53.8	64.0
Trade receivables and other assets	39.5	39.1	44.8	43.6	57.9
Retirement benefit obligations	(4.0)	(3.6)	(7.8)	(5.8)	(10.6)
Trade payables and other liabilities	(50.6)	(50.3)	(55.1)	(62.1)	(73.0)
Equity shareholders' funds	271.1	313.7	353.4	358.6	389.1
Cash flow					
Net cash flow from operating activities	66.0	80.0	97.8	87.6	83.4
Capital expenditure	(27.0)	(40.7)	(65.6)	(41.2)	(25.9)
Acquisition	—	—	—	(4.0)	(10.0)
Dividends and other items	(26.8)	(31.4)	(34.1)	(78.8)	(38.9)
Net increase/(decrease) in cash and cash equivalents	12.2	7.9	(1.9)	(36.4)	8.6
Ratios					
Earnings per ordinary share – basic	85.7p	86.5p	94.6p	98.1p	96.8p
Full-year dividend per ordinary share	37.4p	43.0p	45.15p	46.82p	46.82p
Special dividend per ordinary share	—	—	50.0p	—	—
Sales volume					
Tonnes	2,904	2,920	3,551	4,217	3,952

Cautionary note regarding forward looking statements

This Annual Report contains “forward looking statements” in relation to the future financial and operating performance and outlook of Victrex, as well as other future events and their potential effects on Victrex. Generally, the words “will”, “may”, “should”, “continue”, “believes”, “targets”, “plans”, “expects”, “estimates”, “aims”, “intends”, “anticipates”, or similar expressions or negatives thereof identify forward looking statements. Forward looking statements include statements relating to the following: expected developments in our product portfolio, expected revenues in our businesses, expected margins, expected trends, expected growth in our business (including our mega-programmes), expected operating costs savings, expected future cash generation, expected future tax rates, expected future orders and increase in market share, expected timing of product releases and expected timing of product development milestones, expected incorporation of our products into those of our customers, adoption of new technologies, the expectation of volume shipments of our products, expected product markets and their expansion or contraction, opportunities in our industry and our ability to take advantage of those opportunities, the potential success to be derived from strategic partnerships, potential acquisitions, the effect of our financial performance on our share price, the impact of government regulation, expected performance against adverse economic conditions, and other expectations and beliefs of our management.

Actual results and developments could differ materially from those expressed or implied by these forward looking statements as a result of numerous risks and uncertainties. These factors include, but are not limited to:

- Victrex’s ability to ensure development and timely delivery of new products or solutions in accordance with the requirements of customers;
- any change in demand for consumer products due to challenging and uncertain economic conditions;
- increased expenses associated with new product introductions or required capital investment;
- risks relating to forecasting demand for and market acceptance of Victrex’s products and timing for the introduction of products that use Victrex’s own products;
- declines in the average selling prices of Victrex’s products;
- cancellation of existing orders or the failure to secure new orders;
- difficulties related to distributors who support the supply of our products to customers;
- Victrex’s ability to secure sufficient capacity from the third-parties and strategic partners that manufacture raw materials or product on our behalf;
- Victrex’s ability to develop, acquire and protect intellectual property and other commercially sensitive information;
- the cyclical nature of the chemical industry and those sectors into which we supply our products, such as oil & gas and consumer electronics;
- the potential for disruption in the supply of raw materials due to changes in business conditions, natural disasters, terrorist activities, public health concerns or other factors;
- Victrex’s ability to attract and retain key personnel, including engineers and technical personnel;
- the difficulty in predicting future results; and
- other risks and uncertainties discussed in this Annual Report, including, without limitation, under the heading “Principal Risks” on pages 22 to 24.

The reader is cautioned not to place undue reliance on these forward looking statements, which speak only as of the date of this Annual Report.

Neither Victrex nor any other person undertakes any obligation to update or revise publicly any of the forward looking statements set out herein, whether as a result of new information, future events or otherwise, except to the extent legally required.

Notice of Annual General Meeting

Notice is hereby given that the twenty fourth Annual General Meeting ('AGM') of Victrex plc ('the Company') will be held at 11 am on 8 February 2017, at J.P. Morgan, 1 John Carpenter Street, London EC4Y 0JP, to transact the business set out below. Resolutions 1 to 17 will be proposed as Ordinary Resolutions and resolutions 18 to 21 will be proposed as Special Resolutions.

Ordinary Resolutions

1. To receive the Company's audited financial statements and the auditor's and directors' reports for the year ended 30 September 2016.
2. To approve the Directors' Remuneration Report (other than the part containing the Directors' Remuneration Policy) in the form set out in the annual report and accounts for the year ended 30 September 2016.
3. To approve the Remuneration Policy of the Company (contained in the Directors' Remuneration Report) in the form set out in the annual report and accounts for the year ended 30 September 2016.
4. To declare a final dividend of 35.09p per share on the Company's ordinary shares of par value 1p each in respect of the year ended 30 September 2016.
5. To re-elect Mr L C Pentz as a Director of the Company.
6. To re-elect Dr P J Kirby 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 A J H Dougal as a Director of the Company.
9. To re-elect Ms J E Toogood 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 T J Cooper as a Director of the Company.
12. To re-elect Ms L S Burdett as a Director of the Company.
13. To re-elect Dr M L Court as a Director of the Company.
14. To re-appoint KPMG LLP as auditor of the Company.
15. To authorise the Directors to determine the auditor's remuneration.
16. That, in accordance with sections 366 and 367 of the Companies Act 2006, the Company and all companies that are subsidiaries of the Company at any time during the period for which the resolution has effect, be and are hereby authorised, in aggregate, during the period beginning with the date of the passing of this resolution and ending on the conclusion of the annual general meeting of the Company in 2018 (unless such authority is previously renewed, varied or revoked by the Company in a general meeting), to:
 - (i) make political donations to political parties and/or independent election candidates not exceeding £12,500 in total;
 - (ii) make political donations to political organisations other than political parties not exceeding £12,500 in total; and
 - (iii) incur political expenditure not exceeding £12,500 in total.

Provided that the authorised sums referred to in paragraphs (i), (ii) and (iii) above may be comprised of one or more amounts in different currencies which, for the purposes of calculating that authorised sum, shall be converted into pounds sterling at such rate as the Board in its absolute discretion may determine to be appropriate.

For the purposes of this resolution the terms "political donation", "political parties", "independent election candidates", "political organisations" and "political expenditure" shall have the meanings given by sections 363 to 365 of the Companies Act 2006.

17. That the Board be and is hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 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 maximum aggregate nominal amount of £285,223; and
 - b) comprising equity securities (as defined in the Companies Act 2006) up to a further maximum aggregate nominal amount of £285,223 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 authority shall expire at the conclusion of the Company's next annual general meeting (or, if earlier, at the close of business on 8 May 2018) 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 expires 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 expired.

Special Resolutions

18. That, conditional upon resolution 17 in this notice of annual general meeting being passed, the Board be and is hereby given power to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash under the authority given by that resolution (or by way of a sale of treasury shares), as if section 561(1) of the Companies Act 2006 did not apply to such allotment or sale, such power to be limited:

- a) to the allotment of equity securities and sale of treasury shares in connection with an offer of, or invitation to apply for, equity securities (but, in the case of the authority granted under paragraph (b) of resolution 17, 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) to the allotment (otherwise than under paragraph (a) above) of equity securities or sale of treasury shares up to a maximum aggregate nominal amount of £42,783.

Such power to apply until the end of the Company's next annual general meeting (or, if earlier, at the close of business on 8 May 2018), save that the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted after the power ceases to have effect and the Board may allot equity securities under any such offer or agreement as if the power had not ceased to have effect.

19. That, conditional upon resolution 17 in this notice of annual general meeting being passed, the Board be and is hereby given power in addition to any authority granted under resolution 18 to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash under the authority given by that resolution (or by way of a sale of treasury shares), as if section 561(1) of the Companies Act 2006 did not apply to such allotment or sale, such power to be:

- a) limited to the allotment of equity securities or sale of treasury shares up to a maximum aggregate nominal amount of £42,783; and
- b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice.

Such power to apply until the end of the Company's next annual general meeting (or, if earlier, at the close of business on 8 May 2018), save that the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted after the power ceases to have effect and the Board may allot equity securities under any such offer or agreement as if the power had not ceased to have effect.

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

- a) to a maximum aggregate number of 8,556,691 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 purchase 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 authority shall expire at the conclusion of the Company's next annual general meeting (or, if earlier, at the close of business on 8 May 2018) but so that the Company may before such authority expires enter into a new contract under which a purchase of Ordinary Shares may be completed or executed wholly or partly after the authority expires and the Company may purchase Ordinary Shares in pursuance of such contract as if the authority had not expired.

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

By order of the Board

Brett Gladden

Group Company Secretary

6 December 2016

Registered Office:
Victrex Technology Centre
Hillhouse International
Thornton Cleveleys
Lancashire FY5 4QD

Registered in England and Wales 2793780

Notice of Annual General Meeting continued

Notes

1. Shareholders who are entitled to attend and vote at the AGM 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 AGM. 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.
2. 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 6.30pm on 6 February 2017 (or, in the event of any adjournment, 6.30pm 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 AGM.
3. A hard copy form of proxy ('Form of Proxy') which may be used to appoint a proxy and give instructions accompanies this AGM Notice. To be valid, a Form of Proxy must be delivered to the Company's Registrars, Equiniti at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, so as to be received by no later than 11 am on 6 February 2017. Alternatively, shareholders may appoint a proxy online by following the instructions in note 4 below. Shareholders who hold their shares in uncertificated form may also use 'the CREST voting service' to appoint a proxy electronically as explained in notes 5 to 7 below. The return of a completed Form of Proxy, electronic proxy appointment instruction or any CREST Proxy Instruction will not prevent a shareholder attending the AGM and voting in person if he/she wishes to do so. Voting at the AGM itself will be on a show of hands, unless a valid demand for one or more resolutions to be conducted on a poll is made in accordance with the Company's Articles of Association.
4. Shareholders 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. 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 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 11 am on 6 February 2017.
5. 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 available via www.euroclear.com. 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.
6. 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. 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 6 February 2017. 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.
7. 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. 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.
8. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the 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.

The statement of the rights of shareholders in relation to the appointment of proxies in note 1 above does not apply to Nominated Persons. Such rights can only be exercised by shareholders of the Company.
9. As at 2 December 2016 (being the last business day prior to the publication of this document) the Company's issued share capital consisted of 85,566,918 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 2 December 2016 were 85,566,918. There were no shares in treasury as at that date.

Notes continued

10. Under section 527 of the Companies Act 2006, shareholders 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 financial statements (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 reports were laid in accordance with section 437 of the Companies Act 2006.

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 Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, 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 Companies Act 2006 to publish on a website.

11. Any member attending the meeting has the right to ask questions relating to the business of the meeting. In accordance with section 319A of the Companies Act 2006 and subject to some exceptions, the Company must cause any such questions to be answered.

A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at www.victrexplc.com.

12. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its power as a member provided that they do so in relation to the same shares. Representatives of shareholders that are corporations will have to produce evidence of their proper appointment when attending the AGM. Please contact our Registrar if you need any further guidance on this.

13. Except as provided above, members who have general queries about the Meeting should use the following means of communication (no other methods of communication will be accepted): email the Group Company Secretary at cosec@victrex.com. You may not use any electronic address provided in either this Notice of AGM or any related documents (including the Form of Proxy) to communicate with the Company for any purpose other than those expressly stated.

14. Copies of the following documents will be available for inspection during normal business hours on Monday to Friday (excluding bank holidays) at the Registered Office of the Company from the date of this Notice of AGM until the close of the AGM and at the meeting location from at least 15 minutes before the meeting until it ends:

- the executive Directors' service contracts;
- the letters of appointment of the non-executive Directors;
- the Directors' Deeds of Indemnity; and
- the Company's Articles of Association.

Explanatory notes

Resolution 1 – Annual Report and Accounts

The Companies Act 2006 requires the directors of a public company to lay its annual report and accounts before the company in general meeting, giving shareholders the opportunity to ask questions on the contents. The Annual Report and Accounts comprises the Audited Financial Statements, the Auditor's Report, the Strategic Report, the Directors' Report and the Directors' Remuneration Report. In accordance with the 2014 UK Corporate Governance Code, the Company proposes, as an Ordinary Resolution, a resolution on its Annual Report and Accounts.

Resolution 2 – Approval of the Directors' Remuneration Report

In accordance with the Companies Act 2006, the Company proposes an Ordinary Resolution to approve the Directors' Remuneration Report for the financial year ended 30 September 2016. The Directors' Remuneration Report is set out on pages 51 to 64 of the Annual Report and Accounts and, for the purposes of this resolution, does not include the parts of the Directors' Remuneration Report containing the Directors' Remuneration Policy which is set out on pages 52 to 57. The vote on this resolution is advisory only and the Directors' entitlement to remuneration is not conditional on its being passed.

Resolution 3 – Approval of the Directors' Remuneration Policy

The Company proposes an ordinary resolution to approve the Directors' Remuneration Policy contained in the Directors' Remuneration Report. The proposed policy is set out on pages 52 to 57 of the Annual Report and Accounts. The vote on Resolution 3 is a binding vote and, if passed, will mean that the Company can only make remuneration payments to Directors or payments to Directors for loss of office: (i) consistent with the Directors' Remuneration Policy; or (ii) if the relevant payment is approved by the members of the Company by ordinary resolution.

Resolution 4 – Declaration of final dividend

A final dividend of 35.09p per ordinary share has been recommended by the Directors for the year ended 30 September 2016. In accordance with the requirements of HM Revenue & Customs, all dividends are declared and paid net of income tax at the standard rate. If approved, the dividend will be paid on 17 February 2017 to shareholders on the register at 6pm on 3 February 2017.

Resolutions 5 to 13 – Re-election of Directors

In accordance with the 2014 UK Corporate Governance Code, all Directors shall retire from office at the AGM and offer themselves for re-election at the AGM. Each of Resolutions 5 to 13 shall be proposed as an Ordinary Resolution.

The Board considers each non-executive Director to be independent and the Chairman confirms that, following formal evaluation (as referred to on page 44), each Director standing for re-election continues to contribute effectively to the Board and to demonstrate commitment to the role (including commitment of time for Board and Board Committee meetings).

Mr De Smedt was appointed as a non-executive Director in July 2008. He is currently the chairman of the remuneration committee. The Board recognises that the proposed re-appointment of Mr De Smedt at the forthcoming AGM will mean that, during the course of the year, he will have served as a non-executive Director for more than nine years. The Board is mindful of this and therefore in considering whether to recommend Mr De Smedt for re-appointment has given particular regard for his continued independence both in character and judgement, as to which the Board is fully satisfied. The Board also considered the work which has been done in preparing a revised Remuneration Policy (please see page 52) and which will be separately considered by shareholders at the AGM to be held on 8 February 2017. The Board took into consideration the important part Mr De Smedt has provided in developing the revised policy, and felt it appropriate that he should during 2017 lead the implementation of such policy in the event the shareholders approve it for adoption or address any amendments which might otherwise be required.

The biographical details, skills, and experience of each Director standing for election or re-election are set out below and on pages 38 and 39 of the Annual Report and Accounts.

Mr Larry Pentz, Chairman

Larry Pentz was appointed to the Board in 2008 and became Chairman in 2014. Larry is Chairman of the Nominations Committee. Larry has over 30 years' service within multi-national corporations in a variety of operational and general management positions. Larry has extensive experience in developing strategy for and successfully leading international growth businesses. He 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.

Larry retired as an executive director of Johnson Matthey Plc during 2016 where he held board-level responsibility for Johnson Matthey's Process Technologies and Fine Chemicals Divisions.

Dr Pamela Kirby, Senior Independent Director

Pamela Kirby was appointed to the Board in 2011 and Senior Independent Director in November 2014. 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. Pamela was previously chairman of Oxford Immunotec Limited and Scynexis Inc, and non-executive director of Novo Nordisk A/S and Smith & Nephew plc.

Pamela is a non-executive director of DCC plc, Hikma Pharmaceuticals plc and Reckitt Benckiser Group plc, and serves on the supervisory board of Akzo Nobel.

Resolutions 5 to 13 – Re-election of Directors continued

Mr Patrick De Smedt, Non-executive Director

Patrick De Smedt was appointed to the Board in 2008. Patrick is Chairman of the Remuneration Committee. Between 1983 and 2006, Patrick held a number of senior positions in Microsoft, during which time he founded the Benelux subsidiaries, led the development of the Western European business and in the period 2003 and 2006 served as chairman of Microsoft for Europe, Middle East and Africa. Patrick has previously worked with early stage ventures as well as large, established multi-nationals. He has a deep knowledge of international markets, technology and diverse industry sectors.

Patrick is senior independent director at PageGroup plc, KCOM Group plc and Morgan Sindall Group plc, where he is also chairman of the remuneration committee. He is a non-executive director of Kodak Alaris Holdings Limited and Nexinto Holding Ltd.

Mr Andrew Dougal, Non-executive Director

Andrew Dougal was appointed to the Board in March 2015 and was appointed Audit Committee Chairman effective from October 2015. Andrew is a Chartered Accountant and brings a wealth of experience to the Board, from a lengthy executive and non-executive career of over 35 years in industrial, manufacturing and services companies.

Andrew is a non-executive director and Chair of the Audit Committee at Carillion plc. He was previously a non-executive director and Audit Committee Chair of Taylor Woodrow Plc, Taylor Wimpey Plc and Creston Plc and a non-executive director of BPB Plc and Premier Farnell plc. Formerly, Andrew served as Chief Executive of Hanson plc, the international building materials group, following its demerger from Hanson, the Anglo-American conglomerate, where he was finance director.

Andrew is a member of the Council of the Institute of Chartered Accountants of Scotland ('ICAS').

Ms Jane Toogood, Non-executive Director

Jane Toogood was appointed to the Board in September 2015. Jane has a wealth of experience across a number of senior marketing, sales and business development roles within the global chemical industry, including Borealis, ICI and Uniqema, and held a non-executive director role with NHS Harrogate and District Foundation Trust.

Jane holds an MA in natural sciences (chemistry) from the University of Oxford.

Jane is Divisional Director, Precious Metal Products at Johnson Matthey Plc.

Mr David Hummel, Chief Executive

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.

Mr Tim Cooper, Executive Director

Tim Cooper was appointed as an Executive Director to the Board in October 2012. Tim joined Victrex in January 2010 as Managing Director of Victrex Polymer Solutions. 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.

Ms Louisa Burdett, Group Finance Director

Louisa Burdett was appointed as Group Finance Director in February 2014. Louisa also has overall responsibility for the Group Legal function, as well as the Company Secretarial function. Louisa formerly held the position of chief financial officer and was an executive director at Optos plc. Prior to this, Louisa was chief financial officer at the Financial Times Group from 2008 to 2012. Louisa has also held roles at Chep Europe, a division of Brambles Ltd, the Australian listed pallet distribution company, GE Healthcare and GlaxoSmithKline plc. Louisa has also worked as an M&A Consultant at Charterhouse Bank and spent four years at KPMG in London.

She has a first class degree in biochemistry from Imperial College, London and is a member of the Institute of Chartered Accountants in England and Wales.

Dr Martin Court, Executive Director

Martin Court was appointed to the Board as an Executive Director in April 2015. Martin joined Victrex in February 2013 as Managing Director of Invibio, Victrex's medical business. Martin has significant proven international experience in the medical and high performance materials and chemicals industries, including with Cytec Industries, and in a number of senior roles at both ICI and UCB. He is an INSEAD alumnus, holds a doctorate in the field of surface chemistry and fracture mechanics and a BSc (Eng) degree in mineral technology from Imperial College of Science and Technology, London.

Resolutions 14 and 15 – Appointment of auditor/auditor's remuneration

At each meeting at which the Annual Report and Accounts are laid, the Company is required to appoint an auditor to serve until the next such meeting. KPMG LLP have indicated their willingness to continue as the Company's auditor. It is, therefore, proposed that KPMG LLP be re-appointed auditor of the Company to hold office from the conclusion of the AGM until the conclusion of the next general meeting at which the Annual Report and Accounts are laid before the Company. Resolution 15 is an Ordinary Resolution giving the Directors discretion to determine KPMG's remuneration.

Explanatory notes continued

Resolution 16 – Political Donations

The Companies Act 2006 requires companies to obtain shareholder authority before they can make political donations exceeding £5,000 in aggregate in any 12 month period to political parties, other political organisations or independent election candidates or incur political expenditure. The definitions of “political donation”, “political parties”, “independent election candidates”, “political organisations” and “political expenditure” used in the Companies Act 2006 are very broad and, as a result, a number of normal business activities or business matters affecting the Company that would not be thought to be political donations or political expenditure in the usual sense, may qualify as a donation to a political party, political organisation or independent election candidate or otherwise be political expenditure. Such activities are not designed to support any political party, political organisation or independent election candidate nor to influence public support for a particular party, organisation or candidate. It remains the policy of the Company not to make political donations or incur political expenditure within the ordinary meaning of those words and the Directors have no intention of using the authority for that purpose.

To avoid any possibility of inadvertently contravening the Companies Act 2006, the Directors consider that it would be prudent to follow the procedures specified in the Companies Act 2006 to obtain shareholder approval for the Company and its subsidiaries to, in aggregate:

- (i) make political donations to political parties and/or independent election candidates not exceeding £12,500 in total;
- (ii) make political donations to political organisations other than political parties not exceeding £12,500 in total; and
- (iii) incur political expenditure not exceeding £12,500 in total,

in each case during the period up to the conclusion of the annual general meeting of the Company in 2018.

As permitted by the Companies Act 2006, the resolution extends not only to the Company but also covers all companies which are subsidiaries of the Company at any time the authority is in place. The Company's policy remains that it does not, directly or through any subsidiary, make what are commonly regarded as donations to any political party, organisation or candidate, and the authority being requested from shareholders is not designed to change this policy. The authority is sought as a precaution to ensure that the Company's normal business activities are within the Companies Act 2006.

Resolution 17 – Authority to allot shares

The authority of shareholders is required to enable Directors to allot shares. The authority conferred on the Directors at the 2016 AGM to allot shares or grant rights to subscribe for or to convert any securities into shares in the Company expires at the conclusion of this year's AGM. Accordingly, in line with the Company's usual procedure, which is also standard practice amongst other public companies, this Ordinary Resolution seeks authority for the Directors to allot shares or grant rights to subscribe for or to convert any securities into shares in the Company until the conclusion of the Company's next annual general meeting or 8 May 2018, if sooner.

In accordance with guidance issued by The Investment Association, the proposed authority will allow the Directors to allot ordinary shares in the Company ('Ordinary Shares') or grant rights to subscribe for or convert any securities into Ordinary Shares up to a maximum nominal amount of approximately but not exceeding one-third of the existing issued share capital as at 2 December 2016 (the latest practicable date before the publication of this notice), plus, in the case of a rights issue only, a further amount up to an additional maximum nominal amount of approximately but not exceeding one-third of the Company's existing issued share capital.

The Directors have no current intention of exercising this authority. The Company held no treasury shares as at 2 December 2016.

Resolutions 18 and 19 – Permission to allot a limited number of shares other than to existing shareholders

Under the Companies Act 2006, when shares are issued for cash, they normally have to be offered first to existing shareholders in proportion to their current shareholding.

Resolution 18 will enable the Directors to allot shares for cash and sell treasury shares: (i) in connection with a rights issue, open offer or other pre-emptive offer; or (ii) otherwise up to a nominal amount of £42,783, representing approximately 5% of the issued ordinary share capital as at 2 December 2016 (the latest practicable date before the publication of this notice), other than to existing shareholders without first having to offer them to existing shareholders in proportion to their holdings 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 or treasury shares sold on a non pre-emptive basis in any rolling three year period, other than with prior consultation with shareholders or in connection with an acquisition or specified capital investment as referred to below.

Resolution 19 is in addition to resolution 18. As supported by the Pre-Emption Group's Statement of Principles, as updated in March 2015, resolution 19 will enable the Directors to allot shares for cash or sell shares out of treasury up to a further nominal amount of £42,783, representing approximately 5% of the issued ordinary share capital as at 2 December 2016 (the latest practicable date before the publication of this notice), other than to existing shareholders without first having to offer them to existing shareholders in proportion to their holdings. In respect of the authority under resolution 19, the Board confirms that it will only allot shares or sell shares out of treasury pursuant to this authority where the relevant acquisition or specified capital investment is announced contemporaneously with the allotment, or has taken place in the preceding six-month period and is disclosed in the announcement of the allotment. The Directors have no current intention of exercising this authority. If this authority is used, the Company will publish details of the placing in its next Annual Report and Accounts.

The authorities under resolutions 18 and 19 will lapse at the earlier of the conclusion of the next annual general meeting of the Company or 8 May 2018, if sooner. These resolutions will be proposed as special resolutions, which require a 75% majority of the votes to be cast in favour.

Resolution 20 – Authority to purchase own shares

In certain circumstances, it might be advantageous to the Company to purchase its own shares. Resolution 20 specifies the maximum number of shares which may be acquired (approximately 10% of the Company's issued ordinary share capital as at 2 December 2016) (the latest practicable date before the publication 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 would result in an increase in earnings per share and would 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. The Company currently has no Ordinary Shares in treasury.

As at 2 December 2016, options over a total of 1,389,805 Ordinary Shares were outstanding and not exercised. That number of Ordinary Shares represents 1.62% of the Company's issued Ordinary Share capital at 2 December 2016. It would represent 1.8% of the issued Ordinary Share capital at that date if the authority to buy the Company's own shares given at the previous AGM and the authority now being sought by resolution 20 were to be fully used. The authority will lapse at the earlier of the conclusion of the next annual general meeting of the Company or 8 May 2018, if sooner.

Resolution 21 – Authority to hold general meetings (other than annual general meetings) on 14 clear days' notice

This special resolution renews an authority given at last year's annual general meeting and is required as a result of section 307A of the Companies Act 2006. The Company is currently able to call general meetings (other than an annual general meeting) on not less than 14 clear days' notice and would like to maintain this ability. In order to do so, the Company's shareholders must approve the calling of such meetings on not less than 14 clear days' notice. Resolution 21 seeks such approval. If given, the approval will be effective until the Company's next annual general meeting, when it is intended that a similar resolution will be proposed.

The Company notes the notice period provision in the 2014 UK Corporate Governance Code which recommends at least 14 working days' notice to be given for all general meetings (other than annual general meetings). Insofar as it is appropriate to do so, the Company intends to comply with this code provision in the same way that it currently complies with the 20 working days' notice provision applicable to annual general meetings.

The shorter notice period would not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

Recommendation

The Directors consider that all the proposed resolutions set out in the 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.

Financial calendar and advisers

Ex dividend date	2 February 2017
Record date*	3 February 2017
Annual General Meeting	8 February 2017
Payment of final dividend	17 February 2017
Announcement of 2017 half-yearly results	May 2017
Payment of interim dividend	July 2017

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

Auditor

KPMG LLP

1 St Peter's Square
Manchester
M2 3AE

Broker and financial adviser

J P Morgan Cazenove

25 Bank Street
Floor 06
Canary Wharf
London
E14 5JP

Lawyers

Slaughter and May

One Bunhill Row
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EC1Y 8YY

Addleshaw Goddard LLP

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M2 3AB

Bankers

Barclays Bank PLC

3 Hardman Street
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Registrars

Equiniti

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BN99 6DA

Visit www.victrexplc.com or scan with your QR code reader to visit our Group website.

This is the Annual Report of Victrex plc for the year ended 30 September 2016.

This Annual Report has been sent to shareholders who have elected to receive a copy. A notice of the Annual General Meeting to be held on 8 February 2017 is also included within the report commencing on page 100.

In this Annual Report, references to "Victrex", "the Group", "the Company", "we" and "our" are to Victrex plc and its subsidiaries and lines of business, or any of them as the context may require.

References to the years 2016, 2015 and 2014 are to the financial years ended 30 September 2016 (for 2016), 30 September 2015 (for 2015) and 30 September 2014 (for 2014). Unless otherwise stated, all non-financial statistics are at 30 September 2016.

This Annual Report contains forward looking statements with respect to the Group's financial condition, operating results and business strategy, plans and objectives. Please see the discussion of our principal risks and uncertainties in the sections entitled "Risk management", "Principal Risks", and the section entitled "Cautionary Note Regarding Forward Looking Statements".

This Annual Report contains references to Victrex's website. These references are for convenience only – we are not incorporating by reference any information posted on www.victrexplc.com.

This Annual Report has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

The Directors' report - strategic report has been prepared to inform the Company's shareholders and help them assess how the Directors have performed their duty to promote the success of the Company for the benefit of the Company's shareholders as a whole. It should not be relied upon by anyone, including the Company's shareholders, for any other reason. The Directors' report - strategic report contains a fair review of the business of the Group and a description of the principal risks and uncertainties that the Group faces. As a consequence, the Directors' report - strategic report only focuses on material issues and facts.

This Annual Report does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Victrex plc shares.

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