



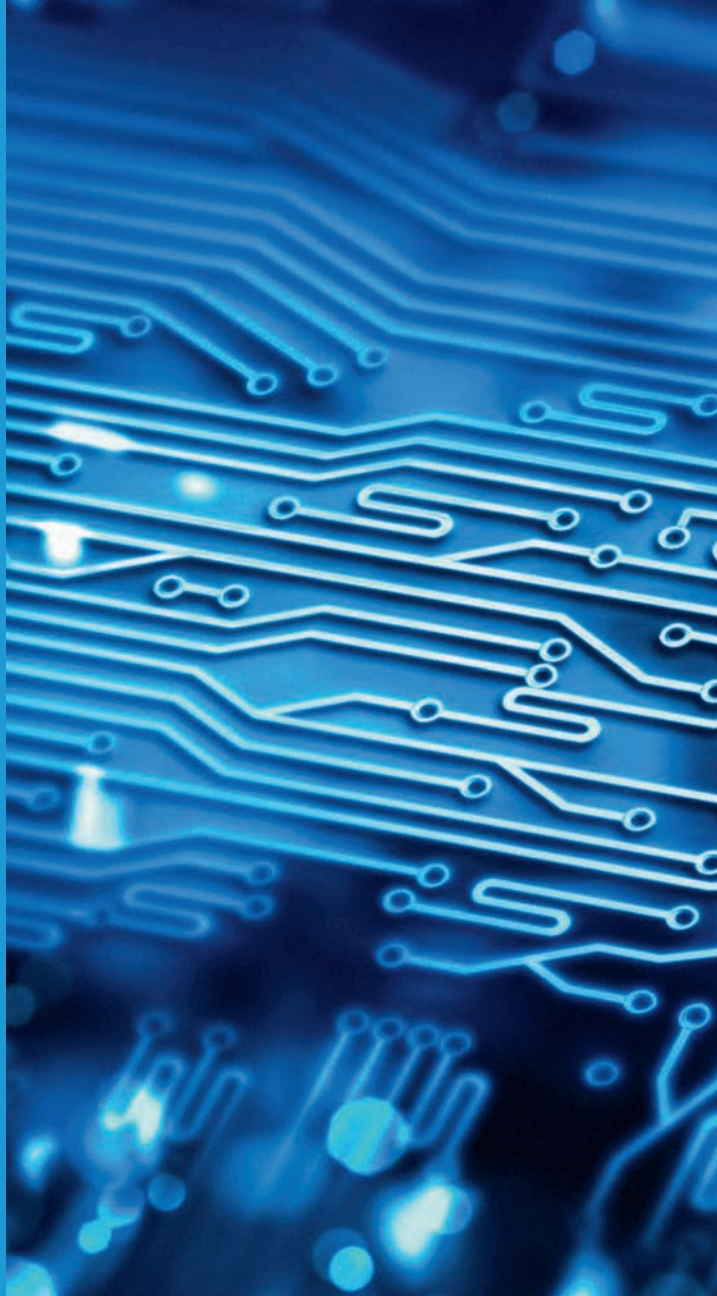
Victrex plc Annual Report 2018

An innovative world leader in high performance polymer solutions



Polymer & Parts: delivering on our strategy

Victrex is an innovative world leader in high performance polymer solutions, focused on the strategic markets of Automotive, Aerospace, Energy (including Manufacturing & Engineering), Electronics and Medical. Every day, millions of people rely on products and applications which contain our polymers and materials, from smartphones, aeroplanes and cars to oil and gas operations and medical devices. With over 40 years' experience, we develop world leading solutions in PEEK and PAEK based polymers, selected semi-finished and finished parts which shape future performance for our customers and markets, and drive value for our shareholders.



Core growth & mega-programme progress

Group sales volume tonnes

4,407 +10%

2018	4,407
2017	3,992
2016	3,952
2015	4,217
2014	3,551

Group revenue £m

326.0 +12%

2018	326.0
2017	290.2
2016	252.3
2015	263.5
2014	252.6

Group profit before tax £m

127.5 +15%

2018	127.5
2017	111.0
2016	100.3
2015	106.4
2014	102.7

Earnings per share p

128.8 +11%

2018	128.8
2017	116.4
2016	96.8
2015	98.1
2014	94.6

Cash (available²) £m

144.4 +20%

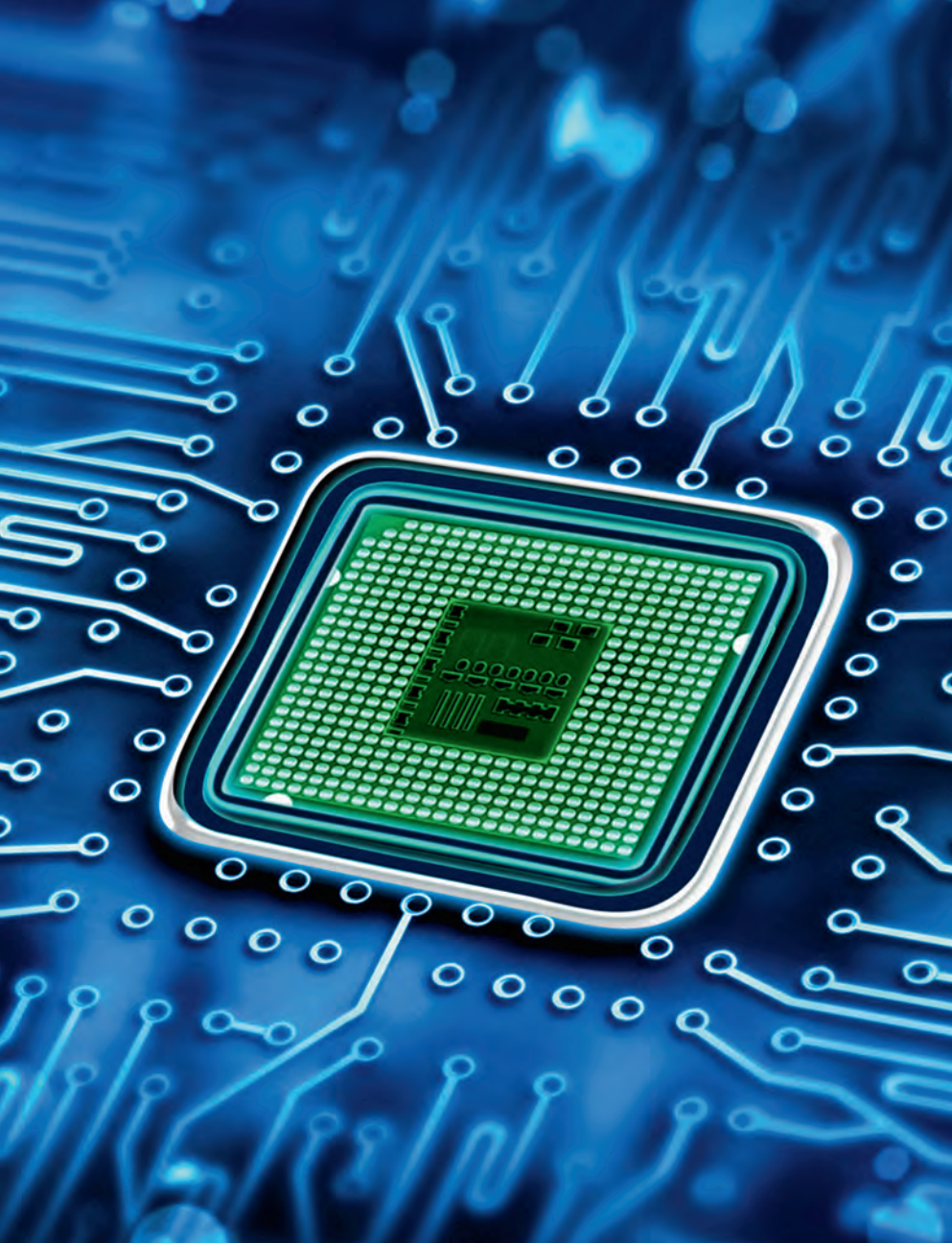
2018	144.4
2017	120.1
2016	64.0
2015	53.8
2014	89.6

Dividend per share p

142.24 +17%

2018	59.56	82.68
2017	53.80	68.00
2016	46.82	
2015	46.82	
2014	45.15	50.00

■ Regular dividends only ■ Special dividend



Strong core business¹ growth

- Group sales volumes up 10% driven by core growth & mega-programme progress
- Group revenue up 12%; constant currency revenue² up 7%
- Strong performances across Industrial markets; Medical revenue up 3%
- Profit before tax ('PBT') up 15%, supported by currency

Further progress in 'mega-programmes'

- Major Dental supply agreement with Straumann and new Trauma collaboration
- PEEK Gears now 'on the road' & further larger opportunities
- Strong performance in Magma following planned deployments & further opportunities
- TxV Aero Composites facility in commissioning; new Aerospace alliances under discussion
- Clinical trial submitted for PEEK Knee programme

Continued strong cash generation, supporting investment & shareholder return

- Operating cash conversion² of 107% giving cash available² up 20% to £144.4m
- Regular dividend up 11% to 59.56p/share and special dividend of 82.68p/share
- Dividend distribution policy retained, balancing investment flexibility & shareholder return

1 Core business, core growth, etc. excludes Consumer Electronics and sales from mega-programmes.

2 Alternative performance measures are defined on page 14.

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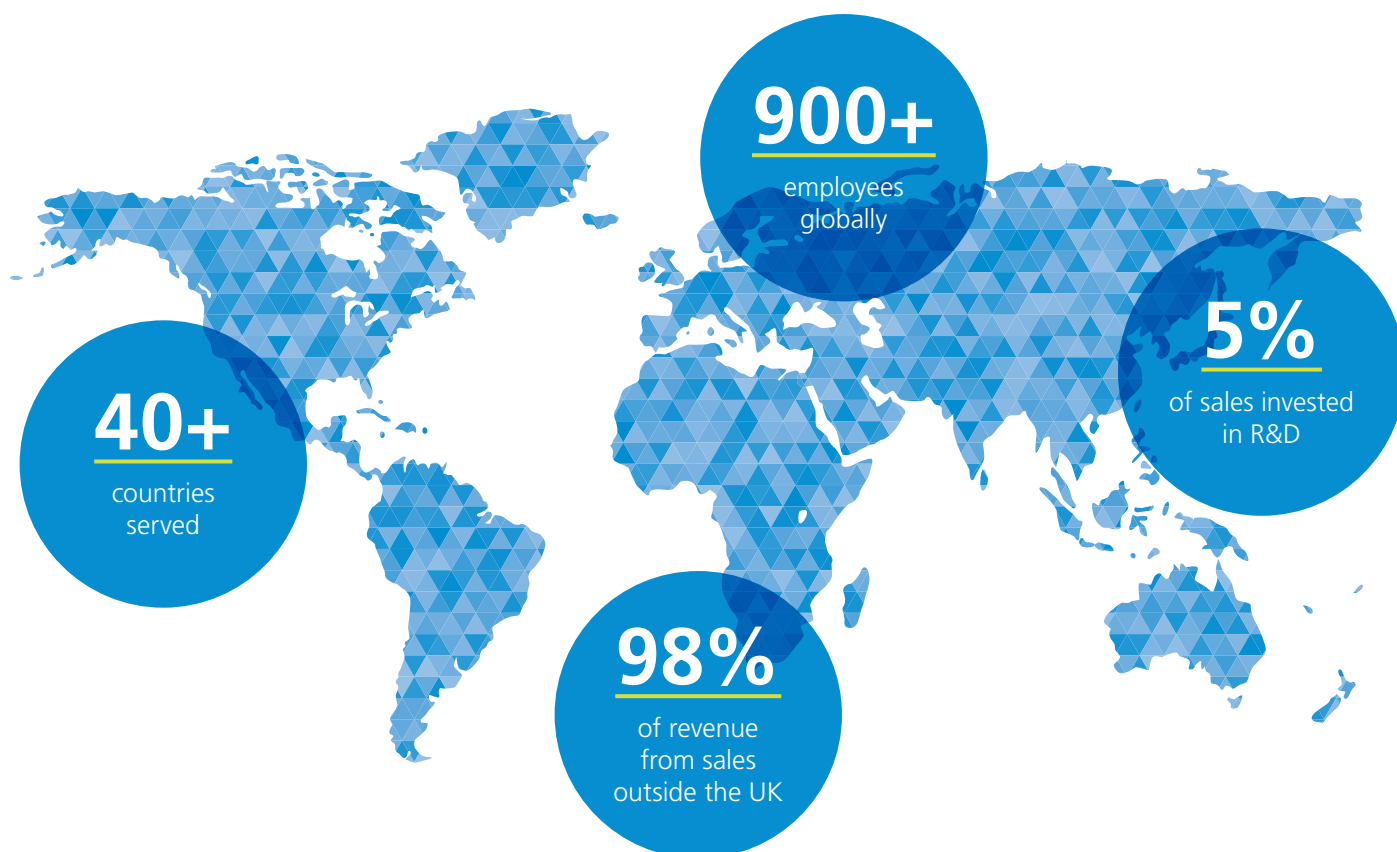


Visit www.victrexplc.com or scan with your QR code reader to visit our Group website

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.



Our key strengths

With over 40 years' experience, we have global reach, inherent innovation, manufacturing and technical excellence and a diverse mix of growing markets.

An innovative world leader:
building the PEEK/PAEK market

No.1
PEEK experts



Read more online
www.victrexplc.com

Strong pipeline of medium to
long-term growth opportunities

6
mega-programmes



Our markets and megatrends
Pages 08 and 09

...across our major markets

Victrex solutions are found across a range of applications.



AEROSPACE

20,000+

aircraft flying with
Victrex solutions



AUTOMOTIVE

500m+

Victrex™ PEEK
applications in cars



ELECTRONICS

4bn+

mobile devices using
APTIV™ film



ENERGY

75m+

Victrex™ PEEK seal rings
in use today



MANUFACTURING & ENGINEERING

100m+

machines using
Victrex solutions



MEDICAL

9m+

implanted devices

Note: source data available on request.

A focused and differentiated
strategy: moving downstream

10–20%

aspiration for sales from new
products in medium term



Introduction to strategy
Pages 10 and 11

Highly cash-generative
business model

£144m

available cash



Our business model
Pages 06 and 07

Sector leading returns

20%+

Return on capital
employed ('ROCE')



Financial review
Pages 14 to 17

Chairman's review



Larry Pentz
Chairman

The right strategy



With our Polymer & Parts strategy continuing to show progress, we remain focused on commercialising our new semi-finished and finished products, and driving growth in our core polymer business. As an innovative and differentiated business, we remain well placed to deliver the significant growth opportunities that lie ahead.

Strategy and differentiation

Victrex is focused on growth markets and having an offering across Polymer & Parts will help us to capture the significant growth opportunities that lie ahead. Our strategy involves differentiating against our competitors through being focused on existing and new applications in the PEEK & PAEK polymer space, through developing new grades and product forms, including composites, and through building new markets alongside our core polymer offering.

In summary, Victrex is operating as a solutions company, working across its markets and with customers to deliver solutions and performance benefits against incumbent materials, typically metal. With over 900 employees, we focus solely on the high performance PEEK & PAEK polymer segment, where long-term megatrends such as lightweighting, CO₂ reduction and more efficient manufacturing support the use of our materials. As the no. 1 PEEK experts, Victrex is pioneering the market for the use of PEEK & PAEK polymers.

Our core polymer business continues to perform well in a competitive market. Whilst our current sales are still largely derived from core polymer materials, Victrex's differentiated offering to customers is built on much more than just having the capacity to manufacture polymers. Our technical service, application development capability, regulatory support, Research & Development and innovation credentials are key strengths which have served us well, and will continue to do so.

Moving downstream into new and selected semi-finished and finished products ('parts') shows Victrex can further differentiate and build new markets. We will operate as a genuine solutions provider for our customers, capturing a higher value share from each application and delivering continued strong returns for our shareholders.

Delivering our growth pipeline

Our growth pipeline includes our core application developments and our 'mega-programmes', with each mega-programme offering the potential for over £50m of annual revenue in its peak sales year. Driving full market adoption can take time for what represent 'disruptive' technologies in many cases, particularly against long-standing metal-based or existing polymer technologies.

2018 saw further progress in the early commercialisation of several mega-programmes. In Dental, we signed a major customer agreement with Straumann, one of the world's largest Dental companies, whilst in Automotive, our Gears mega-programme saw the first PEEK Gears used to replace metal in a European car. We also secured further offshore deployments for our Magma oil & gas flexible pipe application, as well as the potential from a long-term opportunity in offshore Brazil.

Investment to support the 'burden of proof' for our customers and new product pipeline continues. We are commissioning the US manufacturing facility for our TxV Aero Composites joint venture and also signalled the potential requirement to invest in additional polymer production capacity within our five-year strategic planning timeframe, reflecting that core volume momentum remains positive.

Results

2018 further validated our Polymer & Parts offering and I am pleased to report another strong year for Victrex. The majority of our markets performed well, demonstrating the value of a balanced portfolio, with notably strong performances in Automotive, Electronics and Energy.

Group revenue of £326.0m was 12% up on the prior year (2017: £290.2m), including the benefit from currency. Group profit before tax of £127.5m (2017: £111.0m) was up 15%, a good performance which also reflects increased investment in the 'front-end' commercial, technical and marketing functions, alongside incremental accrual for the Group's all-employee bonus scheme, which is linked to profit growth. Earnings per share of 128.8p (2017: 116.4p) was up 11%, which also reflects the first full-year benefit of a lower tax rate as part of Victrex filing patents for our unique chemistry and IP which qualify for the UK government's 'Patent Box' legislation. Patent Box encourages Research & Development investment within the UK.

Cost efficiency to support investment for growth

With an emerging proportion of our manufacturing being in the downstream 'parts' area, we will continue to ensure our core polymer production operations are fit for purpose in a competitive market. We will also focus on transitioning appropriate resources from primary manufacturing (core polymer) into secondary manufacturing (manufacturing of parts) to support our downstream journey.

Investment to support our future growth remains a priority for Victrex. Capital expenditure was £9.9m (2017: £16.7m). With the potential for additional polymer production capacity in the coming years, we anticipate the potential for capital expenditure to slightly increase on a medium-term view.

Innovation and technical excellence remain key differentiators for Victrex, with R&D expenditure of £17.4m (2017: £14.5m) representing approximately 5% of Group revenue. M&A and partnerships remain key options 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 have done with Kleiss Gears, our TxV Aero Composites joint venture and the acquisition of Zyex.

Cash-generative business model

Victrex retains a highly cash-generative business model, supporting investment for growth and appropriate returns to shareholders. The Group's closing cash balance (including cash held on deposit) reached £144.4m this year (2017: £120.1m), with no debt. Operating cash conversion was 107% (2017: 124%).

Dividends

The Board's capital allocation policy focuses on 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. The Board has reflected on our dividend distribution policy during the year and proposes to retain the current policy. This will retain our flexibility to invest in downstream investment and polymer capacity expansion. Our intention will be to grow the regular dividend in line with EPS, whilst also offering the opportunity of a special dividend where possible, subject to a minimum of 50p/share. We believe this policy offers good opportunities for shareholder returns, whilst keeping the primary focus on investment.

With continued strong cash generation this year, the Board is proposing a special dividend of 82.68p. Our regular dividend seeks to maintain cover at or around 2x. With earnings per share up 11%, the Group is proposing to pay a final dividend of 46.14p per share (2017: 41.60p), taking total dividends for the year to 59.56p (2017: 53.80p), an increase of 11%. Dividend cover is at 2.2x (2017: 2.2x).

Governance and the Board

Our Board blends complementary skills and experience to shape our future performance. Our current female representation on the Board is 30%, consistent with the recommended minimum representation.

Richard Armitage joined the Board in May 2018 as Group Finance Director, replacing Louisa Burdett. We also saw David Thomas join the Board in May as a non-executive Director and Chair of the Audit Committee, replacing Andrew Dougal. Following the retirement of Patrick De Smedt, Janet Ashdown joined the Board as Chair of the Remuneration Committee, with Brendan Connolly also joining the Board as a non-executive Director. Detailed biographies of Board members are shown on pages 42 and 43 and I believe these appointments uphold our strong corporate governance as well as supporting us in delivery of our strategy over the coming years.

Corporate governance Pages 41 to 78

Safety

Victrex recorded no lost time accidents or employee reportable incidents, a measure of our safety practices. We also secured the Royal Society for the Prevention of Accidents ('RoSPA') Gold award for the 21st consecutive year. 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.

Sustainability

Victrex has continued to make progress against its 2023 Vision (timed to celebrate the 30th anniversary of Victrex's formation), although we will continue to monitor the practicality of several targets. This year Victrex was recognised in the FTSE Russell Green Revenues Index, a global measure of companies with products which can help reduce carbon emissions. Further detail can be found in the Sustainability report on pages 28 to 39.

Sustainability report Pages 28 to 39

People & stakeholders

This has been another good year for Victrex, which has also benefited our key stakeholders as shown on pages 6 and 7. On behalf of the Board I would like to thank each and every one of Victrex's employees for their continued contribution as we progress forward with our Polymer & Parts offering. For our stakeholders, we have created over 100 new employee roles this year, we have provided genuine performance benefits for our customers, and we have delivered continued strong returns for our shareholders. We are also focused on diversity through our Gender Pay and Global People Framework activities, details of which can be found on page 37 of the Sustainability report.

Outlook

For 2019, our expectation is for continued momentum in our core polymer business and milestones in our mega-programmes. We expect to make good progress on a constant currency basis; however, adverse currency, no expected volumes in Consumer Electronics and recent market softness in Automotive may hold back our ability to substantially improve on our overall 2018 performance, with these headwinds falling mainly in the first half. A better second half, compared to the prior year, is our current assessment and, with strong structural growth opportunities and a healthy new product pipeline, we continue to be well placed for the medium and long term.

Larry Pentz
Chairman

4 December 2018

Our business model

Polymer

1. DRIVE CORE BUSINESS

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

2. DIFFERENTIATE THROUGH INNOVATION

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

3. CREATE & DELIVER...

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

DELIVERING THE

Engaging with and creating value for our stakeholders

Victrex's business model seeks to create value for our diverse range of stakeholders. Through ongoing engagement, we are able to understand what they expect from us:

EMPLOYEES

100+

New roles created in 2018

Through driving our core business, differentiating through innovation and creating & delivering future value, we offer sustainable career opportunities for our global employees. This year we created over 100 new roles, we engaged through quarterly staff briefings, employee forums and other communication channels, and we saw an improvement to our employee engagement score.

CUSTOMERS

50%

Lower noise vibration from PEEK Gears

We engage with our customers as a solutions provider, offering performance benefits, whether that be lightweighting, manufacturing time saving or other factors. Differentiating through innovation and creating & delivering future value mean we are offering leading-edge products and solutions. An example in 2018 is our PEEK Gears, which may reduce weight and noise vibration in cars, and speed up manufacturing time.



Sustainability report
Pages 28 to 39



Performance review
Pages 18 to 20

& Parts

...FUTURE VALUE

- Selected parts (semi-finished and finished)
- Downstream manufacturing
- Deliver mega-programmes¹
- Polymer to parts



'BURDEN OF PROOF'



AEROSPACE



AUTOMOTIVE



ENERGY



ELECTRONICS



MEDICAL



MANUFACTURING & ENGINEERING

4. UNDERPIN

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

¹ Pipeline programmes offering >£50m annual revenue potential in peak sales year.

SUPPLIERS

Signatory of UK prompt payment code

Through all elements of our business model, Victrex engages with suppliers, providing them with growth opportunities through the market pull for PEEK and PAEK materials. We are a signatory to the UK Prompt Payment Code which ensures we engage with and pay our suppliers in a fair manner.

We also engage through partnerships, including with academia, scientific and medical bodies.

COMMUNITIES

3,461

Cumulative hours spent in the community since 2015
(target 10,000 hours by 2023)

As part of our Sustainability strategy and 2023 targets, Victrex has clear targets including Social Responsibility (Communities). We seek to engage with the communities where we operate, through partnerships or through supporting education programmes, particularly those linked to Science and Maths. Our employees also spend a proportion of their time working with local communities.

INVESTORS

11%

Earnings per share growth in 2018

By further differentiating our business through Polymer & Parts, we seek to deliver further growth and continued strong returns for shareholders. We seek to engage in two-way dialogue, enabling investors to make informed decisions. We have a full, transparent and active investor engagement programme, through Capital Markets Days, investor conferences, roadshows, results, trading updates, site visits and management meetings.



[Sustainability report](#)
Pages 28 to 39



[Corporate governance report](#)
Pages 41 to 78

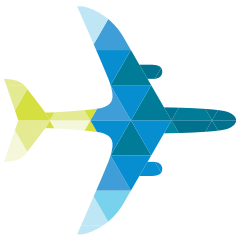




Our markets and megatrends

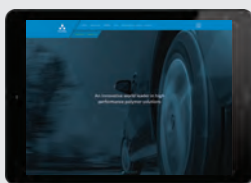
Sizeable growth opportunities

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

MARKETS

MARKET OPPORTUNITY

INDUSTRIAL	Aerospace		2x current global airline fleet by 2035 (Source: Composite World.)
	Automotive		12g PEEK/car average (increase from current 8g) over medium term
	Electronics		25 billion+ intelligent systems and devices by 2020 (Source: GfK.)
	Energy including Other Industrial and Manufacturing & Engineering		30% increase in demand for global energy by 2040 (Source: IEA.)
MEDICAL	Medical		Vision to treat a patient with Invibio Solutions every 15–20 seconds (by 2027)



Visit www.victrexplc.com to see how we are shaping future performance in our markets

MEGATRENDS

CONSEQUENCES

OUR CHALLENGES AND OPPORTUNITIES

Fly lighter

Lighter weight and more efficient manufacturing using PEEK, PAEK and composites means fuel saving – a strategic imperative for the Aerospace industry.

Opportunities to support reduction of OEM backlogs through volume production/quicker processing.

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.

Fuel efficiency and durability

Fuel efficiency, safety and reliability improvements resulting from consumer and regulatory trends. Transition from internal combustion engines ('ICE') to electric vehicles ('EVs').

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. Electric vehicles ('EVs') offer an emerging opportunity.

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.

Natural resource depletion

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

The 'internet of things' creates more data and connectivity requirements in Manufacturing & Engineering.

Extreme environments

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

Evaluation of higher performance materials in manufacturing, including in the food industry.

Recover more

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

Tailored solutions for industrial markets, including Victrex™ PEEK FG, a food grade polymer.

Ageing global population

People are living longer and have a strong desire to maintain their quality of life in their later 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 or are in early commercialisation for Dental, Trauma and Knee.

Introduction to strategy



Jakob Sigurdsson
Chief Executive Officer

Polymer & Parts – driving future growth



With over 900 people waking up every day focused on making a difference to our customers and our markets, we continue to be the no.1 PEEK experts.

Dear shareholder,

After my first full year as Chief Executive, it is clear that we have the right strategy to help drive our future growth and capture the significant opportunities that exist across our markets.

Polymer & Parts seeks to capture increased value from each application opportunity, for example not only by supplying polymer, but by developing selected product forms and parts which can offer a total solution to our customers.

Our core polymer business continues to be and will remain integral to Victrex in the future, but our emerging parts business offers significant opportunities to deliver the 'unmet need' in specific applications, typically where no supply chain or capability exists, but where there is an opportunity to solve a problem for our customers and our markets.

With over 900 people waking up every day focused on making a difference to our customers and our markets, we continue to be the no.1 PEEK experts. My challenge is how we can drive forward our strategy, helping to accelerate it where possible or considering new ways to execute it.

Driving our core business

Following on from a strong 2017, our core business performed well again this year. We continue to gain specification of our product with end users, as well as helping develop incremental products or applications to deliver solutions and performance benefits for our customers. Sales volumes increased by 10% and we signalled the potential requirement of additional production capacity within the next few years if our growth momentum continues. This reflects not only strong core growth but also the future opportunities from our mega-programmes – our sizeable new product pipeline.

Cost efficiency remains a key focus area for Victrex, ensuring that we remain cost competitive in our manufacturing and across our business. We also further enhanced a number of 'Continuous Improvement' measures across our business during the year.

Differentiating through innovation

Innovation is embedded in Victrex's culture. Since our inception, we have proven our capability to develop different polymer grades, to develop new markets and consequently to grow our business. In a competitive market, aligning ourselves to Polymer & Parts will help to differentiate Victrex and ensure we remain the no.1 PEEK experts.

In short, Victrex is creating new markets for our products, extending beyond simply manufacturing polymers. A great example is in Automotive, where our PEEK Gears are replacing metal gears, saving weight and cost from quicker manufacturing, and offering reduced noise and other performance benefits. Electric vehicles are another emerging area with significant opportunity for us, including e-motors, actuators and other applications.

Strategy timeline

Q1 2018

Strong start to the year, Group volumes +30%

Q3 2018

Major Dental agreement with Straumann

Q2 2018

First PEEK Gears supplied to major European car manufacturer

Q4 2018

New TxV Aero Composites manufacturing facility commissioned

Creating and delivering future value

One of Victrex's key strengths is to understand the end market need and coming up with solutions to problems, often where existing materials or technologies are not delivering the required performance. Through having over 900 focused employees and a global sales and technical team, we can leverage our know-how to develop a solution for our markets. Many of these solutions are based on 'disruptive' technology, typically replacing metal across our markets. This means we need to test and prove our solutions by delivering the 'burden of proof', which includes using clinical data or prototypes. We also consider alliances, M&A and working with partners or Key Opinion Leaders to deliver this 'burden of proof'.

A large part of delivering future value is in our new product pipeline and our mega-programmes, which each offer a £50m+ annual revenue opportunity in their peak sales year. Whilst our sales from new products remain around 4% of Group revenue, we aspire to reach 10–20% of Group revenue over the medium term. We delivered some notable milestones this year, including a major customer agreement with Straumann for our Dental product and further deployments for Magma's flexible oil & gas pipe programme, and we are commissioning our TxV Aerospace Composite production facility in the US.

Underpin: safety, sustainability and capability

Underpinning our strategy is a safe and sustainable business, including effective recruitment of diverse global talent, business efficiency and a clear sustainability plan. As part of our focus on keeping all of our key stakeholders informed I spent significant time across several of our global locations during the year. This enabled me to meet employees, customers, suppliers and investors, gaining better first-hand knowledge of our business and our capability. I remain in awe of our focused global team and our innovative culture, a highly compelling strategy, a strong technology platform and significant growth opportunities.

With the benefit of currency, we recorded double-digit profit growth during 2018 and, whilst 2019 sees tougher comparatives and a currency headwind, our strategy is well set and I believe we are in a good position to show further progress over the coming years.

The Strategic report on pages 1 to 39 was approved by the Board and signed on its behalf by the Chief Executive Officer.

Jakob Sigurdsson
Chief Executive Officer
4 December 2018

Medium-term opportunities

Focused on delivering 10–20% of sales from new products over the medium term



Our strategy and key performance indicators
Pages 12 and 13

Q&A

What have you learnt after a year as Chief Executive?

That there are a wide range of growth opportunities for us across our markets. Not only in our new product pipeline – our mega-programmes – but in our core business, where we have been able to demonstrate growth in incremental applications again this year, for example in Home Appliances. Victrex has always been about innovation and building new markets and applications for our products. The focus is on speed and delivery and we have shown good progress again this year.

What have you changed so far or what are you looking to change?

I have been very clear that the strategy and our Polymer & Parts offering is the right one. We will remain the no. 1 PEEK experts and we are not looking to become a broader diversified polymer business as there are plentiful growth opportunities within the PEEK and PAEK family of polymers, as well as in composites. During the year we increased our efforts in Continuous Improvement ('CI'), particularly within Manufacturing, ensuring we can remain cost competitive. We are also focusing on supply chain and how our demand planning can be enhanced further. Going forward, the key change has got to be about speed and executing on our strategy quicker, where possible.

What are the highlights of your first year?

Firstly, delivering good growth in our core business, with more new opportunities to come; secondly, gaining points on the board for our mega-programmes; and thirdly, a recognition that our team is strong, with over 900 employees focused on Polymer & Parts and ensuring the best is yet to come for Victrex.



Our strategy and key performance indicators

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

Achievements in FY 2018

- Core business volumes up 10%
- New opportunities delivered in Electronics (Home Appliances)
- New Manufacturing & Engineering opportunities

Focus for FY 2019 and beyond

- New and incremental applications
- Further efficiency opportunities

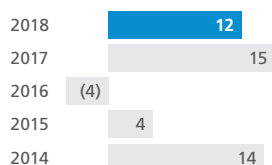
Primary link to risk

- Core business growth
- Foreign currency risk
- Business continuity of supply chain

Key performance indicators

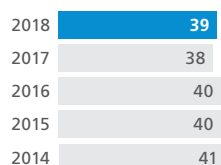
Revenue growth
(reported) %

12%



Return on sales %
(PBT/revenue)

39%



Differentiate

through innovation



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

Achievements in FY 2018

- Investment to support innovation in our core business and in our mega-programmes
 - Kleiss Gears capacity
 - Enhancement of Zyex Fibres business
 - Commissioning of TxV Aero Composites; ability to manufacture composite parts

Focus for FY 2019 and beyond

- Development of 3D printing network, building on Victrex/Exeter University collaboration

Primary link to risk

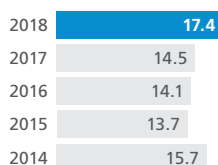
- Future business growth
- Ethics and regulatory compliance

Key performance indicators

R&D spend £m

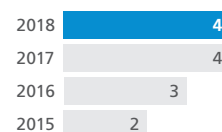
£17.4m

5% of Group revenue



New products as a %
of Group sales* %

4%



* Sales from new products or grades sold from FY 2014 onwards.

Create & deliver



future value

- Strong pipeline
- M&A/JVs, partnerships
- Downstream manufacturing capability
- Drive adoption: Key Opinion Leaders

Achievements in FY 2018

- Magma: meaningful revenue (£1m+) secured; planned deployments & TechnipFMC opportunity
- Meaningful revenue (£1m+) for PEEK-OPTIMA™ HA Enhanced
- Gears: first PEEK Gears 'on the road' for major European OEM
- Aerospace Loaded Brackets: commissioning of new composite parts facility
- Dental: OEM agreement with Straumann
- Trauma: collaboration with top 5 player
- Knee: Maxx clinical trial submitted

Focus for FY 2019 and beyond

- Gears: multiple production agreements
- Aerospace Loaded Brackets: first parts produced
- Magma: focus on further deployments

Primary link to risk

- Business continuity of supply chain
- Future business growth

Key performance indicators

Pipeline
mega-programmes*

6

2018	6
2017	6
2016	6
2015	6

Earnings per share
p

128.8p

2018	128.8
2017	116.4
2016	96.8
2015	98.1
2014	94.6

* Number of pipeline projects offering >£50m annual revenue potential in peak sales year as communicated from FY 2015 onwards.

Underpin



through safety, sustainability and capability

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

Achievements in FY 2018

- 1.4 million employee hours worked with no reportable injuries
- Over 20% of Victrex revenues defined as 'green' by FTSE Russell Green Revenues Index

Focus for FY 2019 and beyond

- Continued safety performance
- Progress towards 'carbon neutral'

Primary link to risk

- Safety, health and environment
- Recruitment and retention of the right people
- Network and IT systems and security
- Product liability
- Ethics and regulatory compliance

Key performance indicators

Employee hours worked with
no reportable injuries m

1.4m

2018	1.4
2017	1.3
2016	1.3
2015	1.2
2014	1.1

Hours worked in
the community*

1,600+

2018	1,600+
2017	600+
2016	500+
2015	500+

* As communicated from FY 2015 onwards.

Financial review



Richard Armitage
Group Finance Director

Investment drives strong growth & cash generation



We continue to aspire to deliver 10–20% of sales from new products or new grades over the medium term, with the time taken for market adoption being key.

Full-year sales volume up 10%

Group sales volume of 4,407 tonnes was 10% ahead of the prior year (FY 2017: 3,992 tonnes). Growth was broad based with all markets recording volume increases at or near double digits. Growth did slow slightly in the second half, due in part to the large Consumer Electronics order which had been substantially fulfilled in the first half. We also saw some softening in certain Industrial markets during Q4, principally Automotive – in line with the wider market – and Consumer Electronics. Excluding the effect of the large Consumer Electronics order, sales volume growth edged down from 13% in the first half, to 6% in the second half, which saw tougher comparatives.

Revenue up 12%; constant currency revenue 7% ahead

Group revenue was £326.0m, 12% ahead of the prior year (FY 2017: £290.2m) supported by the strong first half weighting from currency. Group revenue in constant currency was 7% ahead of the prior year (FY 2017: £305.3m in constant currency), with a slightly weaker sales mix, dampened by a slightly higher proportion of Consumer Electronics volumes and further growth in our Value Added Resellers segment. Sales from new products (one of our strategic KPIs) grew in absolute terms to £11.5m (FY 2017: £10.7m), but remained similar to FY 2017 as a percentage of Group sales (4%), reflecting stronger growth in the core business. We continue to aspire to deliver 10–20% of sales from new products or new grades over the medium term, with the time taken for market adoption being key.

Alternative performance measures

We use alternative performance measures to assist in presenting information in an easily comparable, analysable and comprehensible form. The measures presented in this report are used by the Board in evaluating performance. However, this additional information presented is not required by IFRS or uniformly defined by all companies. Certain measures are derived from amounts calculated in accordance with IFRS but are not in isolation an expressly permitted GAAP measure. The measures are as follows:

- Group revenue in constant currency is used by the Board to assess the year on year underlying performance of the business excluding the impact of foreign exchange rates, which can by nature be volatile. Group revenue in constant currency is reached by applying current year (FY 2018) effective currency rates to prior year (FY 2017) transactions (see note 7).
- Available cash is used to enable the Board to understand the true cash position of the business when determining the use of cash under the capital allocation policy. Available cash is cash and cash equivalents plus other financial assets (cash invested in term deposits greater than three months in duration). This is calculated as follows:

Available cash	2018	2017
Cash and cash equivalents	71.2	120.1
Other financial assets	73.2	—
Available cash	144.4	120.1

- Operating cash conversion is used by the Board to assess the business's ability to convert operating profit to cash effectively, excluding the impact of investing and financing activities. Operating cash conversion is cash generated from operations/operating profit.
- Sales from new products is sales from new products or grades sold from FY 2014 onwards. The Board monitors sales from new products (one of our strategic KPIs) to assess the level of revenue from mega-programmes, new differentiated polymers and other pipeline products that were not sold before FY 2014.
- Return on sales is monitored by the Board to assess the overall profitability of the Group. Return on sales is profit before tax/revenue.
- Dividend cover is used by the Board to measure the affordability and sustainability of the Company's regular dividend. Dividend cover is earnings per share/total dividend per share. This excludes the special dividend.

Strong Automotive growth

Victrex is well placed across traditional and electric vehicles.



Industrial strong, offset by Medical

Our Industrial division reported revenues of £270.4m, 14% ahead of the prior year (FY 2017: £236.3m), supported by currency. Market growth was broad based, with Automotive, Electronics and Energy being the strongest performers, along with growth in our emerging Manufacturing & Engineering business. Victrex also saw a positive performance in Aerospace following a weaker 2017.

Medical revenues were £55.6m, 3% ahead of the prior year (FY 2017: £53.9m), driven by currency. In constant currency, Medical revenues were flat, reflecting our high exposure to the US Spine market, which is mature and seeing some continued growth in titanium expandable cage applications, as well as 3D printed porous titanium cages. Pleasingly, progress outside of the US, overall, continues to be positive with 27% growth in Asia. Our next generation Spine product, PEEK-OPTIMA™ HA Enhanced, delivered a similar performance to FY 2017, with 'meaningful revenue' of approximately £1m and over 10,000 patient implants using this product.

ASP ahead reflecting currency

Our Average Selling Price ('ASP') of £73.97/kg was 2% better than the prior year (FY 2017: £72.70/kg), with the benefit of currency partially offset by the weaker mix.

Pricing, excluding the benefit of currency, in the core business remains broadly stable, with product mix being an important driver. Whilst we have competition in our markets, our focus on differentiation and value added semi-finished products, with a higher price point, will be a key driver of margin percentage over the coming years.

Robust gross margin

Group gross margin of 63.8% (FY 2017: 63.3%) was slightly ahead of the prior year, supported by favourable currency movements but offset by the weaker mix. Manufacturing costs were stable. We also saw a small year on year impact from our Zyex acquisition which, as a business producing semi-finished products, supports a lower gross margin percentage. For 2019, on a full-year reported basis, we anticipate that Group gross margin will be slightly lower, principally reflecting material inflation and currency headwinds.

As we develop differentiated downstream products to support our mega-programmes, we have the opportunity to build new markets for PEEK whilst capturing a higher absolute value share of each application. Whilst this may cause a slight softening of our gross margin percentage in the short term, we are confident that this strategy will not only further differentiate and capture greater value in our markets, but will lead to enhanced returns.

Profit before tax up 15% and EPS 11% ahead

Group profit before tax ('PBT') of £127.5m was 15% up on the prior year (FY 2017: £111.0m). PBT in constant currency increased by 3%.

The future growth of our core business, as well as the success of our mega-programmes, requires ongoing investment in our 'front-end' functions of Sales, R&D and Marketing. Together with an increased

charge for the Group's employee bonus and LTIP schemes, which are based on profit growth, overheads increased by 12%.

Basic earnings per share of 128.8p was 11% ahead (FY 2017: 116.4p per share), which reflects the first normalised financial year in which the Group tax rate benefited from the UK Patent Box scheme. The Group's effective tax rate was 13.3% for FY 2018 (FY 2017: 10.4%), reflecting the impact of the treatment of currency hedging and stock movements within the Patent Box methodology. As our application of the scheme settles down, we expect our effective tax rate going forward to be slightly more variable than initially expected and likely to be in the range of 10.5% to 13.5%.

Currency tailwind in FY 2018; headwind for FY 2019

Currency benefited the Group in FY 2018, with benefit to profit of approximately £13m. The currency tailwind significantly reduced through the second half, moving to a small headwind in the fourth quarter.

These currency impacts arise as a consequence of currency market movements, combined with our hedging policy which seeks to substantially protect our cash flows from currency volatility on a rolling twelve-month basis. The policy requires that at least 90% of our cash flow exposure is hedged for the first six months, then at least 75% for the second six months of any twelve-month period. The implementation of the policy is overseen by an Executive Currency Committee which approves all transactions and monitors the policy's effectiveness. The Board reviews the effectiveness of the policy each year, the next review being in February 2019.

As a consequence of the hedging policy, over 80% of FY 2019 cash flows were hedged as at October 2018, leading to an expected currency headwind of between £6m and £8m, which includes the impact of raw material and energy cost inflation.

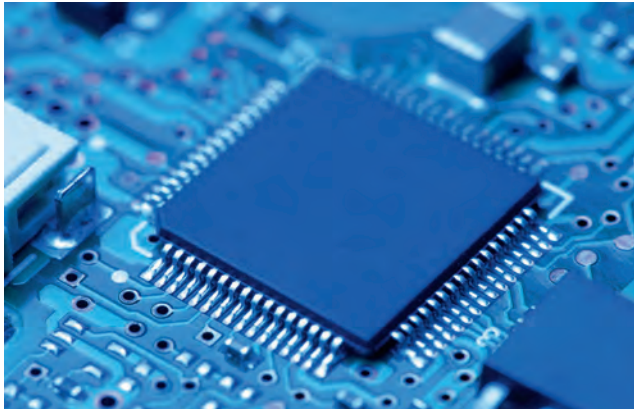
Further information is available in note 14.

Brexit

The Group continues to consider the potential impact of Brexit on its business and has a team in place to consider various contingencies, through the transition period and beyond. For now, existing laws and trading arrangements are unchanged.

Based on our assessment of the latest available information, our principal risk continues to be that there could be a sustained period when the Group may not be able to import certain raw materials or export finished goods through Customs, which could curtail sales if regional inventory levels were depleted. In mitigation, additional warehousing for finished goods stock has been secured in mainland Europe and China which will allow a minimum of eight weeks of finished goods stock to be held outside the UK by the end of March 2019. We have also secured some additional raw material stocks. Group inventories could exceed £80m through FY 2019 as a consequence (FY 2018: £69.3m).

Financial review continued



Brexit continued

Victrex has attempted to assess the potential financial impact of a 'no deal' Brexit. Should standard WTO tariffs be applied, increased costs may be incurred through the application of duties to the import of certain raw materials and on the export of finished goods. It is possible in the first year following our exit from the EU that these could be substantially mitigated by a weakening of Sterling, but this is heavily dependent on the timing of any deal announcement and resulting currency market movements. As the only current manufacturer of PEEK products in the EU, we are also preparing to exploit longer-term tariff mitigation strategies that may be available to us.

An Executive Committee has been established to monitor Brexit developments and direct mitigating actions. The Company continues to monitor the situation closely.

Investment to drive growth

We continue to invest in the growth of our core Industrial and Medical businesses. This investment is primarily in our 'front-end' Sales, Technical Service and R&D capabilities that are critical to our ongoing success. An ongoing focus on quality is also essential, as is continuous improvement in our operations. We have taken steps to accelerate our progress in these areas during the year.

This investment has led to some new and incremental applications across a number of markets. Examples include home appliance applications such as vacuum cleaners in the Electronics market; and fluid handling and food processing applications in Manufacturing & Engineering markets (which reports under Energy & Other Industrial). We also recently launched Victrex FG™, a dedicated polymer grade for the food industry, to reflect increasing regulatory standards and the need for alternative materials.

Total operating overheads were up 12% to £81.1m (FY 2017: £72.7m). This was driven in part by a higher accrual for the Group's profit growth linked bonus scheme and LTIPs, whilst investment in our 'business-facing' functions grew by 8%. Research & Development investment of £17.4m (FY 2017: £14.5m) represents approximately 5% of Group revenue and is anticipated to remain similar to, or slightly above, this level over the medium term.

For FY 2019, we again are budgeting for a significant increase in 'business-facing' overhead investment to support both core growth and our mega-programmes, as well as some operating expense as we explore new capacity options. The impact is expected to be offset by a lower accrual for bonus and LTIPs, which reflects consensus expectations of lower profit growth due to currency headwinds and our expectations around Consumer Electronics volumes, to give total overheads for the year broadly in line with FY 2018.



Manufacturing investment supports downstream strategy

Capital investment in the short to medium term remains focused around our downstream manufacturing facilities, which support each of our new product mega-programmes. For 2018, the focus was on our TxV Aero Composites joint venture, where Victrex and Tri-Mack Plastics teamed up to manufacture, at scale, differentiated Loaded Brackets and composite parts for the Aerospace market. Our new US manufacturing facility started commissioning at the end of the financial year, supporting first prototype orders for composite parts, based on our AE™250 polymer grade, which is already pre-qualified with the major aerospace manufacturers. We also saw some small-scale investment at our Victrex Grantsburg (Kleiss Gears) facility in the US to support additional manufacturing capacity, and at our Victrex Stonehouse (Zyex Fibres) facility in the UK.

Capital expenditure was low at £9.9m (FY 2017: £16.7m) but our guidance for Group capital expenditure for the medium term at £20m–£25m per annum remains unchanged.

At the half year, we announced that we would need to invest in new polymer manufacturing capacity during the next five years. This reflects Victrex's historical trend of investing ahead of demand, and is driven by the current volume momentum in the business, the potential from high volume downstream applications, and an assessment of our effective capacity. Options are currently being explored and we expect to be presenting recommendations to the Board during 2019.

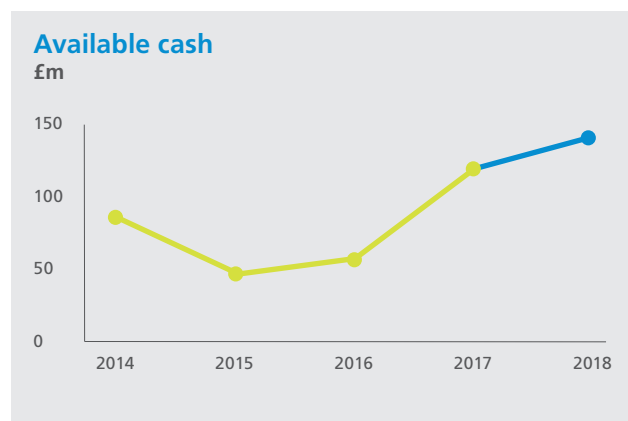
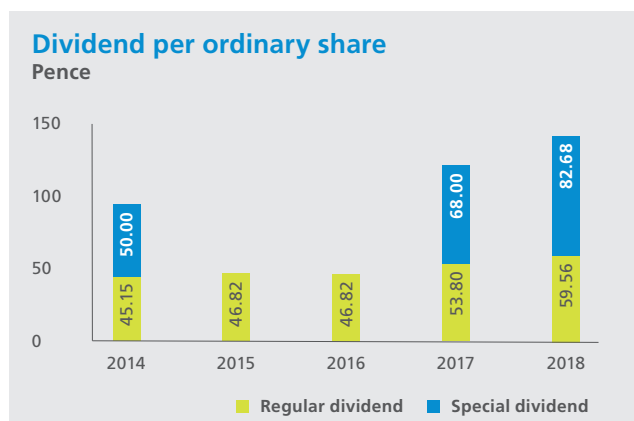
Further milestones achieved in our mega-programmes

In our medium to longer-term pipeline, we saw milestones delivered in all of our mega-programmes.

Gears saw the start of a first supply agreement to a major European car manufacturer during the period, with our PEEK Gears now 'on the road'. With multiple development agreements in place with other car manufacturers, our discussions suggest we are close to other larger supply opportunities through 2019 and beyond. Thanks to the capabilities we acquired through the Kleiss Gears acquisition, we are able to design, develop and manufacture PEEK based Gears, although partnerships for manufacturing will be the focus going forward, ensuring Victrex retains the IP but limits the capital required to scale up manufacturing.

Our **Aerospace Loaded Brackets** programme will benefit from the completion of our TxV Aero Composites manufacturing facility, which will give us the capability to manufacture parts from 2019. Progress has also been made in establishing long-term development alliances with a number of Aerospace OEMs, and we are in advanced discussions here.

In Energy, our **Pipe** programme with Magma earned revenue in the period from the manufacture of a 2.5km subsea flowline to be supplied for a customer deployment. Victrex supplied the PEEK pipe and PEEK



composite tape as part of the finished m-pipe produced by Magma. Looking further forward, we note the TechnipFMC announcement relating to the potential use of m-pipe within the Libra field development in Brazil, building on other potential supply opportunities with Tullow and Equinor (formerly Statoil) over the next 1–2 years.

In Medical, our focus to grow our non-Spine business saw a notable milestone in **Dental**, where we signed a customer agreement with Straumann Dental, which will help to enhance market access and improve the global reach for our Invibio Dental product (Juvora™). This builds on the product's strong record of clinical data and existing European and US regulatory approvals. Further customer discussions are ongoing and our focus is to secure meaningful revenue of over £1m in Dental over the next year. We also secured distribution agreements in Europe.

In **Trauma**, we secured a collaboration agreement with a top 5 player and through our partner Maxx, saw the clinical trial for our **Knee** programme following ethics approval and appointment of the lead investigator.

Strong balance sheet

With a strong balance sheet, we are able to support growth investment and provide security of supply to our customers. Net assets at 30 September 2018 totalled £489.9m (FY 2017: £478.4m). Inventories slightly increased to £69.3m (FY 2017: £61.5m), as we saw some stock build as part of developing new polymer grades and as our Brexit contingency plan starts to take effect.

Continued strong cash generation

Cash generated from operations was £135.8m (FY 2017: £137.4m) representing an operating cash conversion (cash generated from operations/operating profit) of 107% (FY 2017: 124%). Net cash (with no debt) at 30 September 2018 was £144.4m (FY 2017: £120.1m), based on available cash, which includes cash held on deposit. In July 2018 we paid the 2018 interim dividend of 13.42p per share. Combined with the payment for the 2017 special dividend and final dividend, dividend payments in 2018 totalled £105.6m (FY 2017 dividends paid: £40.4m).

Taxation

The Group's effective tax rate reflects the associated benefit from Victrex filing patents as part of its unique chemistry and IP. Victrex qualified under the UK government's Patent Box scheme, which incentivises Research & Development investment in the UK. As previously communicated, the scheme is expected to provide an associated benefit to our tax rate from 2017 for the duration of the patents, resulting in a normalised tax rate of approximately 12% and a range expected to be between 10.5% and 13.5%. The effective tax rate of 13.3% for FY 2018 (FY 2017: 10.4%) reflects gains from foreign currency hedges which are taxed, outside the Patent Box regime, at a normalised corporation tax rate, as well as the impact of stock movements on the Patent Box methodology.

Dividends

Retaining the flexibility to invest in support of our growth remains our top priority, whether that is through capital expenditure, M&A, joint ventures or partnerships. The Group also has a potential requirement for investment in new or additional polymer manufacturing capacity within five years. The Board has assessed several distribution options for future shareholder returns, whilst noting these investment needs, and has concluded that our current capital allocation policy should be retained, which is to grow the regular dividend broadly in line with earnings, whilst maintaining cover around 2x. The Group will also retain the threshold for payment of a special dividend at 50p/share from FY 2019 subject to no additional investment requirements.

With the Group delivering a strong performance in 2018, the final dividend will increase, in line with EPS, by 11% to 46.14p/share (FY 2017: 41.60p/share), giving total regular dividends of 59.56p/share for the year. In addition, the Group is proposing a special dividend of 82.68p/share, based on the minimum threshold of 50p/share being reached.

New accounting standards

Victrex will adopt the requirements of IFRS 9 and IFRS 15 with effect from 1 October 2018, as explained in note 1. Whilst neither has a material impact on the Group's results, it should be noted that the presentation of gains and losses on currency contracts under IFRS 9 has the potential to affect our reported gross margin percentage, but not absolute gross profit, in future statements.

Pensions

The outcome of the recent Lloyds Banking Group case in October 2018, in relation to guaranteed minimum pensions has also been noted. Should this outcome be upheld, we anticipate that a one-off non-cash P&L charge in the range £1m to £2m may arise during FY 2019. The Victrex Pension Fund remains in surplus on both a technical provisions and on an accounting basis.

Outlook

For 2019, our expectation is for continued momentum in our core polymer business and milestones in our mega-programmes. We expect to make good progress on a constant currency basis; however, adverse currency, no expected volumes in Consumer Electronics and recent market softness in Automotive may hold back our ability to substantially improve on our overall 2018 performance, with these headwinds falling mainly in the first half. A better second half, compared to the prior year, is our current assessment and, with strong structural growth opportunities and a healthy new product pipeline, we continue to be well placed for the medium and long term.

Richard Armitage
Group Finance Director
4 December 2018

Performance review/Executive Directors' reports



Tim Cooper
Executive Director

Industrial revenue

£270.4m +14%

Industrial gross profit

£158.6m +17%



Our Industrial business delivered revenue of £270.4m (FY 2017: £236.3m), 14% ahead of the prior year.

Industrial

Victrex manages and reports its performance through the Industrial (formerly VPS) and Medical (formerly Invibio) divisions although we continue to provide a market-based summary of our performance and growth opportunities. The Industrial division includes the markets of Energy & Other Industrial (including Manufacturing & Engineering), Value Added Resellers, Automotive, Aerospace and Electronics.

Our Industrial business delivered revenue of £270.4m (FY 2017: £236.3m), 14% ahead of the prior year, supported by currency. Gross profit was up 17% on the prior year, with gross margin up at 58.7% (FY 2017: 57.3%), reflecting the benefit of currency, offset by a slightly weaker Industrial mix, as growth in Value Added Resellers continued, alongside a slightly higher contribution from Consumer Electronics. Industrial also saw some emerging inflation in selected raw materials.

Energy & Other Industrial

Energy & Other Industrial (which includes Manufacturing & Engineering) reported sales volume of 680 tonnes, which was 23% ahead of the prior year (FY 2017: 555 tonnes), with oil & gas up 19% overall. Victrex saw continued year on year improvement, with onshore prospering, whilst the offshore sector has not yet returned to activity levels seen earlier this decade. Our Magma oil & gas mega-programme delivered meaningful revenue of over £1m during 2018, with Victrex supplying the PEEK pipe and PEEK composite tape as part of the finished m-pipe produced by Magma. Materials for a planned deployment in West Africa supported growth, with further opportunities for FY 2019, whilst a long-term opportunity offshore in Brazil with TechnipFMC continues to support the Magma proposition.

Manufacturing & Engineering ('M&E') remains a relatively new area for Victrex and is becoming a meaningful contributor to our Energy & Other Industrial business. M&E is focused on new or incremental applications in fluid handling, food contact materials and manufacturing equipment-based applications, where metal replacement requirements are increasing. M&E again saw double-digit volume growth through 2018 and we recently introduced Victrex™ FG, a food grade product.

Value Added Resellers

Value Added Resellers combines a mix of long-term 'Channels' business, where processors or compounders are using our PEEK materials for part or component manufacturing specified by end users and OEMs, together with more variable demand requirements as the 'pull' from Industrial markets using Victrex™ PEEK continues to grow. Because of the fragmented nature of the Industrial supply chain, once PEEK has been specified by end users, full clarity on the exact route to market for all of our polymer business is not always possible. Sales volume of 1,766 tonnes was 5% ahead of last year (FY 2017: 1,688 tonnes), as processors and Industrial customers continued to benefit from the growth opportunities within the high performance polymer market, although Q4 growth rates were slightly lower, principally due to phasing.

Transport

A number of megatrends, including lightweighting, CO₂ reduction, durability, comfort and heat resistance, continue to support the long-term outlook for Transport markets. Sales volume increased 11% to 1,035 tonnes (FY 2017: 929 tonnes), primarily driven by an improved year on year performance in Aerospace and another good performance in Automotive.

Automotive

Automotive growth saw volumes increase 8%, well ahead of market growth. Continued translations of core applications offer opportunities across manufacturers, in braking systems, transmission and chassis applications. Victrex™ PEEK is predominantly deployed within the vehicle powertrain and, with a long track record here, our focus is to increase the average volume to approximately 12g of PEEK per vehicle over the medium term, compared to approximately 8g today.

PEEK remains well placed for both internal combustion engines and hybrids. Electric vehicles ('EVs'), whilst still emerging, offer further opportunities for our materials, with slot-liners, wire coating and other applications. PEEK's properties of durability and chemical, electrical and heat resistance play well here. Whilst EV opportunities remain at a very early stage, early indications suggest a long-term potential for over 100g per EV application and, with more 'value' rather than simply 'volume' business, we continue to work on several differentiated products in this area. We have also recruited capability from the major car manufacturers.

Our Gears are now 'on the road', with the first parts supplied to a major European car manufacturer, and we also have several development agreements in place which we anticipate will lead to further parts being supplied. PEEK Gears based on Victrex™ HPG PEEK can offer a 50% performance and noise vibration and harshness ('NVH') benefit compared to metal gears, as well as contributing to the trend for minimising CO₂ emissions through weight & inertia reduction, and quicker manufacturing compared to metal. We remain focused on driving this mega-programme towards a meaningful (£1m+) revenue stage in 2019. To help scale this opportunity, we will partner with manufacturing companies to support a wider roll-out and reduce development time, whilst retaining the development know-how. A PEEK Gear offers the potential of approximately 20g per application.



Lift off

Our TxV Aero Composites facility supports the use of lighter Aerospace materials.

Aerospace

Aerospace saw a positive year on year performance, with volumes increasing by 23%, although revenue growth was lower as pricing remained competitive. Brackets, fasteners and other applications continue to offer incremental translation opportunities. Medium-term growth prospects look positive as build rates and the use of composites and differentiated products increase. Lightweighting and the ability to reduce manufacturing cycle time by up to 40% is a key selling point for our PEEK and PAEK polymers. Beyond this, our differentiated polymer grades, such as our AE™250 (low-melt) version, continue to progress, alongside our focus on product forms and parts, such as film and our Aerospace Loaded Brackets opportunity. Our new US manufacturing facility in Rhode Island, US, is in commissioning and nearing completion, with the ability to initially manufacture approximately 150 tonnes of composite parts per year. We are also in advanced discussions around strategic alliances which could support further development and commercialisation of thermoplastic composites in primary and secondary structures in the coming years. With projections of around 41,000 new or replacement aircraft required by 2035, the long-term opportunities in this market, particularly in lightweight composite parts, remain strong.

Electronics

Electronics remained a strong performer during the period. Total volumes were up 19% to 746 tonnes (FY 2017: 626 tonnes), including volumes from the large Consumer Electronics order, which were slightly ahead of 2018. With this order reflecting legacy applications, we anticipate much lower or zero volumes in 2019, although we increased the potential revenue opportunity for our 'Mobile Devices' programme, reflecting some of our broader medium-term prospects. Victrex saw strength in Semiconductor, in APTIV™ film and emerging applications for Home Appliances and in other consumer related areas during 2018, and we anticipate continued momentum in these areas, whilst recognising the inherent 'lumpiness' of the Electronics segment.

Regional trends

Regional trends remain important to Victrex. Europe was up 7%, with 2,308 tonnes (FY 2017: 2,155 tonnes) reflecting the strength in Transport, Value Added Resellers and Industrial markets. Asia-Pacific was up 20% to 1,264 tonnes (FY 2017: 1,049 tonnes) principally from Electronics, whilst US volumes were 6% ahead at 835 tonnes (FY 2017: 788 tonnes) largely reflecting the year on year improvement in the Energy market.

Performance review/Executive Directors' reports continued



Martin Court
Executive Director

Medical revenue

£55.6m +3%

Medical gross profit

£49.4m +2%



The Knee clinical trial has now been submitted, with the lead investigator appointed in Italy and patient recruitment moving forward.

Medical

Medical revenue, including the benefit of currency, was up 3% at £55.6m (FY 2017: £53.9m). In constant currency, Medical revenue was flat, principally reflecting the maturity of the US Spine market, where we have the most exposure. Gross profit was £49.4m (FY 2017: £48.3m) and gross margin remained stable at 88.8% (FY 2017: 89.6%).

Revenue outside of the US remains robust, with Asia-Pacific growing by 27%, offset by a decline in Europe of -5%. Asia-Pacific growth principally reflects some non-Spine areas such as Cranio Maxio-Facial ('CMF') and Arthroscopy, as sales mix within Medical weakened.

Medical market overview

The lack of material growth in the number of US spinal procedures over recent years, continued growth in expandable spinal cages, 3D printed titanium cages and some downward pressure on pricing have led to revenue growth being challenging in recent years.

Our focus is to diversify our Medical business into non-Spine areas, as well as seeking growth through emerging geographies. Our premium and differentiated PEEK-OPTIMA™ HA Enhanced product – to drive next generation Spine procedures – is one part of our strategy to grow our Medical business. Having delivered over £1m of revenue in 2017, we saw a similar performance in 2018, where we now have over 10,000 patient implants. Whilst it will cannibalise

some of our existing Spine product, the medium-term opportunity for global translations is attractive.

On a medium to long-term view, our vision for Medical solutions to treat a patient every 15–20 seconds in 8–10 years is also based on growth in non-US Spine and progress in our emerging mega-programmes of Dental, Trauma and Knee.

Mega-programmes

Good progress was made this year in Dental, where we signed a customer agreement with Straumann Dental, one of the world's leading dental companies, which will help increase market penetration of our Invisio Dental (Juvora™) branded products. The agreement will help to improve global reach – our sales resource by virtue of Straumann will increase significantly – building on PEEK-OPTIMA™'s clinical performance and existing European and US regulatory approvals. We also secured two distribution agreements in Europe.

Our emphasis is on the prosthetic dental implant market, with the Invisio Dental offering focused on improving quality of life and clinical outcomes for patients, whilst offering manufacturing efficiency benefits. Our product also supports the potential for milling a PEEK based disc up to three times faster than a titanium equivalent product.

Our Dental product was first commercialised in 2012, initially through regional dental laboratories. It secured CE mark approval in 2012, followed by initial US FDA approval in 2014, and a further FDA approval in 2017 for use in prosthetic All on 4 implants. Juvora™ was also granted a US patent in 2017. Whilst Dental sales remain below the £1m meaningful revenue threshold, we anticipate that with the Straumann agreement, and other potential market access opportunities, we have the opportunity to realise meaningful revenue over the next 12 months.

With our Trauma manufacturing facility in place, we have the ability to meet initial demand and will be further developing our capacity capabilities over the next 1–2 years. Our PEEK composite Trauma plates offer the potential for 50 times better fatigue resistance compared to a metal plate. They also offer the opportunity for enhanced healing. The awareness of composites as a viable metal alternative is growing and we successfully signed a collaboration agreement with a top 5 Trauma player during the year. We are also continuing to work with smaller innovative players through development agreements.

In Knee, our PEEK based solutions offer potential in this \$6 billion global market. With 1 in 5 patients dissatisfied with their knee surgery, typically those using metal-based solutions, patient demand for alternatives is growing. Our Knee proposition and partnership with Maxx Orthopedics provide a good platform to support our long-term aspirations. The Knee clinical trial has now been submitted, with the lead investigator appointed in Italy, ethics approval and patient recruitment moving forward, with a focus to safely progress the clinical trial during FY 2019.

Dental opportunity

Our agreement with Straumann will support future growth.



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 Company's risk appetite in delivering Victrex's strategy as set out on pages 12 and 13. Victrex undertakes risk management with the objective of facilitating better decision making, resilience and sustainability to continually improve the performance of our business and provide relevant 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 supports market adoption and stimulates demand for the mega-programmes.

Risk strategy

The Board is responsible for creating the framework for the Group's risk management to operate effectively and for ensuring risk management activities are embedded in Victrex's processes. The Board is also responsible for ensuring that appropriate and proportionate resources are allocated to risk management activities.

Analysis and recording of risks

Appropriate managers at all levels of the business perform risk assessments starting at site and functional levels. They then 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 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.

The three lines of defence model is used:

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.

2 RISK ASSESSMENT How do we assess and record risks?

Re-evaluation and challenge of risks

The risk registers are regularly reviewed, challenged and debated to keep them up to date and relevant to our strategy. Risks are escalated as appropriate.

When assessing risk, management considers in detail:

- **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.

Risk management continued

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 supported by the Audit Committee 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 page 52. 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 and 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, the Board reviews the Company's Principal Risks semi-annually, ensuring they remain appropriate, and monitors risk mitigation and actions.
- The Chair 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.

KEY TO STRATEGY



Drive



Differentiate



Create & deliver



Underpin

Safety, health and environment

Primary link to strategy



Risk area and description

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.

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.

Mitigation

We employ a dedicated Safety, Health and Environment ('SHE') department to assist line management and to provide expert guidance.

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.

As our manufacturing facilities are regulated, we are subject to close review, for example by the Environment Agency and the Health and Safety Executive.

Further detail is contained in the Sustainability report on pages 28 to 39.

Change



No change

Viability statement links



Risk considered



Risk focused on in sensitivity analysis

Core business growth

Primary link to strategy



Risk area and description

Growth in our core business depends on innovation in our core product range, the evolution of our technical service offering and continuous improvement in our operations. A failure to maintain our investment in these areas could lead to competitive pressure, as well as the loss of business to competitors and/or competing materials.

Mitigation

We aim to address price pressure by being focused on cost efficiency and continuous improvement in our operations, by having an appropriate pricing policy and by offering a strong value proposition as a solutions company – unique chemistry, specification of products with end users, quality and technical service, the performance benefits of our products and the ability to develop new applications.

We keep abreast of technological changes to materials and potential threats to PEEK and PAEK polymers by developing new grades with differing properties, as well as creating new markets for PEEK/PAEK polymers.

Change



No change

Viability statement links



Risk considered



Risk focused on in sensitivity analysis

Recruitment and retention of the right people

Primary link to strategy



Risk area and description

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.

Mitigation

We have strategies in place (collectively our 'People Strategy') to determine our future resourcing needs and attract and retain the best talent.

Our employees have clear objectives, aligned to our strategy, personal development plans and regular reviews to assess their performance and support their development.

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.

Where necessary, we will supplement the skills of our own employees with those of third parties in order to deliver our downstream strategy.

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.

Change



No change

Viability statement links






















Risk considered



Risk focused on in sensitivity analysis

Principal risks continued

KEY TO STRATEGY  Drive  Differentiate  Create & deliver  Underpin

Foreign currency risk	Business continuity of supply chain	Network and IT systems and security
<p>Primary link to strategy</p> <p>   </p>	<p>Primary link to strategy</p> <p>   </p>	<p>Primary link to strategy</p> <p>   </p>
<p>Risk area and description</p> <p>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>	<p>Risk area and description</p> <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 caused by, for example, incapacity of our production facilities or restricted access to raw material supplies and transport links could lead to insufficient inventory, significant delay and loss of earnings.</p>	<p>Risk area and description</p> <p>Significant failure or interruption to our IT systems, could lead to business process disruption interrupting key business services.</p> <p>Cyber-attack breach could result in the theft, manipulation or destruction of confidential and sensitive information and severely disrupt business operations.</p>
<p>Mitigation</p> <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. The Committee regularly assess whether the impact of major events, including geopolitical events such as Brexit, requires any modification to that policy.</p>	<p>Mitigation</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 is intended to maintain supplies to our customers during any short-term disruption. Work to mitigate potential effects of Brexit has begun including setting up a European warehouse to complement our other global warehousing locations. 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>	<p>Mitigation</p> <p>Victrex operates a multi-layered approach to providing IT system continuity and to protecting information assets.</p> <p>We appropriately invest in our core IT infrastructure and defences, using best of breed storage, firewall and machine learning anti-virus technologies.</p> <p>Independent external experts are engaged to conduct assessments, including penetration testing, cyber health and awareness.</p> <p>We align to the nationally recognised ISO 27001 standard for Information Security and have dedicated InfoSec resource in place.</p> <p>We support our user community by mandatory training on information security, security policies and best practices.</p> <p>We continuously review the latest threats and trends in information security and governance to ensure our multi-layered protection is always current and effective.</p>
<p>Change</p> <p> No change</p>	<p>Change</p> <p> Risk decreased</p>	<p>Change</p> <p> No change</p>
<p>Viability statement links</p> <p> Risk considered</p>	<p>Viability statement links</p> <p> Risk considered</p> <p> Risk focused on in sensitivity analysis</p>	<p>Viability statement links</p> <p> Risk considered</p>

KEY TO STRATEGY



Drive



Differentiate



Create & deliver



Underpin

Product liability

Primary link to strategy



Risk area and description

We sell into highly demanding end-use applications and regulated markets. Any failure to supply our products in accordance with the specification could potentially lead to consumer harm or a potential product liability claim. This in turn could lead to a loss of business and reputational damage.

Mitigation

Robust regulatory standards and accredited quality management systems are in place relevant to our different markets, including Medical Devices and Aerospace.

Monitoring and auditing plans are completed and reported to management, including details of remedial actions as required.

A Management of Change process is in place.

Supply contracts, including agreed specifications, are used to mitigate the risk where practicable. In addition the Group maintains appropriate levels of product liability insurance.

Change



No change

Viability statement links



Risk considered



Risk focused on in sensitivity analysis

Ethics and regulatory compliance

Primary link to strategy



Risk area and description

The global regulatory landscape continues to become more complex for our teams. Our future opportunities in Automotive, Aerospace and Medical will bring new regulatory challenges, alongside other existing and new markets. Any failure to comply with ethical and regulatory standards has the potential to significantly affect our ability to deliver our business strategy.

Mitigation

We continue to invest where appropriate in our Legal and Compliance teams, including the Quality teams and the Safety, Health and Environment team, supplemented by external resources as necessary, to ensure that we have access to the right resources.

Our Code of Conduct policies are reviewed regularly and training is provided. Compliance is monitored and reported to Executive Management. For example, this year changes were made to policies and training provided to reflect the new General Data Protection Regulation.

Commercial contracts and our pricing strategy are reviewed by our Legal and Product Management teams.

A central team is continuing to assess and take relevant actions to mitigate the impacts of Brexit and we are engaged with trade associations which are in contact with government.

Change



No change

Viability statement links



Risk considered



Risk focused on in sensitivity analysis

Future business growth

Primary link to strategy



Risk area and description

The success of our future business growth will depend on the effective implementation of our Polymer and Parts strategy. Risks include failure to: innovate new products at the right pace; recruit employees of sufficient calibre; develop scalable manufacturing solutions; and develop the Group's infrastructure to be able to support more complex operations.

Mitigation

Our principal mitigation is to manage each growth programme as a clearly defined project. Technical development, manufacturing, sales and HR plans are aligned to each project, whilst also being driven functionally to achieve high standards of performance. A Project Management team oversees the projects and governance is achieved through a Portfolio Steering Committee.

It is also Victrex's policy to invest in small but scaleable manufacturing facilities for new technologies ahead of growth. This is ensuring that Victrex is ready with capacity as commercial opportunities become available.

Change



No change

Viability statement links



Risk considered



Risk focused on in sensitivity analysis

Going concern and viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, and taking into account the Group's current position and its principal risks for a period longer than the 12 months required by the going concern statement, management prepared a viability analysis which was approved by the Board.

Going concern

The Directors have performed a robust assessment, including review of the budget for the year ending September 2019 and longer-term strategic forecasts and plans, including consideration of the principal risks faced by the Company, as detailed on pages 23 to 25. 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

1. Assessment of prospects

The Directors have assessed the Group's longer-term prospects, primarily with reference to the results of the Board-approved five-year strategic plan. This is driven by the Group's business model (detailed on pages 6 and 7) and strategy (detailed on pages 12 and 13), which are fundamental to understanding the future direction of the business, while factoring in the Group's principal risks (detailed on pages 23 to 25). The Directors have also considered the Group's current strong financial position, including the level of cash at 30 September 2018 and the Group's ability to generate cash.

The strategic planning process is undertaken annually, and includes analyses of profit performance (including our core business and new product pipeline and mega-programmes), cash flow, investment programmes (including options to increase our polymer manufacturing capacity and our acquisition pipeline) and returns to shareholders.

Completion of the strategic plan is a Group-wide process engaging employees throughout the business, including all senior management in their respective areas. The strategy is reviewed and approved by the Board with the latest strategy (covering the five years to September 2023) being approved in March 2018. Subsequently, the more detailed budget for the year ending 30 September 2019 has been finalised, which upholds the key assumptions in the 2018 strategy.

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. As part of our longer-term considerations, to support capacity planning and assessment of projects which will take longer to reach meaningful revenue, the Group does prepare forecasts for a period of more than five years; however, a period greater than five years is considered too long for the strategic plan given the inherent uncertainties involved.

2. Viability period

The Directors have assessed the viability of the Group over the five-year period to September 2023, being the period covered by the Group's Board-approved strategic plan.

3. Assessment of viability

To make their assessment of viability, the Directors have tested a number of additional scenarios on the base case position of the March 2018 five-year strategic plan. These scenarios encompass key trading assumptions combined with the potential impact of crystallisation of one or more of the principal risks over the five-year period. Whilst each of the principal risks has a potential impact, the scenario analysis has been focused on those considered to have the most significant financial impact. The risks have been assessed for their potential impact on the Group's business model, future trading and funding structure.

The downside scenarios applied to the strategic plan are as follows:

Scenario modelled	Link to principal risk
1. General competitive pressure in the marketplace resulting in a decrease of Industrial and Medical revenue for both core and mega-programmes.	Core business growth Future business growth
2. A natural or other event impairing key manufacturing assets resulting in supply disruption for c. 2 years, with associated reputational damage.	Business continuity of supply chain
3. Mega-programmes not achieving all milestones set, therefore delaying the time to meaningful revenue (>£1m).	Future business growth
4. Increase to direct cost base potentially arising from: a. additional regulatory compliance, environmental or otherwise; b. increase in duty and tariffs; c. product liability issues; or d. increase in raw material and/or other input prices.	Ethics and regulatory compliance Safety, health & environment Product liability
5. A global recession impacting two financial years (similar to impact in 2009 when sales fell by c. 25%).	Future business growth
6. All of the above, with an associated reduction in the overhead cost base.	

The scenarios tested on page 26 were carefully considered by the Directors, factoring in the potential impact, probability of occurrence and the effectiveness of the mitigating actions. In addition, whilst considered implausible, a combined scenario was also tested, which contained an aggregation of all scenarios considered.

Further to the risk mitigation plans, the Group's two distinct segments, both with diverse geographic markets and fragmented customer bases, assist in reducing the risk of regional economic challenges and sector/customer-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 manage its cost base, raise new finance and the possibility of delaying capital programmes and/or restricting shareholder returns over the viability period if required.

The results of this stress testing showed that the Group would be able to remain viable and maintain liquidity over the assessment period. The lowest cash balance was in Scenario 6, in which the cash balance remains positive, whilst maintaining the regular dividend, and without use of the RCF facility which is available until June 2022.

Approximately 40–50% of the Group's revenue is derived from Europe. The impact of Brexit continues to be considered by the Board, supported by the Brexit Steering Committee. There remains a wide range of potential outcomes, including, increasingly, that of a hard Brexit. No scenario has been run specifically for Brexit given the range of potential outcomes, which could be favourable (driven by a further devaluation of Sterling) or adverse (for example, tariffs or restrictions of raw material and finished product flows); however scenarios 2 and 4 above have an adaptation to potential Brexit outcomes. The Directors' focus on Brexit is to ensure that the Group remains in the best position to maintain continuity of supply of raw materials and access for our products to key markets.

4. Viability statement

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 to September 2023.

Sustainability report



Jakob Sigurdsson
Chief Executive Officer

A sustainable business

Victrex's sustainability strategy creates a competitive advantage for Victrex, and delivers sustainable solutions to our customers and markets; as well as being efficient with our resources; and socially responsible in our communities.

As well as helping reduce CO₂ in transport through lighter and more durable materials, we have long-term sustainability targets through our 2023 Vision, timed to mark the 30th anniversary of Victrex's creation.

Introduction from the Chief Executive Officer – Jakob Sigurdsson

Our sustainability strategy is built around three key areas which, through our 2023 Vision, demonstrate the positive benefits that Victrex's polymers and solutions deliver to our customers and markets, to the environment and to our communities.

With several of our interim targets completed, we remain focused on our long-term targets, whilst reviewing the practicality of areas such as waste management. As Chief Executive Officer I have direct responsibility for our sustainability strategy.

Our sustainable solutions area saw new or enhanced targets introduced last year: to increase the level of PEEK polymers in cars from an average of 8g to 12g in the next three to five years and, in our Medical area, we increased our target for the number of implanted patients with PEEK-OPTIMA™ from 9 million to 12 million. This year we were also recognised by FTSE Russell Green Revenues Index for our sales into Transport markets, where our lightweight materials offer the opportunity of CO₂ reduction.

Across our resource efficiency area, our focus on CO₂ reduction per unit of revenue continues to see steady improvement and we have also increased the proportion of renewable energy we buy to support our operations. We also verify our efforts in carbon reduction independently, through participating in the Carbon Disclosure Project ('CDP').

In social responsibility, our activities in the community, and to support the next generation of scientists and engineers, including the recruitment of 15 new apprentices, show progress. Our target to have over 75% of employees engaged and active on sustainability by 2023 was revised down to 50% last year, largely reflecting realistic timing.

Nevertheless, with continuous improvement and cost efficiency at the forefront of our business, we have a great opportunity to further improve our sustainability record over the coming years. With our Polymer & Parts strategy focused on moving further downstream to supply semi-finished products and components – beyond manufacturing polymers – we have an opportunity to deliver further benefits to our customers and markets. Whether it be in Aerospace, where the current commercial airline fleet is expected to double by 2035; in Automotive, where durability, electrification and lightweighting are key themes; or in Medical, where our polymers are delivering real performance benefits to patients, sustainability remains integral to our strategy and long-term success.

Jakob Sigurdsson
Chief Executive Officer
4 December 2018

Our sustainability goals

Victrex creates a competitive advantage and delivers 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
- Target 12 million patients with PEEK-OPTIMA™ implanted globally (target enhanced from current 9 million+)

Our 2023 Vision: interim targets

Metric:

- CO₂ savings
- Scale of patient benefits

Interim targets:

COMPLETED

- Independently review method of measuring CO₂ savings in Transport
- Extend PEEK-OPTIMA™ further into new and existing spinal therapeutic areas
- Extend PEEK-OPTIMA™ into new therapeutic areas

TO DO

- Extend Invibio solutions into emerging geographies

ENHANCED TARGETS

- Increase volume of PEEK in cars from 8 grams to 12 grams over the medium term, supporting lighter vehicles and CO₂ savings

Resource efficiency



Vision:

Maximise resource efficiency across the value chain

2023 target:

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

Our 2023 Vision: interim targets

Metric:

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

Interim targets:

COMPLETED

- Engage with key suppliers by FY 2016 to identify their climate change impact and improvement plans
- Establish an R&D programme by FY 2015 to identify process yield improvements and waste reduction opportunities
- Engage with key suppliers by FY 2016 to identify their waste impact and improvement plans

TO DO

- Establish a long-term energy efficiency plan

ENHANCED TARGETS

- Establish long-term resource efficiency plan with raw material supply chain
- Translate low carbon energy sourcing strategy across UK manufacturing sites

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
- 50% of employees engaged on sustainability

Our 2023 Vision: interim targets

Metric:

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

Interim targets:

COMPLETED

- Employee network in place to support community STEM education activities in the UK by end of FY 2015 and globally by end of FY 2016
- Victrex/Catalyst Science Education Centre project fully up and running by end of FY 2015
- Employee engagement in sustainability assessed in FY 2018's employee survey, with results benchmarked against peer companies

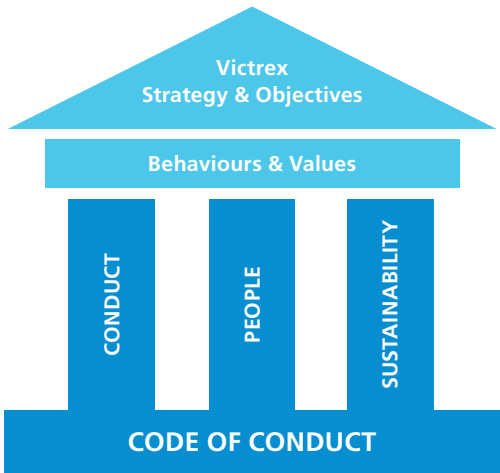
TO DO

- Ongoing support to Fleetwood High School to achieve improved STEM academic results
- Corporate responsibility benchmarking by BITC (Business in the Community)


Our Code of Conduct – Doing the right thing

Passion, innovation and performance are integral to our behaviours and we support and uphold them in an ethical manner. Our ethical principles are set out in our Code of Conduct and underpin the way we do business and treat one another. Our Code sets the foundations of how we act personally, with others and in our communities. Our continued success as a business rests on maintaining these principles and ensuring we strive to always do the right thing.

Our Code of Conduct is supported by policies on each of the Conduct, People and Sustainability pillars shown in the table below.



Doing the right thing in our CONDUCT	Doing the right thing for our PEOPLE	Doing the right thing for SUSTAINABILITY
<ul style="list-style-type: none">→ We are open and honest→ We comply with all applicable laws and regulations→ We do not engage in anti-competitive activity, bribery or corruption→ We protect our Company information and confidential information shared with us→ We follow good standards of corporate governance and do not abuse market regulations	<ul style="list-style-type: none">→ We treat people with fairness and respect, and hold ourselves and each other to account→ We do not discriminate→ We provide a safe and healthy workplace and ensure our activities do not harm our employees, the public or the environment	<ul style="list-style-type: none">→ We deliver sustainable polymer solutions→ We work to minimise the environmental impact of our business operations→ We contribute to the wellbeing of our local communities→ We seek to inspire the next generation

 Performance reviews from the executive Directors
Pages 18 to 20



All of our employees, officers and Board members are responsible for following our Code of Conduct and its supporting policies. There is annual recertification of the Code of Conduct through mandatory awareness learning for employees, with additional training on specific supporting policies for targeted employees and this programme continues to develop. The Code is available in five languages, viewable on www.victrexplc.com.

We encourage employees and our stakeholders to speak up if they have concerns that our Code of Conduct or its supporting policies are not being followed and our Global Whistleblowing Policy gives help on how to do this.

Sustainability matters

We recognise that some of our operations can impact on the safety and wellbeing of our people and those in the communities around us. This is reflected in our principal risks on pages 23 to 25. Our Safety, Health & Environment Policy promotes our continuous improvement in this area, and we have again received the Gold Award from RoSPA this year.

Our employees

We value our employees and continue to seek to recruit, retain and develop our talent, and this too is reflected as a principal risk on page 23. We have policies on Diversity & Equal Opportunities, Disciplinary & Grievance, and Whistleblowing to ensure we recognise the positive contribution of a diverse workforce and hold ourselves to account for delivering it. We are enhancing processes to ensure we continue to recruit the highest quality people with the right fit to our organisation.

We conducted our periodic employee survey this year with a 75% engagement rate, a near double-digit improvement on our previous survey and some five percentage points above the industry benchmark. We continue to develop and progress action plans to further develop areas not scoring as highly.

Details of our Gender Pay Gap report can be found on page 37 and on www.victrexplc.com.

Respect for human rights

We recognise the importance of treating the people around us, and those we may impact, with respect but also acknowledge there are practices globally that seek to threaten human rights. Victrex does not tolerate these practices.

In relation to our supply chain activities we have focused policies on Modern Slavery and Conflict Minerals, as part of onboarding and ongoing due diligence supplier management activities. Our Modern Slavery Act statement is available on www.victrexplc.com reaffirming our policy commitment and our ongoing actions in this area.

Additionally we have updated our Data Protection Policy and underlying processes to reflect the new General Data Protection Regulation ('GDPR') this year to ensure we treat our employees' and third parties' personal data securely and appropriately.

Anti-bribery and corruption

Our Code of Conduct commitment to being open, honest and following all relevant laws and regulations is supported by underlying policies and processes including Fraud, Anti-Bribery & Corruption, Market Abuse, Competition Law and Export Controls & Sanctions, and reflected in our principal risks on pages 23 to 25. Our focus on Doing the Right Thing extends beyond the letter of the law to ensure we act ethically and openly, treating others fairly and how we would want to be treated. Relevant processes therefore include appropriate due diligence. We consider the risk of exposure to bribery and corruption across our business areas and with our various stakeholders and take mitigating actions where necessary. This can involve rejecting potential suppliers if risks are deemed too high. Our additional policies on declaring Conflicts of Interest and managing the threats against Information Security (including our intellectual property) set out our expectations and how we further safeguard our business and our future.

Additionally we have completed risk assessments of the potential for facilitating tax evasion under the new Corporate Criminal Offence legislation introduced in October 2017, and taken actions to further strengthen controls as required.

Sustainability report continued



Sustainable solutions

Our sustainable solutions area focuses on products and services which help shape future performance for our customers and markets, by providing sustainable environmental and social benefits.

Focus: Innovation for the sustainable Aerospace industry of tomorrow

According to latest projections for the global Aerospace industry, airlines are expected to require more than 42,000 new aircraft over the next 20 years¹. This global expansion will pose a major challenge to sustainable and cost efficient production and calls for pioneering approaches and technologies.

To meet future needs, Victrex developed an innovative composite product family, Victrex AE™250, which supports fast automated manufacturing; a typical PAEK thermoplastic composite part can reduce manufacturing time by 20–30% compared to metals or other polymer materials. Manufacturing cycle times can be measured in minutes versus hours for thermoset alternatives².

In addition, they are lower-temperature processing composites and enable a unique hybrid moulding process. As a consequence, the strength of continuously reinforced thermoplastic composites is combined with the design flexibility and demonstrated performance of VICTREX™ PEEK injection moulding polymers². More specifically, a short fibre reinforced VICTREX™ PEEK polymer is over-moulded onto lower melting VICTREX™ PAEK composites. This also results in an excellent fusion bond, avoiding the need for adhesives and reducing the number of mechanical fasteners necessary to combine sub-component parts³ – simultaneously reducing processing steps and lowering energy consumption for a positive environmental impact⁴. However, it is the injection moulding mentioned that also helps to speed up the manufacture of aircraft parts in the future and reduce production waste.

Sustainable solutions

Such PAEK composite-based parts can deliver weight savings of up to 60% over conventional metallic solutions and contribute to cuts in fuel consumption and thus emissions, delivering both cost and environmental benefits. Furthermore, thermoplastic composites are fully recyclable. Once a thermoset is cured, it cannot be reused, leading to associated costs from scrap.

Increasing the amount of PAEK thermoplastic composite solutions in future aircraft programmes is also dependent on supply chain and capacity being ready and available. Therefore Victrex invested, for example, in TxV Aero Composites, a joint venture with Tri-Mack Plastics. TxV will offer a range of composites from custom laminates to pre-formed composite inserts for hybrid moulding processes, as well as finished composite parts and complete over-moulded hybrid composite components and assemblies. The acquisition of fibre specialist Zyex and participation in the Thermoplastic Composite Research Centre ('TPRC') are also in line with Victrex's long-term objective of enabling greatly enhanced efficiency within the Aerospace industry.



The implications for the cost efficient manufacture of the aircraft fleets of the future, and for environmental sustainability, are tremendously exciting. Weight reductions and lower CO₂ emissions can be realised through the design of lightweight, thermoplastic PAEK composite parts contributing to also speed up manufacturing time. Victrex has proven in the past, across different industries, that by leading the way with pioneering VICTREX™ PAEK based innovation we can deliver real benefits to our customers, our markets and the environment.

Sources

1 <http://www.boeing.com/commercial/market/commercial-market-outlook/>

'Boeing Forecasts \$15 Trillion Commercial Airplanes and Services Market' (17 July 2018), <http://boeing.mediaroom.com/2018-07-17-Boeing-Forecasts-15-Trillion-Commercial-Airplanes-and-Services-Market>.

Snippet: 'The massive fleet generates a strong and growing demand for aviation services ranging from supply chain support (parts and parts logistics), to maintenance and engineering services, to aircraft modifications, to airline operations. Over the next 20 years, Boeing forecast an \$8.8T market for commercial aviation services with annual growth of 4.2 percent.'

2 Victrex press release, Victrex, 12 March 2018 <https://www.victrex.com/en/news/2018/03/victrex-jec-world-2018>.

3 Green, Stuart, 'Overmoulding of PEEK Compounds for Composite Aerospace Brackets' (Tech paper delivered at CAMX 2017.) <https://www.nasampe.org/store/ViewProduct.aspx?ID=11023413>.

Snippet: 'We demonstrate that overmoulding with short fibre reinforced PEEK compound onto the novel PAEK creates an excellent fusion bond between the selected compatible materials, avoiding the need for adhesives and reducing the number of mechanical fasteners when sub component parts are combined.'

4 Victrex Sustainability report 2016.

Snippet: 'Environmental benefits (of hybrid overmoulding) 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.'



Resource efficiency

Our performance in how we are managing and measuring our resource efficiency is shown in our 2023 Vision on page 29.

Resource efficiency

Whilst our sustainability credentials are strong, through lighter materials which can support CO₂ savings, we have an impact on the environment through the resources that we use to make our products and the processes that we operate. We focus 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 focusing on improvement in these areas.

For example, on our APTIV™ film plant, right-first-time performance has been improved by 25% reducing the need to recycle material and reducing energy use. This has been achieved specifically by better control of plant roller maintenance along with giving operators better control of the process. In addition, on our compounding plant a continuous improvement project delivered yield improvements with associated reductions in waste. This was achieved by optimising the operation of the compounding extrusion process.

Principal environmental impacts

The Group's operations and environmental impact are set out in the charts on page 36 and are different from the Group's overall GHG emissions (see overleaf). These show energy use, water use and waste from our main UK production sites. The impact from our overseas Gears facility, UK Fibres plant (Zyex) 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 as we move downstream into more specialised manufacturing with a varied product mix, along with absolute data to demonstrate our total impact. Encouragingly whilst output has increased this year our environmental indicators improved or remained stable due to higher revenues and operating economies of scale.

Our GHG report (required under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013) shows our corporate CO₂ emissions by emission type (Scope 1 emissions generated by the direct combustion of gas; Scope 2 emissions from purchased electricity and steam; and Scope 3 emissions from other sources, for example distribution). Absolute emissions data is reported along with Scope 1 and 2 emissions per unit revenue.

We also participate in the Carbon Disclosure Project ('CDP'), which measures companies in their efforts to reduce carbon.

This year we also joined 'Operation Clean Sweep', an industry group targeting waste reduction in the polymer and plastics industry.

Compliance

Proactively staying well ahead of environmental standards is part of Victrex's philosophy across our operations. Our chemical production plants are regulated under Environmental Permitting Regulations and, as such, are subject to close regulatory review by the UK Environment Agency ('EA'). We carry out extensive routine environmental monitoring to proactively make sure our plants are well controlled. When we design and build new plants we work closely with the EA to make sure that the best available techniques to protect the environment are adopted.

Victrex has an effective system for reporting and investigating incidents and near misses. Unfortunately during 2018 we recorded three notifiable environmental events. At our Hillhouse manufacturing plant in the UK, during routine environmental monitoring we detected an instance when suspended solids in a waste stream were slightly elevated above agreed levels but with no potential to cause significant environmental impact.

There were two notifiable spill incidents at our Hillhouse site. During operation of a demineralisation water plant we detected a leak to unmade ground. In a separate incident, whilst maintenance troubleshooting was taking place on a hot oil pump, there was a leak of oil into the pump containment bund. The spill was contained and removed with no potential to cause significant environmental harm. Robust remediation plans were put in place and measures taken to prevent reoccurrence.

We have well established systems and procedures in place to manage environmental performance and to achieve continuous improvement. During the year we successfully attained new ISO 14001:2015 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 plants, technical centres and offices. No material Scope 1 or Scope 2 emissions are omitted. National and regional emission conversion factors have been used. Indicative Scope 3 emissions have been included in our report for greater transparency including indirect emissions from business flights and international air and shipping goods freight.

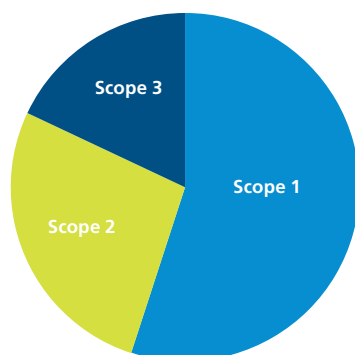
Our GHG emissions are predominantly from gas combustion and electricity use on our chemical production plant in the UK. Emissions from our Gears facility in the US and Fibres facility in the UK are relatively immaterial. Additionally, emissions from our overseas technical facilities and offices are small compared to production activities, which explains our focus on production site reporting metrics.

Whilst absolute direct emissions from gas combustion (Scope 1) increased slightly this year – due to higher production levels – encouragingly, our indirect emissions from electricity purchased (Scope 2) decreased. This is primarily due to a favourable reduction in the UK grid electricity CO₂e factor benefiting the Victrex UK manufacturing base. The combined Scope 1 and 2 emissions in addition to higher 2018 revenues has resulted in a further decrease in the intensity measurement.

Other indirect emissions (Scope 3) from transport of goods and employees have encouragingly remained steady. Whilst the amount distributed increased during the year to meet global customer demand the corresponding emissions have remained steady principally as a result of favourable emission factors.

Victrex GHG emissions 2018

Tonnes of CO₂ equivalent
2018 from PEEK manufacture
and downstream products.



SCOPE 1 Direct emissions resulting from combustion of fuels Tonnes CO₂e

2018	25,231
2017	22,478
2016	22,048
2015	21,203
2014	16,728

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

2018	8,197
2017	8,136
2016	4,583
2015	3,839
2014	2,815

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

2018	12,689
2017	13,667
2016	16,206
2015	17,932
2014	15,363

INTENSITY MEASUREMENT (SCOPE 1 AND 2)

Tonnes CO₂e/£m revenue

2018	116
2017	126
2016	152
2015	149
2014	127

Note: The Scope 2 emissions reported above are based on regional or national emission conversion factors (the location method). Scope 2 emissions have also been calculated based on supply-specific emission conversion factors (the market method) (12,898 tonnes CO₂e). This was an increase on last year (10,159 tonnes CO₂e) primarily due to a more adverse supplier fuel mix at one of our key manufacturing sites. Victrex strategy is to transition to lower carbon energy supplies for our main users. A zero carbon tariff for electricity was introduced during the year at one of our manufacturing sites contributing to a reduction of over 500 tonnes of CO₂ (compared with the previous tariff). We anticipate further reductions as low carbon tariffs are introduced at other sites.

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 security of supply, which is important both for Victrex and for our customers who are focusing on long-term demand. Following the Brexit referendum, 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 21st consecutive year that we have received a Gold award and the seventh 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 consistently 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, over 1.4 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 Leadership 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'. This year over 60,000 contractor hours have been worked on our UK manufacturing site at Hillhouse with no contractor reportable injuries or incidents. 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. One delivery driver reportable injury was recorded during the year.



Employee hours worked with
no reportable injuries

1.4 million

Sustainability report continued



Resource efficiency continued

Energy use (UK operations)

In line with previous reporting, energy use is reported for our UK manufacturing sites.

Total energy has increased this year driven by higher volumes manufactured. Energy per unit of revenue remained stable.

Primary energy

Thousands GJ

2018	847
2017	764
2016	735
2015	731
2014	574

Primary energy per unit revenue

Thousands GJ/£m

2018	2.6
2017	2.6
2016	2.9
2015	2.8
2014	2.3

Water (UK operations)

Water use is reported for our UK production operations (North of England). Our overseas water usage is not material. Whilst total water usage increased this year, again driven by higher volumes manufactured, pleasingly, water use per unit of revenue decreased, principally driven by increased process water recycling. This is an area we will continue to drive forward to further enhance recycling opportunities.

Water usage

Thousands m³

2018	605
2017	566
2016	532
2015	602
2014	499

Water usage per unit revenue

Thousands m³/£m

2018	1.9
2017	2.0
2016	2.1
2015	2.3
2014	2.0

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.

Total hazardous waste generated has increased this year driven by higher volumes manufactured; however, waste per unit revenue decreased continuing the improvement trend.

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.

Hazardous waste produced

Tonnes

2018	54,611
2017	53,135
2016	51,041
2015	60,908
2014	55,072

Hazardous waste produced per unit revenue

Tonnes/£m

2018	168
2017	183
2016	202
2015	231
2014	218

Hazardous waste disposed to landfill (after treatment)

Tonnes

2018	7
2017	19
2016	1
2015	12
2014	14

Hazardous waste disposed to landfill (after treatment) per unit revenue

Tonnes/£m

2018	0.02
2017	0.07
2016	0.00
2015	0.05
2014	0.06



Social responsibility

Our focus is to inspire the next generation of talent by supporting science, engineering, technology and maths ('STEM') education, alongside our commitment to employees and to the communities where we operate, both in the UK and globally. We continue to make good progress in this area, whilst remaining practical in some of our longer-term objectives.

Employees (as at year end)

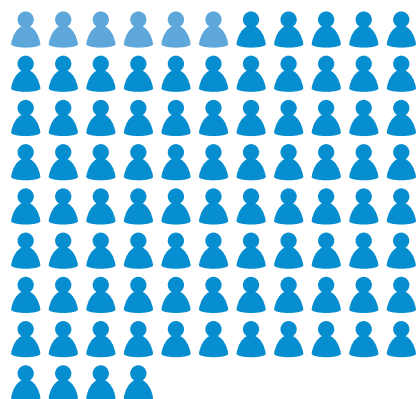
IN 1993

60

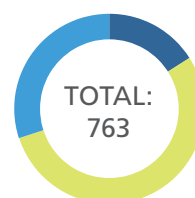


IN 2018

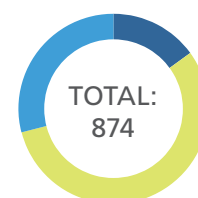
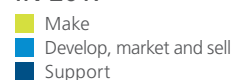
921



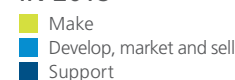
Average number of people employed during the year (including Directors), by category



IN 2017



IN 2018



Gender pay

Following the introduction of the new gender pay regulations in 2017, we are required, as a private sector employer with more than 250 employees, to publish information about our gender pay gap. The UK government defines this as:

'The difference in the average earnings of men and women, expressed relative to men's earnings. For example, women earn 15% less than men per hour.'

For reporting purposes, we took a 'snapshot' of Victrex Manufacturing Limited (our UK entity) at 5 April 2018, when there were 630 relevant people employed on full pay.

Gender pay headlines

- Of the 630 employees in the UK, 83% were male and 17% female, the same as 2017.
- 74% worked within STEM functions, and 89% of this group were male.
- 75% of our executive team were male and 25% female.
- The proportion of male vs female employees in each of our pay bands was split as follows:
 - Lower quartile – 69.14% male vs 30.86% female
 - Lower middle quartile – 87.66% male vs 12.34% female
 - Upper middle quartile – 91.08% male vs 8.92% female
 - Upper quartile – 82.80% male vs 17.20% female

- The mean hourly rate of pay for males compared with females was 5.65% higher.
- The median hourly rate of pay for males compared with females was 13.47% higher.
- 83.11% of males were paid a bonus, compared with 82.35% of females.
- The mean bonus payment for females compared with males was 9.00% higher.
- The median bonus payment for females compared with males was 0.08% higher.
- 42% of our employees were receiving shift premium pay and 99% of them were male.

Gender pay: analysis and action

Following the initial results in 2017, we commenced work on reviewing our pay, bonus and progression policies to support all our employees and this work is well underway.

We have continued to work closely with our schools and communities to attract more female employees and are pleased that of the apprentices who joined in 2018, four out of 18 are female – up from previous years. We have broadened our range of recruitment sources and now promote all vacancies on our website, as well as utilising local media to make the local population more aware of us and our opportunities.

To see our full Gender pay gap report, including calculations and considerations, please visit our corporate website, www.victrexplc.com.



Social responsibility continued

Diversity & inclusion

Diversity is something we actively support and promote. Approximately 79% of our employees are male (as at 30 September 2018) and 21% are female (as at 30 September 2018). In Victrex, diversity encompasses differences in ethnicity, gender, language, age, sexual orientation, religion, socioeconomic status, physical and mental ability, thinking style, experience and education. We operate a global diversity and equal opportunities policy which is reviewed each year and provides the framework for productive working relationships within the organisation.

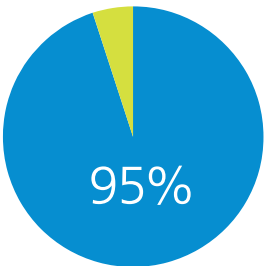
Development

This is our 12th year of recruiting apprentices, and this year we have extended our programme to recruit 15 apprentices, including Project Management and Research & Development, as well as our traditional Engineering & Manufacturing. In addition, we have a number of current employees undertaking apprenticeships as part of their development. We see professional development of people as one of the keys to helping deliver our strategy over the coming years.

Wellbeing

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.

Participation in employee share schemes



2018	2017	2016	2015	2014
95%	88%	91%	87%	89%

Note: Excludes employees with a tenure less than a year.



Recognition

Our well established recognition programme ranges from instant and functional awards through to our annual CEO Awards, which have become the showcase of the year, with an increased number of categories to reflect the global talent across our business. This year we introduced the Professional Development Awards to celebrate employees who have completed professional qualifications over the last year.



Involvement

We have a number of channels, both formal and informal, to keep employees informed on business news. These include quarterly global staff briefings involving all employees globally and more formally we hold country-based employee forums alongside union and works council meetings. We have over 50 employees involved across all countries, functions and levels. The Company supports employee share ownership and offers the opportunity to participate in a variety of share plans. As at 30 September 2018, approximately 95% (2017: 88%) of employees worldwide were participants in employee share plans, principally as option holders under the Company's employee share option plans. We also provide pension plans for employees across almost all our global operations. Details of the Group's principal pension schemes are set out in note 15 to the financial statements.

5%

Voluntary employee turnover

2018	2017	2016	2015	2014
5%	3%	7%	7%	5%

Note: The breakdown by region also continues to be consistent with last year.



Community volunteering

Supporting local communities and participating in regional and national events, which inspire the next generation of employees is a big focus for Victrex. Our main focus is to get young people interested and excited about science, technology, engineering and maths ('STEM'). This year our employees participated in activities in local schools and colleges, spending over 1,100 hours supporting the next generation. Since 2015 when we started formally measuring our activities, we have committed 3,461 hours to the community, with a bold target of 10,000 hours as part of our Sustainability strategy.

We continue to partner with Catalyst Discovery Centre in the UK – which teaches school-age children about chemistry and how polymers are made in an interactive way – and are actively involved in the Science Industry Partnership ('SIP'). Working with other manufacturers in the UK to shape the skills agenda is also important for Victrex. We continue to support Fleetwood High School with its STEM activities and remain members of Business in the Community ('BITC'), with a number of outreach activities in progress.

Charitable giving

Our Community Investment team looks after the distribution of the charitable donations budget in the UK, through nominations made by employees. This helps to support 'buy-in' from employees on our community activities. A similar approach is now in its third year in the US and we are making good progress in targeting investments to the right areas across Europe. Charitable donations totalling £167,211 (2017: £115,450) were made during the year.

As a business we continue to:

- 1 provide a clean, safe working environment which meets all legislative requirements and all the necessary training and 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.



Directors' report – Corporate governance

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Introduction from the Chairman



Larry Pentz
Chairman

Dear shareholders and stakeholders,

At Victrex, we recognise that in order to deliver our strategy and support the long-term success and sustainability of our business, a good and robust corporate governance framework is vital. It is also important to ensure we remain true to our culture and our values as an organisation. We are committed to ensuring that good governance is an inherent part of our way of thinking and working, as well as being the foundation of how we conduct ourselves every day. We remain cognisant of the strong relationship between ethics and governance and the role the Board plays in demonstrating ethical leadership. Our Victrex Global Code of Conduct is now embedded across all regions. Further information on ethics and social responsibility is contained in our Sustainability report on pages 28 to 39.

We welcome the new Corporate Governance Code released in July 2018 and we will report on the changes to the Victrex governance framework in next year's Annual Report, in anticipation of the revised Code becoming effective in the 2019/20 year. During the 2019 financial year, we will begin our transition towards compliance with the 2018 Code. We operate a clear line of distinction between management led by the 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. The last year saw the transition in day to day responsibility to our new CEO, Jakob Sigurdsson, who was appointed on 1 October 2017.

A key part of my role is to ensure that the Board works collaboratively with the executive team, to provide support and guidance and to challenge management constructively when necessary. This involves having Directors with the right balance of skills and diversity of experience and perspective. I believe we have this on our Board, enhanced by a number of new non-executive Director appointments during the year, namely Janet Ashdown, Brendan Connolly and David Thomas. We also welcomed a new Group Finance Director, Richard Armitage, following the departure of Louisa Burdett in April 2018.

The changes at Board level resulted in a full schedule for our Board Committees over the last twelve months. The Nominations Committee had a busy and productive year, evaluating candidates and recommending the new appointments to the Board. The Remuneration Committee considered the proposed remuneration for the new Group Finance Director in conjunction with Willis Towers Watson, our remuneration consultants. It also considered the parameters for the new Long Term Incentive Plan, which is subject to a shareholder vote. The Audit Committee had a change in Chairman and appointed a new external auditor. Following the resignation of Andrew Dougal in February 2018, it was appropriate that I take on the role as Chair of the Audit Committee on an interim basis pending the appointment of a successor. David Thomas was appointed to take on this role in May 2018. At the 2018 Annual General Meeting, PwC was appointed as auditor of the Company for the first time following a detailed tender process last year. The Audit Committee report for the year can be found on pages 52 to 54.

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. The Board recognises that for Victrex to remain a world leader as an innovative and differentiated business, we need to innovate repeatedly not only in the products and solutions we supply but also in our working practices as we grow and develop. Strategy forms a key part of our Board meetings, where our progress against strategic initiatives is assessed in addition to discussing new opportunities.

Our Corporate governance report is set out on pages 44 to 68, including the Directors' remuneration report on pages 55 to 68. This section of the Annual Report sets out how we manage the Group and comply with the provisions of the Code. It also outlines any governance initiatives undertaken in the year.

Finally, our Statement of compliance with the UK Corporate Governance Code is set out on page 44.

Larry Pentz
Chairman
4 December 2018

 For more information visit
www.victrexplc.com

Board of Directors

NON-EXECUTIVE

**Larry Pentz****Chairman BS ChE MBA****Appointed** Board in 2008 and Chairman in 2014

Skills and experience Larry has over 30 years' service within multinational corporations in a variety of operational and general management positions, with extensive experience in developing strategy for and successfully leading international growth businesses. Larry was instrumental in the acquisition and integration of multiple catalyst and chemical companies for Johnson Matthey Plc, and was formerly an 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, as well as group-level responsibilities for operational excellence and environmental, health and safety.

External appointments Larry is non-executive chairman of Scapa Group plc.

**Pamela Kirby****Non-executive Director BSc PhD****Appointed** Board in 2011 and Senior Independent Director in 2014

Skills and experience 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 at AstraZeneca PLC, where she was a regional director, and F. Hoffmann-La Roche Ltd, where she was director of strategic marketing and business development. She was previously non-executive chairman of Oxford Immunotec Limited and a non-executive director of Novo Nordisk A/S and Smith & Nephew plc.

External appointments 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.

**Jane Toogood****Non-executive Director MA Hons****Appointed** September 2015

Skills and experience Jane has a wealth of experience across a number of business management, senior commercial and business development roles within the global chemical industry, including Borealis, ICI and Uniqema, and also 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.

External appointments Jane is the sector chief executive, efficient natural resources at Johnson Matthey Plc.

**Janet Ashdown****Non-executive Director BSc****Appointed** February 2018

Skills and experience Janet has over 30 years' experience of the international energy sector in a variety of senior executive roles at BP plc, most recently as director, BP Oil UK Limited, and head of UK retail and commercial fuels.

External appointments Janet is currently non-executive director and senior independent director of Marshalls plc and is chair of its remuneration committee. Janet is also a non-executive director of SIG Plc, chairs the remuneration committee and is a member of its audit, nomination and governance committees. Janet has also been nominated as a non-executive director to the Board of RHI Magnesita N.V.

**Brendan Connolly****Non-executive Director BSc****Appointed** February 2018

Skills and experience Brendan has over 35 years' experience in the international oil & gas industry serving in a number of senior executive roles. Until June 2013, Brendan was a senior executive at Intertek Group plc and had previously been chief executive officer of Moody International (which was acquired by Intertek in 2011).

External appointments Brendan is a non-executive director and senior independent director of Synthomer plc, in addition to being chairman of its remuneration committee and a member of its audit and nomination committees. Brendan is also a non-executive director of two private equity-backed companies, one of which he chairs.

**David Thomas****Non-executive Director ACA****Appointed** May 2018

Skills and experience David was chief financial officer at Invensys plc from 2011 until his retirement in 2014, having held senior roles across the business since 2002. Prior to joining Invensys, he was a senior partner in Ernst & Young ('E&Y'), specialising in long-term industrial contracting businesses, and is a former member of the Auditing Practices Board.

External appointments David is a non-executive director and chair of the audit committee at Dialight Plc.

EXECUTIVE

**Jakob Sigurdsson****Chief Executive Officer BSc MBA****Appointed** October 2017

Skills and experience Jakob was appointed to the Board in October 2017. Jakob has more than 20 years' experience in large multinational companies, both listed and private, including nine years with Rohm & Haas (now part of Dow Chemical) in the US, as well as chief executive officer of food manufacturer Alfesca in Europe and as chief executive officer of Promens. His executive responsibilities have spanned marketing, supply chain, business development, strategy and M&A, with particular emphasis on growth in new or developing markets.

Between September 2016 and June 2017, Jakob was chief executive officer of VÍS, the largest Icelandic insurance and reinsurance company. Jakob holds a BSc in chemistry from the University of Iceland and an MBA from Northwestern University in the US.

**Richard Armitage****Group Finance Director FCMA****Appointed** May 2018

Skills and experience Richard was appointed to the Board in May 2018. He was previously group finance director of Samworth Brothers, a UK-based branded and own-label food manufacturer, which he joined in 2014. Prior to Samworth Brothers he was chief financial officer of McBride plc. His other roles include finance director for Premier Foods plc's grocery and chilled divisions, and at Courtaulds, ICI and Boots plc. Richard trained through the Courtaulds and ICI management development programmes.

**Tim Cooper****Executive Director BA****Appointed** October 2012

Skills and experience Tim 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.

External appointments Tim is a non-executive director of Renold plc.

**Martin Court****Executive Director BSc (Eng) PhD****Appointed** April 2015

Skills and experience Martin 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 and 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.

KEY TO COMMITTEES

- A Audit Committee
- N Nominations Committee
- R Remuneration Committee
- Committee Chair

Statement of corporate governance

The Board is committed to the highest standards of corporate governance, an important part of which is compliance with the UK Corporate Governance Code. Victrex continues to review its systems, processes and policies to support its philosophy of continuous improvement in sustainability and governance practices.

The code published by the Financial Reporting Council in April 2016 (the 'Code') took effect for companies with accounting periods beginning on or after 17 June 2016 and has applied to the Company for the financial year ended 30 September 2018. The Code can be found on the FRC website, www.frc.org.uk.

The following report, together with the Directors' remuneration report on pages 55 to 68, explains how the Company has applied the main principles of the Code and, following a detailed review, the extent of its compliance with the Code's provisions. As a Company, we are always mindful to ensure that we comply with not only the letter but the spirit of the Code.

Statement of compliance

Except as outlined below, the Company has complied with all relevant provisions of the Code throughout the year ended 30 September 2018 and from that date up to the date of publication of this Annual Report.

A number of provisions were not met continuously throughout the year.

The requirement of B.1.2 that at least half the Board, excluding the Chairman, comprises independent non-executive Directors was not met at the beginning of the financial year following the appointment of Jakob Sigurdsson as Chief Executive Officer ('CEO') (both the outgoing CEO and incoming CEO were Directors for a transition period to ensure an orderly handover). However, following the retirement of David Hummel on 31 March 2018, the Board balance and composition complied with the Code. The number of non-executive Directors on the Board was increased in May 2018 with the appointment of David Thomas. At the end of the 2018 financial year and up to the date of this report, the Board comprised five non-executive directors, a Chairman and four executive directors. All of our new non-executives give complementary skills and experience from other Boards, which will support Victrex's strategy and future direction.

Provision B.6.2 requires the board evaluation of FTSE 350 companies to be externally facilitated at least every three years. The last such evaluation was in 2015 and the intention was that an externally facilitated evaluation would take place in 2018. However, given the number of new non-executive Director appointments coupled with a new CEO and a new Group Finance Director, after careful consideration and discussion, the Board chose to conduct an internally facilitated process, postponing the external facilitation until the third quarter of 2019.

Provision C.3.1. requires that the Chairman of the Company is not a member of the Audit Committee. Given the unexpected departure of the former Committee Chair, Andrew Dougal, in February 2018, the Chairman, Larry Pentz, was appointed as Chair of the Audit Committee on an interim basis. Larry was considered the most appropriate candidate as he was immediately available, could meet the required time commitments and ensure the orderly transition to an appropriate external successor. David Thomas was appointed Chair of the Audit Committee on joining the Company in May 2018.

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 42 and 43.

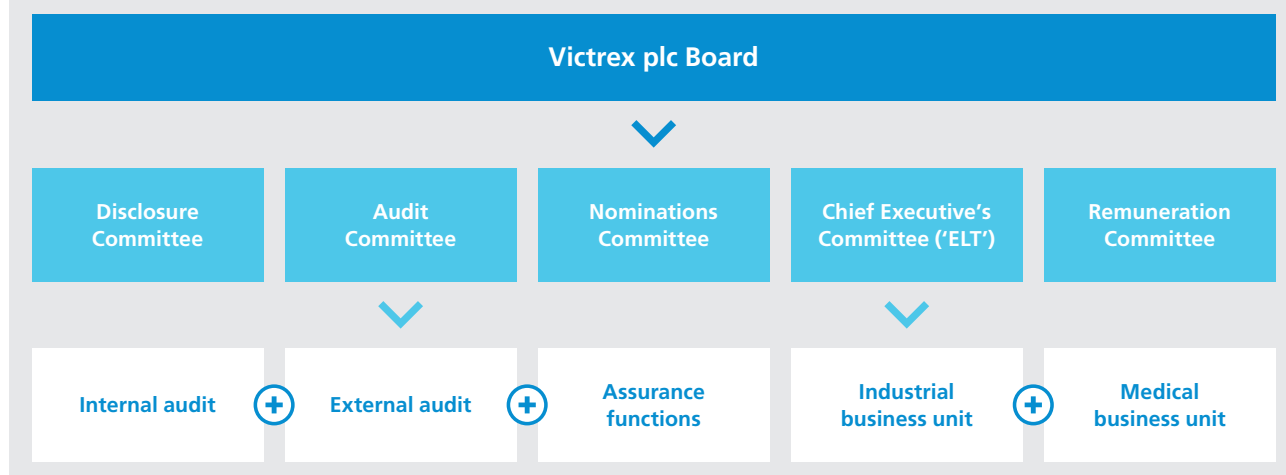
In discharging its responsibilities, the Board also seeks to set, promote and demonstrate adherence to our values and ethical standards for the Company. It remains mindful of the need to observe the duties owed by Directors in law, including promoting the sustainable success of the Company, not only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

The offices of the Chairman and the CEO are separate and clearly distinct. The division of their responsibilities is set out in writing. These roles and responsibilities have been reviewed by the Board following the appointment of our new CEO, Jakob Sigurdsson, to ensure that they reflect appropriately the functions and activities of their respective roles, changes occurring in the Group and management of the business. 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 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.

Corporate governance framework



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 may be inappropriate. Pamela Kirby also leads the review of the Chairman's performance, as part of the annual Board evaluation.

The General Counsel and Company Secretary, Louise Waldek, reports to the Chairman on governance matters and is responsible for keeping the Board up to date on all legislative, regulatory and governance matters. She 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 management and the Board.

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 establishes 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 49 and 50.

The agenda for each meeting of the Board combines scheduled items derived from a planned programme of business and in addition, where appropriate, ad-hoc matters reflecting the requirements of the Group. When preparing each agenda, attention is given to ensuring that sufficient time is provided for debate and challenge. Standing agenda items include, for example, reports on safety, health and environment as well as financial performance. The programme of business is subject to periodic review and assessment to ensure that the Board is discharging its duties effectively, taking into account the development of the Group as well as evolving governance requirements.

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 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 preliminary announcements of the final results, the Annual Report, announcement of results for the half year and other announcements concerned with the financial performance of the Group;
- changes to the Company's capital structure;
- approval of the capital allocation policy;
- considering major contracts and capital expenditure;
- approval of the risk management policy and framework;
- considering major investments and acquisitions; and
- approving the 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. A detailed review of the Group's authority matrix has been undertaken, taking account of the prevailing matters reserved for the Board. This has reflected developments in the breadth and scale of the Group's business to ensure that there is appropriate escalation of decisions through the Group hierarchy.

Statement of corporate governance continued

Attendance at meetings

Directors' attendance at the Board and Committee meetings convened in the year to 30 September 2018:

◆ Attended ◇ Not attended

	Note	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings		◆◆◆◆◆◆◆◆	◆◆◆	◆◆◆◆	◆◆◆◆◆
Chairman					
L C Pentz	1	◆◆◆◆◆◆◆◆	◆	n/a	◆◆◆◆◆
Executive Directors					
J O Sigurdsson		◆◆◆◆◆◆◆◆	n/a	n/a	n/a
R J Armitage	2	◆◆◆◆◆◆◆◆	n/a	n/a	n/a
T J Cooper		◆◆◆◆◆◆◆◆	n/a	n/a	n/a
M L Court		◆◆◆◆◆◆◆◆	n/a	n/a	n/a
D R Hummel		◆◆◆◆◆◆◆◆	n/a	n/a	n/a
L S Burdett		◆◆◆◆◆◆◆◆	n/a	n/a	n/a
Non-executive Directors					
P J M De Smedt		◆◆◆◆◆◆◆◆	◆	◆◆◆	◆◆◆
A J H Dougal		◆◆◆◆◆◆◆◆	◆	◆◆◆	◆◆
P J Kirby		◆◆◆◆◆◆◆◆	◆◆◆	◆◆◆◆	◆◆◆◆◆
J E Ashdown	3	◆◆◆◆◆◆◆◆	◆◆	◆	◆◆
B W D Connolly	3	◆◆◆◆◆◆◆◆	◆◆	◆	◆◆
D J Thomas	3	◆◆◆◆◆◆◆◆	◆		◆
J E Toogood		◆◆◆◆◆◆◆◆	◆◆◆	◆◆◆◆	◆◆◆◆◆

Notes

- Following the resignation of Andrew Dougal, the Chairman, Larry Pentz, was appointed as Chair of the Audit Committee on an interim basis until an appropriate appointment could be made. The Chairman chaired the May Audit Committee meeting.
- Richard Armitage was appointed on 1 May 2018 and has attended all Board meetings scheduled after that date.
- Following their appointments, Janet Ashdown, Brendan Connolly and David Thomas were unable to attend a Board Committee meeting due to unavoidable commitments which were scheduled prior to their appointment to the Board.

Although not members of all of the Committees, when appropriate to the business under consideration, Larry Pentz, Jakob Sigurdsson, Richard Armitage, Tim Cooper and Martin Court may be invited to attend meetings of the Committees. In addition, other employees and advisors may be asked to attend and provide support to the conduct of the business of the Board and Committees, as reflected in their respective terms of reference.

Principal Board activities

During the year and up to the date of approval of this Annual Report, the Board focused on a number of specific areas which are outlined in the table below:

Board activity 2018

Strategy

- Strategy Day
- Strategic Review of Markets
- Strategy Benchmarking
- M&A/JV Activity Review
- Portfolio Review
- HR and Talent Management Strategy

Business Review

- Health and Safety Review
- CEO and Executive Reports

Financial and Risk

- Group Financial Director Reports
- Risk Review and Management
- Code of Conduct Review
- Brexit Assessments
- Annual Budget
- Treasury and Cash Management

Governance and Reporting

- Investor Relations Updates
- Half and Full-Year Reports
- Board Committee Reports
- Board Evaluation
- Board Appointments

Matters reserved for the Board and delegation of authority continued

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, Richard Armitage, and meets on a monthly basis to manage the application of the policy. During 2018 the Currency Committee continued to monitor the Treasury Policy and in addition reviewed the Company's cash deposit strategy. Further details on the policy and the activities of the Currency Committee are included in note 14 to the financial statements.

The reports of the Nominations, Audit and Remuneration Committees are set out on pages 51 to 68 and that for the Disclosure Committee is shown to the right. These Committees operate under terms of reference and a standing agenda item provides for them to report at each Board meeting via the Committee Chairs. The terms of reference are reviewed 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 General Counsel and Company Secretary and external advisors, where appropriate.

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.

Board effectiveness

Composition, independence and diversity of the Board

At the date of this report, the Board comprised a non-executive Chairman, five non-executive Directors and four executive Directors. The Corporate Governance Code requires that at least half the Board should comprise independent non-executive Directors. As disclosed in the 2017 Annual Report, following the appointment of Jakob Sigurdsson to the Board in October 2017, the Board did not comprise a majority of independent non-executive Directors; thus, this provision of the Code was not met until David Hummel, the former CEO of the Company, resigned from the Board on 31 March 2018. From this point, the Board comprised a majority of independent non-executive Directors, which was further strengthened by the appointment of an additional non-executive Director, David Thomas, in May 2018.

As part of the cycle of business for the Nominations Committee, consideration is given to the composition of the Board to ensure the Board operates effectively for our shareholders and stakeholders. Experience, skill set, diversity and independence are amongst the criteria discussed.

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. Whilst the Board recognises that Larry Pentz has served more than the recommended nine years on the Victrex Board, the Board continues to view him as independent, offering significant experience and counsel since his appointment as Chairman in 2014. In the past year, he provided support and guidance to the new Chief Executive Officer, Jakob Sigurdsson, through an important succession period, and will continue to do so, whilst noting the Board's wider succession planning.

Disclosure Committee

Chair – Larry Pentz, Jakob Sigurdsson or Richard Armitage

The Disclosure Committee facilitates timely and accurate disclosure of information by the Company in accordance with applicable law or regulation in circumstances where it is impractical for the Board, or any other Board Committee, to fulfil those obligations. Accordingly, the Committee is authorised to make disclosures on behalf of the Board. The Committee will take advice, from the Company's broker, external auditor and legal advisors, on the form and content of any disclosure under consideration.

The Committee comprises all Directors of the Company and the General Counsel and Company Secretary, with a quorum being any two Directors which must include one of the Chairman, the CEO or the Group Finance Director. The Chair 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 Officer is assisted by the Executive Leadership Team ('ELT'). The ELT comprises the four executive Directors, Jakob Sigurdsson, Richard Armitage, Tim Cooper and Martin Court. Louise Waldek (General Counsel and Company Secretary) and Jilly Atherton (Group HR Director) joined the ELT during 2018. 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. During 2018, 15 meetings of the ELT were held. In addition, members of the ELT participate in other management committees which oversee and provide governance on the conduct of the Group's business, including for example a committee that meets to discuss investment in new products and technologies together with monitoring progress in execution of programme milestones.



Nominations Committee report
Page 51



Audit Committee report
Pages 52 to 54



Remuneration Committee report
Pages 55 to 68

Statement of corporate governance continued

Board effectiveness continued

Composition, independence and diversity of the Board continued

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 and inherent qualities, as well as cultural background. The annual formal evaluation of the Board takes Board diversity into account and contributes to identifying any new skill requirements, as well as possible shortcomings, gaps or inefficiencies.

The merits of gender diversity are recognised and current female representation on the Board is 30%. 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 rising to the top of the management structure. At present there are six executives on the ELT. Both the General Counsel and Company Secretary and the Group HR Director are female and thus one third of the Senior Management team is female. Further information on the total female representation on our workforce is provided in our Sustainability report on page 37.

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 of the Davies Review on Women on Boards. Our current female representation on the Board is 30% and is therefore in excess of the minimum representation level 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.'

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 38.

Election and re-election of Directors

Consistent with best practice, all the Directors will retire at the Annual General Meeting ('AGM') being held in February 2019. Each of the other Directors will offer themselves for re-election by shareholders.

The Board is recommending that shareholders vote in favour of the election of Mr Armitage and Mr Thomas, and the re-election of Mr Pentz, Dr Kirby, Ms Ashdown, Mr Connolly, Ms Toogood, Mr Sigurdsson, Mr Cooper and Dr Court, having given due consideration to performance and terms of office.

The Notice of AGM on pages 114 and 115 gives biographical details of our Directors. Further information on both the appointment and replacement of Directors is given in the Directors' report on pages 70 and 71.

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, summary details of which are contained in their biographies on pages 42 and 43, 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. This provides an opportunity to consider ways of identifying greater efficiencies in the operation of the Board, maximising strengths and highlighting areas for further improvement, as well as checking that each Director continues to demonstrate commitment to his or her role and each has sufficient time to meet his or her commitments to the Company.

The most recent externally facilitated Board evaluation was conducted in 2015 with Stone Court Consulting. The Board's intention was to conduct an externally supported review in 2018; however, given the number of changes to the Board in the six months prior to conducting the Board evaluation, it was appropriate to postpone this until all Directors had the benefit of twelve months on the Board to maximise the output of the review.

Therefore, in the year ended 30 September 2018, the performance evaluation was conducted internally through use of a questionnaire which was prepared by the General Counsel and 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 longer-standing Directors completed the questionnaires and those Directors appointed in 2018 had one to one meetings with the Chairman and Senior Independent Director to set out their initial thoughts on the operation of the Victrex Board.

The results of completed questionnaires and one to one discussions were shared with the Chairman of the Board and Chairs of the respective Committees and discussed at subsequent meetings held during the autumn. The overall conclusion was that the Board and its Committees were performing well and that satisfactory progress had been made in addressing areas which the Directors had previously identified as meriting additional attention. The changes at Board level were acknowledged and the opportunities for fresh thinking noted. Consistent themes throughout the responses in the questionnaires were the need for broader diversity, the importance of continued engagement with those below Board level, and a greater focus on tracking actual performance against the strategic plan.

Executive Directors' performance is reviewed by the Remuneration Committee in conjunction with the Chief Executive Officer, except in the case of his own performance review. The Chairman's performance is reviewed by the Board, without the Chairman present, which during 2018 was led by the Senior Independent Director. In October 2018, pursuant to the Code, the Chairman met with the other non-executive Directors without the executive Directors present, and the Senior Independent Director met with the other non-executive Directors without the Chairman present.

Induction and training

All new non-executive Directors receive an induction programme, appropriate to their experience, background and particular areas of focus. 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. The programme has evolved over time to take into account feedback from Board members. The Board evaluation process also considers specific training or development needs.

During the year, there were a number of new appointments. In the time since their appointments, these Directors met all key management, completed a tour of the Hillhouse site and operations and visited operations both at Grantsburg, USA, and at TxV in Rhode Island, USA. All Directors also received detailed corporate governance training including the framework at Victrex, the new 2018 Corporate Governance Code and the actions planned to ensure timely adoption.

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.

In conjunction with his appointment as Group Finance Director, Richard Armitage attended a number of meetings with the Directors, as well as with the Company's corporate broker, JP Morgan, and legal advisors, Slaughter and May and Addleshaw Goddard. The latter included training concerning the UK Listing Rules and the UK Market Abuse Regime. In addition, meetings were held with shareholders, as well as a detailed programme of discussions with management and employees in various forums, which included visiting offices across our various regions as part of developing an understanding of the Group.

Information and support

There are 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, during which consideration is given to financial and commercial performance within target markets against the relevant business plan for the year and future strategy.

Directors can take independent professional advice, where necessary, at the Company's expense and have access to the services of the General Counsel and Company Secretary. The General Counsel and Company Secretary is responsible for ensuring that Board procedures are followed and for providing advice to the Board on corporate governance matters. Both the appointment and removal of the General Counsel and 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 72.

Accountability

Financial and business reporting

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects. At a divisional level, the relevant members of management report to the Board through a standardised process on recent business performance and expectations for the future. The Group has a comprehensive annual budgeting protocol and the annual budget is approved by the Board. Reforecasts are presented to the Board during the course of the year.

The Directors' statement explaining why they continue to adopt the going concern basis for preparing the financial statements is given in the Directors' report – Strategic report on page 26. 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 pages 26 and 27.

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

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 seeking to meet its strategic objectives. It is ultimately responsible for maintaining sound risk management systems (including financial reporting process, and appropriate financial and non-financial controls). The Board is supported in assessing the risk framework and internal reporting by the Audit Committee and our risk management processes.

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. 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.

Statement of corporate governance continued

Accountability continued

Risk management and internal control procedures continued

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 has included continued focus on evolving issues, for example connected with Brexit, and understanding their potential impact on the Group in the conduct of its business. The Board considers that there remains a wide range of issues to be addressed before the Group can make an informed assessment on the potential impact of Brexit, but is nevertheless proactively making appropriate preparations for potential outcomes. Based on our assessment of the latest available information, the largest risk continues to be a sustained period when the Group may not be able to import certain raw materials or export finished goods through Customs, which could curtail sales if regional inventory levels were depleted. Contingency measures include Victrex securing additional warehousing for finished goods stock in mainland Europe and China, together with additional safety stocks in the UK. Stock levels in FY 2019 will therefore increase.

Victrex has assessed the potential financial impact of a 'no deal' Brexit. If our materials are unable to secure exemptions – as the only manufacturer of PEEK products in the EU – based on standard WTO tariffs, we estimate that cross-border duties, both for import of certain raw materials and export of finished goods, may add some additional costs in the first financial year following the UK's exit from the EU. However, any weakening in Sterling following a 'no deal' Brexit, in line with the average of market assessments of approximately 10% lower rates than today, could provide a high degree of mitigation once the effect of existing hedging in place rolls off. Other potential opportunities also exist to mitigate such costs, although these would take some months to implement and may not be effective until the second year.

During 2018, the Board also considered in particular certain mitigation steps for a number of the principal risks. This included discussing management's assessment of how the mitigation measures reduce the potential occurrence or impact of a risk.

The Board confirms that it has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity; that the principal risks remain within its risk appetite; and that there is a framework of 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 (as delegated by the Board) 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 21 to 25.

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

The Audit Committee also provides assurance over the completeness and accuracy of our reporting process, on which the Chair of the Committee reports to the Board as part of finalising approval of the Annual Report.

The Group has a whistleblowing policy, which is subject to periodic review to ensure compliance with relevant local regulations within each of the territories in which we operate and with good governance. The most recent detailed review of the policy was undertaken during 2018. The Audit Committee oversees whistleblowing arrangements, by which staff may, in confidence, raise concerns about possible improprieties. The Company continues to operate a Global Code of Conduct. This Code of Conduct includes areas such as anti-bribery, data protection and conflicts of interest. At staff briefings attended by executive Directors, presentations have been held on certain aspects of the Code of Conduct and how this affects employees. These form 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 Audit Committee has 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, the Board is 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 2018 (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 21 and 22.

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 Officer, Group Finance Director and Director of Investor Relations. 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.

The Board believes that appropriate steps have been taken during the year so that all members of the Board, and in particular the non-executive Directors, have 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 brokers' reports and feedback from shareholder meetings on a six-monthly basis.

As part of our introductions to investors for our new Chief Executive Officer in the first part of 2018, a series of roadshow meetings were held with UK institutions. Additionally, to reflect the increasing shareholding from investors outside of the UK, our Chief Executive Officer, Group Finance Director and Director of Investor Relations participated in two US roadshows during the year, which saw engagement with both existing and prospective shareholders. We also continue to seek investor feedback via bi-annual surveys conducted by our brokers, JP Morgan.

All shareholders will have the opportunity to ask questions at the forthcoming AGM, which is being held on 6 February 2019. 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
Chair 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, balance of skills and experience to deliver the Company's strategy and enable the Board to effectively fulfil its obligations.

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 five occasions during the year, as well as in combination with other formal meetings of the Board where this was appropriate to the matter under consideration, thereby enabling views of all Directors to be taken into account in reaching balanced and informed decisions.

Responsibilities

The Committee is responsible for regularly reviewing the structure, size, diversity and composition of the Board. 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.

It has been a very busy year for the Nominations Committee. Included in the Committee's items of business during the year were recommendations to the Board on three non-executive Director appointments. The Committee was supported in the search for suitable candidates by external recruitment agencies Korn Ferry and Egon Zehnder. The search culminated in the appointments of Mr Connolly, Ms Ashdown and Mr Thomas as non-executive Directors. All of our new non-executives give complementary skills and experience from other Boards, which will support Victrex's strategy and future direction.

In conjunction with the Remuneration Committee and external recruitment agencies, a search commenced for a Group Finance Director. An assessment was also undertaken of the appropriate structure for remuneration of the successful candidate. Richard Armitage was subsequently appointed to the Board in May 2018. Information on the remuneration of Mr Armitage can be found in the Report of the Remuneration Committee on page 65.

Biographies of all new Directors are on pages 42 and 43.

During 2018, meetings of the Committee also considered planning for executive Directors and key management roles, executive training and development, and the effectiveness of the Committee. The Committee used Korn Ferry to assist with the executive development and training scheme.

The Nominations Committee also reviewed the time required from each non-executive Director and any other significant commitments of the Chairman. The 2018 review found the non-executives' time commitments to be sufficient to discharge their responsibilities effectively.

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

Larry Pentz
Chair of the Nominations Committee
4 December 2018

Statement of corporate governance continued



Audit Committee report

The Committee has continued to play a key role within the Company's governance framework to support the Board in matters relating to financial reporting, internal control and risk management. It has worked closely with our new external auditors, PricewaterhouseCoopers ('PwC'), over the last twelve months.

I am pleased to present the report of the Audit Committee for the year ended 30 September 2018. This year brought a number of changes for the Audit Committee. PwC, following its appointment at the 2018 AGM, undertook its first year of auditing the Company. In addition, following the resignation of the previous Committee Chair in February 2018, the Company Chair, Larry Pentz, was appointed interim Committee Chair until my appointment in May 2018. I am pleased to report that the Audit Committee, which 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, operated effectively throughout the year.

The Committee has three scheduled meetings each year, in addition to which I meet with members of the executive and management teams outside of those formal meetings to discuss matters which fall within the Committee's terms of reference. These have included a meeting with the Group Financial Controller, the Head of Internal Audit and the Group's Director of Risk and Compliance in addition to meetings with the General Counsel and Company Secretary as part of reviewing pertinent matters and forward planning on the business of the Committee.

Membership

I am a member of the Institute of Chartered Accountants of England and Wales. I have previously served as chief financial officer of Invensys plc. Prior to this, I was a senior partner at Ernst & Young and am a former member of the Auditing Practices Board. The Board is satisfied that I have recent and relevant financial experience as required by the Code. The other members of the Audit Committee during the year were Patrick De Smedt (resigned 9 February 2018), Andrew Dougal (resigned 6 February 2018), Pamela Kirby, Jane Toogood, Janet Ashdown (appointed 9 February 2018) and Brendan Connolly (appointed 9 February 2018). The qualifications of the Audit Committee members are outlined in the Directors' biographies on pages 42 and 43.

The members of the Audit Committee provide a wide range of financial and commercial expertise which includes competence relevant to the sectors in which the Company operates and which enables the Committee to fulfil its function. The effectiveness of the Committee in fulfilling its remit was considered as part of the most recent evaluation of performance which was completed in the autumn and subsequently reported to the Board.

Committee meetings

The Committee believes it is important to have regular engagement with senior management as part of addressing items of business effectively. Accordingly, by invitation, the Chairman, executive Directors, Group Financial Controller, Director of Risk and Compliance and External Audit Engagement Partner routinely attend each meeting. Other members of the management team may also be asked to attend meetings for discussion on specific issues. The Committee also meets with the auditor twice each year without management being present.

The Committee has a programme of business reflecting the annual financial cycle of the Company within which are addressed matters pertaining to governance, the system of financial and non-financial controls, and planning where relevant to the Committee's terms of reference.

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 most recently reviewed in November 2018. The terms of reference are available on our website, www.victrexplc.com. The key responsibilities of the Committee are to:

- review the quality and acceptability of accounting policies and practices;
- review financial statements and announcements relating to the financial performance of the Company;
- review the risk management systems and the effectiveness of those systems;
- monitor and review the effectiveness of the internal audit function;
- 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 systems;
- review the Committee's terms of reference and carry out an annual review of the performance of the Committee;
- review matters associated with the appointment, terms, remuneration, independence, objectivity and effectiveness of the external audit process and review the scope and results of the audit; and
- report to the Board on how the Committee has discharged the aforementioned responsibilities.

Within its routine business, the Committee supports the Board in considering the systems of controls associated with financial reporting. During 2018 the Audit Committee completed an IT health check, a review of material contracts and a review of the whistleblowing policy.

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 the appropriateness of, the annual and half-year financial statements, considering amongst other matters:

- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- areas in which significant judgements have been applied, including discussions on such matters undertaken 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 73; 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. In addition, as part of the Committee's responsibility to provide advice to the Board on the long-term viability statement, the Committee performed a robust review of the process and underlying assessment of the Group's longer-term prospects made by management, including:

- the review period and its alignment with the Group's five-year strategic plan;
- the assessment of the prospects of the Group after consideration of the Group's principal risks, current financial position, available banking facility, and ability to generate cash;
- the modelling of the financial impact of additional key scenarios which encompass the potential impact of crystallisation of one or more of the principal risks; and
- ensuring transparent and enhanced disclosures, as best practice emerges, in the Annual Report as to why the viability period selected was appropriate, including what the key scenarios tested were and how the analysis was performed.

As a result of that review, the Committee was satisfied that the approach adopted was appropriate. The Viability statement for the 2018 financial year was prepared on a consistent basis with that reported in previous years and is on pages 26 and 27. The Committee also supported the Board in its consideration of the impact of Brexit along with the associated disclosures in this Annual Report.

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 21. The significant areas of focus considered and assessed by the Committee in relation to the 2018 financial statements and how these have been addressed are set out below. In concluding that these represented the primary areas of judgement, or a high degree of estimation, the Audit Committee considered reports 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, PwC reported to the Committee on, and the Audit Committee discussed and assessed, these judgements and estimates. During the meeting of the Committee which considered the draft of the report and financial statements, the matters raised by PwC in its report were discussed with management, including how such analysis related to management's own assessment and the appropriateness of the form of disclosure provided by the Company in the Annual Report and financial statements. In particular, the Committee considered the following recurring matters:

Carrying value of inventory: the Committee reviews the nature of the costs absorbed into inventory, the level of production over which these costs are absorbed, 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 or require a high degree of estimation, are presented to the Committee by management. The Committee discussed and assessed the information provided by management and concluded that the valuation of inventory and level of provisioning were reasonable.

Defined benefit accounting: the valuation of the defined benefit scheme obligation is dependent on a number of assumptions that are inherently judgemental, or require a high level of estimation. 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, together with the estimation of mortality rates remain, with sensitivities of +/-1% having a material impact on the value of scheme liabilities and therefore the balance recognised on the Group Balance sheet. The Audit Committee assesses these judgements and estimates based on reports received from management and the Group's actuarial advisors. The Committee also considered the opinions made and benchmark provided by PwC. The Committee concluded that the assumptions used and the resulting valuation were reasonable.

On 26 October 2018, the High Court handed down its judgment in the Lloyds Banking Group case relating to equalisation of member benefits for the gender effects of Guaranteed Minimum Pensions ('GMP equalisation'). This addressed a long-standing legal uncertainty for Defined Benefit pension schemes, and will result in an increase in scheme liabilities. GMP equalisation represents a scheme amendment, where an additional past service cost is chargeable, due to a change in the benefits payable and will be recognised in full in the Group's financial statements in the year ended 30 September 2019. The impact is expected to be in the range of £1m–£2m. This High Court judgment represents a condition that arose after the balance sheet date and has therefore been treated as a non-adjusting post balance sheet event (in accordance with IAS 10) for the year ended 30 September 2018.

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.

External audit

Appointment, independence and effectiveness

PwC was appointed as auditor at the 2018 AGM, following a tender process held during 2017. Whilst PwC's appointment was subject to approval at the AGM, the nominated partner, Ian Morrison, was invited to attend the Audit Committee meeting which considered the Annual Report for the year ended 30 September 2017, in order to commence the knowledge transfer from KPMG. Following the approval of the appointment of PwC at the 2018 AGM, a detailed handover took place, including a review of KPMG working papers, spending time with management and visiting key locations.

As part of the tender process which resulted in the selection of PwC, candidates (which included both 'Big 4' and other firms) were assessed against eight criteria approved by the Committee at the start of the process. The criteria, which were weighted by importance, included audit quality, relevant experience, audit approach, cultural fit and the ability to add value. The firms were assessed throughout the process, including the site visit, meetings with management, the tender submission document, first presentation, tender exercise and second presentation, with the Committee taking input from all those involved at each stage when making its final recommendation.

Statement of corporate governance continued

External audit continued**Appointment, independence and effectiveness** continued

A final decision following presentations from the shortlisted firms was taken in September 2017, with a recommendation by the Audit Committee to appoint PwC as auditor for the Company and its subsidiaries, which was approved by the Board. Whilst a close decision, the areas where PwC differentiated were the extensive experience of the team, particularly in the chemical manufacturing sector and listed company market, audit quality, both in terms of AQRT scores and team commitment to quality, and its experience in auditing systems similar to those used by Victrex. Appointment of PwC as auditor for the 2018 financial year was approved at the 2018 AGM.

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 throughout 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 assessment of the audit partner, the approach, communication, independence, objectivity, audit quality, interaction with internal audit and reporting and 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 Committee considers PwC to be independent and effective in its role as auditor for the financial year ended 30 September 2018.

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 2018 were £26,000 (2017: KPMG – £28,699). The non-audit fees primarily related to the interim review and iXBRL tagging of the UK subsidiaries' statutory accounts. Alternative providers were considered but not deemed practical in the specific circumstances. Approval was not given to any non-audit services not in accordance with the APB's Ethical Standards for Auditors. When awarding non-audit work to PwC, the Committee is cognisant of the EU Audit Regulation, including the cap on non-audit fees of 70% of the audit fee. Careful consideration was given to the awarding of non-audit services during the period prior to the audit tender so as not to limit the Company's choice of audit firm. Accordingly, PwC was restricted to £10,000 of non-audit services during the 2017 financial year. Non-audit services in the 2018 financial year represented 16% (2017: KPMG – 19%) 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 21 to 25 and pages 49 and 50.

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 Chair of the Audit Committee in relation to internal control matters. In addition to attendance by invitation at meetings of the Committee, the Director of Risk and Compliance has met with the Audit Committee Chair on a number of occasions to consider findings from internal audit and progress being made as we evolve our practices associated with the identification and reporting of risk.

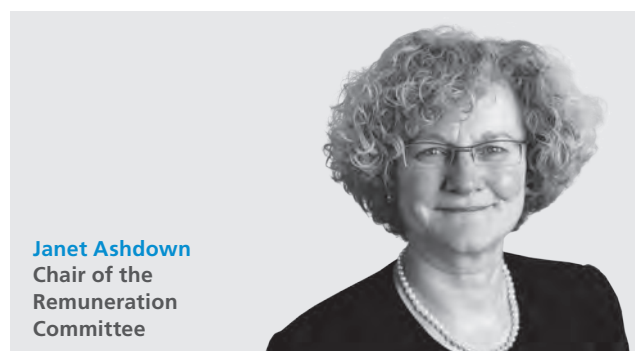
The programme of business for the internal audit function is considered and approved each year by the Committee. In reviewing the proposed programme, the Committee gives consideration to the Group's strategic priorities and specific initiatives which are being undertaken, which could impact the business 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.

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.

David Thomas**Chair of the Audit Committee**

4 December 2018

Directors' remuneration report



Remuneration Committee report

A significant proportion of annual remuneration of executive Directors is performance related. Incentive outcomes in 2017/18 reflect the strong performance of the business during the year, through a combination of the financial results and good progress with executing our strategy.

Annual statement

Dear shareholder,

On behalf of the Board, I am pleased to present my first Directors' remuneration report as Chair of the Remuneration Committee.

Over the last twelve months there has been a significant change in leadership with a new CEO and Group Finance Director and a number of new non-executive director appointments. I would like to take the opportunity to thank my predecessor Patrick De Smedt and welcome two new members to the Committee in David Thomas and Brendan Connolly who join long-standing members Pamela Kirby and Jane Toogood.

As incoming Committee Chair I was delighted to see consistently strong investor support for our remuneration arrangements including for last year's Annual Report on Remuneration (96.44% for) and for our Remuneration Policy (96.22% for) when it was last approved in 2017. However, the Committee continues to be cognisant of investor views and developments in the corporate governance and regulatory landscape including the updated UK Corporate Governance Code. Alongside the Board-led review of governance against the new Code, the Committee continues to be kept up to date on developments and will be undertaking a review of its policies and practices to ensure they evolve in line with the new governance and regulatory requirements and I look forward to reporting on these in due course.

Business performance and 2017/18 incentive outcomes

During what could have been a disruptive period the business has delivered record performance in 2018 and this is testament to the foundations left by our previous leadership and the speed with which our new leadership team continues to execute our clear strategy for growth.

Victrex continued to make excellent progress during 2018 in value creation, delivering growth in its prevailing business and executing on its strategy to be the leading provider of innovative and differentiated high performance polymer solutions using our proprietary PEEK and PAEK technologies. This performance has been brought about by a combination of strong core business sales

in our established markets, coupled with growth in new applications where we have once again demonstrated our ability to deliver solutions meeting the specific needs of our customers.

Key performance highlights from 2018 include:

- Revenues increased by 12% to £326.0m
- Growth in Profit before tax of 15% to £127.5m
- Increase in Earnings per share of 11% to 128.8p

As has been the Committee's policy, a significant proportion of the annual reward for our executive Directors links to the financial performance of the business and achievement of both strategic and personal objectives that underpin our long-term performance. The Committee sets stretching financial, strategic and personal targets at the start of each financial year taking into account the need to balance performance and the associated behaviours over both the near and longer term. Strong financial performance in 2018, as summarised above, together with each executive having excelled against the overall strategic and their individual performance targets, has resulted in annual bonus payments ranging between 60% and 81.25%.

Following assessment of the EPS and TSR targets for the LTIP grant to executive Directors in December 2015, the Committee determined, the vesting achieved represented 74.96% of the total award. Information on the number of shares vesting is shown on page 63.

I set out further detail on performance related pay on page 57.

Key Committee decisions during the year

As I have already noted, the business has performed particularly well during a period of significant transition in leadership. In accordance with recruitment policy the Committee purposefully appointed Jakob Sigurdsson on a base salary that reflected his experience with the intention of making phased increases over the first few years as he develops in the role of CEO. Accordingly the Committee approved an increase of 9% effective 1 October 2018 which results in a base salary that remains below that of both his predecessor and the normal market rate. The Committee will continue to monitor the CEO's performance and competitiveness of his total compensation arrangements as he continues to develop in role. The other executive Directors received a base salary increase of 3% which was in line with those of the wider workforce with the exception of the new Group Finance Director, Richard Armitage, who received £nil, recognising that he was appointed during the year.

As announced on 5 December 2017, Louisa Burdett resigned as Group Finance Director and in accordance with her contractual terms Louisa was entitled to twelve months' notice. It was agreed with the Board that Louisa would cease employment with the Company on 30 April 2018 and receive payment in lieu of notice for the remainder of her notice period subject to mitigation. The Committee did not consider Louisa eligible for a bonus payment in 2018 and the treatment of outstanding LTIP awards is detailed on page 65.

The Committee agreed the remuneration arrangements for the new Group Finance Director, Richard Armitage, who joined the Company on 9 April 2018 and whose recruitment remuneration was in line with approved policy. Richard was appointed on a base salary of £360,000 and was eligible for a pro-rated annual bonus of up to a maximum of 100% of base salary in respect of 2017/18. He was awarded an LTIP grant of 100% of salary in May 2018.

Directors' remuneration report continued

Key Committee decisions during the year continued

The 2009 Victrex Long Term Incentive Plan ('LTIP') expires at the 2019 AGM and during the year the Committee considered how best to replace the LTIP and on what terms. The Committee concluded that the key features of the outgoing LTIP remain fit for purpose and that a new LTIP ('2019 LTIP') should be put to shareholders for approval on principally the same terms. Further detail on the key features of the 2019 LTIP can be found in the AGM circular.

Policy implementation in 2018/19

It is the Committee's intention that the policy, as set out in summary form on the following pages, will continue to apply until it is due for renewal at the 2020 AGM. How the Committee intends to implement policy looking forward into 2018/19 is set out on pages 65 and 66.

Janet Ashdown

Chair of the Remuneration Committee

4 December 2018

Directors' Remuneration Policy – summary

This part of the report sets out in summary form the Company's policy for the remuneration of executive and non-executive Directors (referred to as either the 'Remuneration Policy' or the 'Policy') as it was approved by shareholders at the 2017 AGM. The full Policy can be found in the 2016 Annual Report.

Remuneration Policy

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance targets
Salary	To provide competitive fixed remuneration 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	The basic salary for each executive Director is reviewed annually taking into account each executive Director's performance and the Group's financial circumstances, as well as pay for senior management in the Group and relative to the external market	There is no prescribed maximum annual increase. The Committee will take into account the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role Current salary levels are set out on page 65	Not applicable
Benefits	To provide market-consistent benefits, including insured benefits to support the individual and their family during periods of ill health, or in the event of accidents or death Car or car allowances to facilitate effective travel	Current benefit provision includes a company car or car allowance and private medical insurance. Other benefits may be payable where appropriate	There is no defined maximum as the costs of benefits can vary year on year	Not applicable
Pension	To attract and retain high calibre executive Directors To provide retirement benefits	Defined benefit, defined contribution and/or salary supplement arrangements Where the promised levels of benefits cannot be provided through the appropriate scheme, the Group may provide benefits through the provision of salary supplements	A maximum of 25% of salary can be contributed to a defined benefit, defined contribution pension or equivalent arrangement, or in the form of salary supplements. Such supplements are subject to tax deductions	Not applicable

Directors' Remuneration Policy – summary continued

Remuneration Policy continued

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance targets
Bonus	Assessed annually against achievement of both financial and non-financial performance targets Maximum bonus only payable for achieving suitably demanding targets	A minimum of 25% of earned bonus is deferred into shares under normal circumstances for three years, with the remainder paid in cash Clawback and malus provisions apply	Up to 125% of salary	A combination of Group profit before tax, strategic objectives and executives' personal performance The profit measure will represent no less than 50% of the total bonus opportunity 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
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	Annual grant which vests subject to continued employment and achievement of performance targets measured over a three-year period At the end of the performance period, a further two-year holding period will normally apply to vested shares Participants will receive a payment (in the form of cash and/or additional shares) of an amount equal to the dividends that would have been paid on vested shares between grant and vesting. Clawback and malus provisions apply	Plan limits: 150% of salary (normal limit) 200% of salary (exceptional limit – e.g. recruitment or retention)	Targets will be based on a combination of EPS and TSR 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 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
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
Non-executive Director fees and benefits (Determined by the Board)	Reflects time commitments and responsibilities of each role Reflects fees paid and benefits provided by similarly sized companies	Cash fee paid The Chairman, the SID and Chairs of the Audit and Remuneration Committees receive additional fees Fees are reviewed on an annual basis Non-executive Directors may be eligible for such cash and non-cash benefits as the Company deems appropriate from time to time	There is no prescribed maximum annual increase. The Board is guided by the general increase in the market for NED roles and for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role Current fee levels are set out on page 66	Not applicable Non-executive Directors do not participate in variable pay arrangements and do not receive retirement benefits

Notes

- The Committee operates each share plan in accordance with its respective rules, the Listing Rules and HMRC requirements where relevant. In addition to the LTIP as described above, executive Directors are invited to participate in all employee share plans on the same terms as employees and subject to the legislative requirements of those schemes as they apply. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plans.
- For the avoidance of doubt, this Directors' Remuneration Policy, as it was approved at the 2017 AGM, included authority for the Company to honour any commitments entered into with current or former Directors prior to its implementation and approval (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 report continued

Directors' Remuneration Policy – summary 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	Twelve months
Termination payment	Up to twelve 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 disapply 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 one and three months' notice and their appointment is reviewed annually.

Annual Report on Remuneration

Implementation of the Remuneration Policy for the year ended 30 September 2018

A summary of how the Directors' Remuneration Policy was applied for the year ended 30 September 2018 is set out below.

Remuneration received by Directors for the year ended 30 September 2018 (audited)

	Salary and fees ¹ £	Taxable benefits ² £	Pension ³ £	Annual bonus ⁴ £	Long-term incentives ⁵ £	Total £
D R Hummel						
2018	136,861	6,937	28,303	—	1,071,457	1,243,558
2017	587,654	8,467	147,051	570,024	149,078	1,462,274
J O Sigurdsson						
2018	500,000	60,996	104,105	406,250	—	1,071,351
2017	41,667	631	9,166	—	—	51,464
L S Burdett						
2018	316,573	9,373	34,402	—	—	360,348
2017	316,573	16,109	59,330	246,927	79,415	718,354
R J Armitage						
2018	172,154	7,765	33,043	117,000	—	329,962
2017	—	—	—	—	—	—
T J Cooper						
2018	295,000	15,823	53,275	177,000	385,701	926,799
2017	274,363	16,035	48,778	214,003	68,824	622,003
M L Court						
2018	290,000	16,274	52,025	188,500	371,231	918,030
2017	264,068	16,322	46,205	205,973	63,541	596,109
L C Pentz						
2018	189,600	4,380	—	—	—	193,980
2017	170,000	—	—	—	—	170,000
J E Ashdown						
2018	36,956	—	—	—	—	36,956
2017	—	—	—	—	—	—
B W D Connolly						
2018	30,585	—	—	—	—	30,585
2017	—	—	—	—	—	—
A J H Dougal						
2018	20,226	—	—	—	—	20,226
2017	56,600	—	—	—	—	56,600
P J Kirby						
2018	55,500	—	—	—	—	55,500
2017	52,600	—	—	—	—	52,600
P J M De Smedt						
2018	20,895	—	—	—	—	20,895
2017	55,600	—	—	—	—	55,600
D J Thomas						
2018	22,456	—	—	—	—	22,456
2017	—	—	—	—	—	—
J E Toogood						
2018	48,000	—	—	—	—	48,000
2017	46,600	—	—	—	—	46,600

The remuneration for executive and non-executive Directors comprising salary (or fees), taxable benefits and bonus was £3.1m (2017: £3.2m).

Directors' remuneration report continued

Annual Report on Remuneration continued

Implementation of the Remuneration Policy for the year ended 30 September 2018 continued

Notes and additional information

1. Salary and fees

D R Hummel received a pro-rated salary, reflecting his retirement, of \$187,500, converted at an average exchange rate of £1/\$1.37 (2017: £1/\$1.27).

2. Taxable benefits

The taxable benefits for all executive Directors comprise eligibility for a company car and membership of a private medical scheme, covering themselves and their immediate families. The cost of relocation to the UK for J O Sigurdsson is also included in total taxable benefits.

In addition, D R Hummel, J O Sigurdsson and L C Pentz receive support to complete UK and overseas tax submissions in order to ensure that the Group maintains employment compliance across the jurisdictions.

3. Pensions

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 member's retirement account will be used by the trustees to provide either or both a lump sum and a pension payable to dependants. Where the promised levels of benefits cannot be provided through the appropriate scheme, the Group provides benefits through the provision of salary supplements.

D R Hummel participated 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.

M L Court and R J Armitage have opted out of the pension scheme and receive a cash supplement of 12%. T J Cooper and J O Sigurdsson both participate in the Company pension scheme in line with HMRC limits and receive the balance between these limits and the Company contributions as a cash supplement of 12%. The aforementioned contributions of 12% apply up to the Notional Earnings Cap ('NEC') for basic salary. Above the NEC, participants receive a cash supplement of 25% of basic pay. All supplements are subject to statutory deductions. 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.

Two of the Directors are accruing pension benefits under defined contribution schemes (2017: two). None of the Directors are accruing pension benefits under defined benefit schemes (2017: none).

4. Annual bonus payments

The annual bonus outturn presented in the table on page 59 was based on performance against budgeted Group profit before tax ('PBT') and performance against both shared and individual personal performance objectives measured over the relevant financial year.

Group financial targets	Maximum (% of salary)	PBT required for threshold bonus £m	PBT required for maximum bonus £m	Actual PBT £m	Actual (% of salary)	Strategic objectives	Individual objectives	Total (as a % of maximum opportunity)
J O Sigurdsson	125	120.0	130.0	127.5	43.75	18.75	18.75	81.25
R J Armitage ¹	100	120.0	130.0	127.5	35	15	15	65
T J Cooper	100	120.0	130.0	127.5	35	15	10	60
M L Court	100	120.0	130.0	127.5	35	15	15	65
D R Hummel ²	—	120.0	130.0	127.5	—	—	—	—
L S Burdett ²	—	120.0	130.0	127.5	—	—	—	—

1 Bonus for R J Armitage was pro-rated to his start date.

2 D R Hummel and L S Burdett were not eligible to participate in the FY18 bonus scheme in line with their termination arrangements.

The Committee concluded that the annual bonus outcomes as outlined above are a consequence of the strong underlying financial performance of the business, along with the continued progress towards the strategic goals of the business.

In accordance with the remuneration policy, 25% of the earned bonus will be deferred into shares for three years, with the remainder paid in cash.

In addition to financial performance, executive Directors were set a number of stretching strategic and personal performance objectives for 2018, which account for 50% of total annual bonus opportunity. The Committee assesses performance against those objectives using a combination of quantitative and qualitative information. A summary of the objectives which were assessed is shown below.

In determining that a bonus for the non-financial elements should be paid, the Committee was satisfied that the underlying financial performance of the Company was sufficient to warrant payment.

Annual Report on Remuneration continued

Implementation of the Remuneration Policy for the year ended 30 September 2018 continued

Notes and additional information continued

4. Annual bonus payments continued

Non-financial bonus objectives – strategic outcomes disclosure (weighted 30%)

The Committee considered performance against three strategic targets connected with enabling growth of the Group over the medium and long term. They are weighted at 30% of the total outturn and the executives are assessed collectively. Detail of the strategic objectives, performance against them, and the Committee's determination of the level of achievement is set out in the table below. The Committee determined the level of performance against each objective taking into account performance against both targets set and the context in which they were achieved.

Strategic objective	Key performance highlights
Achievement of significant medium-term deliverables	<ul style="list-style-type: none"> → Delivered new product sales across the product range → Path to achieving remaining deliverables clearly identified
Maximise margin contribution from existing and incremental products	<ul style="list-style-type: none"> → Lean principles deployed in key manufacturing areas → Continuous improvement programme delivers significant savings
Establish reshaped organisation through internal movement and upskilling as required	<ul style="list-style-type: none"> → All industrialisation products transferred smoothly → Internal processes improved across the functions → Post-acquisition integration completed and delivering value to broader organisation

As a consequence of the level of performance outlined above, the Directors were awarded 50% of the total available element for the strategic objectives.

Performance against individual objectives (weighted 20%)

In addition to the collective strategic objectives outlined above each Director was set stretching individual objectives which accounted for 20% of total bonus opportunity.

Objectives for J O Sigurdsson

Focus area	Objective	Performance assessment
Key focus areas covering people, organisation and the executive team , the delivery of continued business growth and innovation , alongside a focus on operational excellence and ensuring investor impact was maintained.	People, organisation and culture	A culture of collaboration and team spirit across ELT and PLC Board has been created, including clear responsibilities and delivering empowered leadership through personally role modelling the behaviours and increasing visibility across the organisation.
	Business growth and innovation	Successful integration of acquisitions has led directly to revenue and the strategic direction of the growth agenda continues.
	Operations excellence	Significant improvements in the management of inventories and engineering areas alongside continuous improvement initiatives which have led to significant savings.
	Investor impact	Significant work done with the investor community via roadshows, investor visits and deskside briefings.
As a consequence of the level of performance outlined above, J O Sigurdsson was awarded 75% of the total available element for his personal objectives.		

Directors' remuneration report continued

Annual Report on Remuneration continued

Implementation of the Remuneration Policy for the year ended 30 September 2018 continued

Notes and additional information continued

4. Annual bonus payments continued

Performance against individual objectives (weighted 20%) continued

Objectives for R J Armitage

Focus area	Objective	Performance assessment
Focus areas covering people and organisation, profitable business growth, successful internal induction and investor impact .	People and organisation	Plans established; coaches have been identified and commenced working with the team. Outcomes of survey are being translated into tangible actions within the functions.
	Profitable business growth	New strategic approach adopted and appropriate profit improvement plans identified.
	Successful internal induction and investor impact	All sites visited and strong working relationships established with the German Works Council, the Board and the investor community.
As a consequence of the level of performance outlined above, R J Armitage was awarded 75% of the total available element for his personal objectives. This was pro-rated to his start date in April 2018.		

Objectives for T J Cooper

Focus area	Objective	Performance assessment
Key areas covering enhancements in SHE organisational development, performance and improvement , the focus on operational efficiency, continuous improvement and inventory reduction, delivery of the joint venture financial and business plan and enhanced compliance.	SHE organisational development, performance and improvement	Executive SHE commentary is now a key part of all briefings and there has been a material reduction in significant accidents and incidents.
	Operational efficiency	Lean performance is now embedded as the way to run operations with all departments aligned – this has delivered major cost savings in manufacturing.
	Deliver joint venture targets	Plans are on track.
As a consequence of the level of performance outlined above, T J Cooper was awarded 50% of the total available element for his personal objectives.		

Objectives for M L Court

Focus area	Objective	Performance assessment
Priority areas covered innovation, improvements in SHE and milestone deliverables across the key markets of Medical, Energy and Automotive .	SHE organisational development, performance and improvement	A revised system deployed ahead of schedule with positive benefits established by key users.
	Specific market deliverables	Partnerships are now in place with two OEMs delivering medium-term related outcomes. Victrex recognised as the provider of key contributions to direction of strategic partnerships. Clear actionable first steps delivered in pursuit of agreed e-mobility strategy.
	Innovation	Product platform concept successfully deployed to deliver significant cross-programme learning and resource effectiveness. Several portfolio options explored included M&A opportunities.
As a consequence of the level of performance outlined above, M L Court was awarded 75% of the total available element for his personal objectives.		

Annual Report on Remuneration continued

Implementation of the Remuneration Policy for the year ended 30 September 2018 continued

Notes and additional information continued

5. Vesting of LTIP awards

The LTIP awards granted on 14 December 2015 were based on performance to the year ended 30 September 2018. The performance targets for these awards and actual performance against those targets were as follows:

Metric	Weighting	Performance condition	Threshold target	Stretch target	Actual	% vesting
Earnings per share	75%	Normalised EPS growth of 6% p.a. to 12% p.a. (vesting on a straight line basis between 20% and 100%) over three financial years	116.9p	137.8p	128.8p	66.6%
Total shareholder return	25%	TSR against the constituents of the FTSE 250 Index (excluding investment trusts). 25% vesting for median performance and 100% 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	22.1%	63.0%	91.1%	100%
Total	100%				Total vesting	74.96%

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 ¹ £	Estimated value ¹ £
T J Cooper	14 Dec 2015	14 Dec 2018	15,327	11,489	3,838	24,946	385,701
L S Burdett ²	14 Dec 2015	14 Dec 2018	17,685	—	—	—	—
M L Court	14 Dec 2015	14 Dec 2018	14,752	11,058	3,694	24,010	371,231

1 The stated dividend equivalent reflects the notional value, assuming all shares are released on 15 December 2018. The estimated value is calculated using a share price based on an average over the three-month period ended September 2018 (£31.40). Given that actual vesting is phased over three tranches and only one third will be released at each phase, the final dividend equivalent will be subject to adjustment to reflect accrued dividends through to release of the subsequent tranches.

2 L S Burdett resigned from the Board on 30 April 2018 and the December 2015 award lapsed in full.

D R Hummel resigned from the Board on 31 March 2018 and as agreed by the Remuneration Committee, the options awarded in December 2015 and December 2016 scheme vested early; see table below for further details.

As part of the exit arrangements agreed by the Remuneration Committee on the retirement of David Hummel, a number of LTIP options were permitted to vest early, subject to performance testing. This is in accordance with the rules of the LTIP 2009 plan. A full summary of the LTIP options which vested as part of the agreement for D R Hummel and were exercised is as follows:

Grant date	Original expected vest date	Number of shares at grant	Revised vest date	% to vest	Number of shares to vest	Dividend equivalent on shares to vest ¹ £	Actual value £
14 Dec 2015	14 Dec 2018	34,256	16 May 2018	57.12%	19,565	39,856	573,280
8 Dec 2016	08 Dec 2019	41,469	16 May 2018	41.67%	17,278	27,107	498,177
Total							1,071,457

The actual value of the LTIP award is based on the sales price of £27.26 on the date of exercise 16 May 2018.

Long-term incentives granted during the year (audited)

On 8 December 2017, the following LTIP awards were granted to executive Directors:

Executive	Type of award	Basis of award granted	Share price at date of grant ¹	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
J O Sigurdsson	Nil-cost option	125% of salary	£25.26	24,742	£624,983	21.25%	Three financial years to 30 September 2020
R J Armitage ²	Nil-cost option	100% of salary	£26.52	13,574	£359,982	21.25%	
T J Cooper	Nil-cost option	100% of salary	£25.26	11,678	£294,986	21.25%	
M L Court	Nil-cost option	100% of salary	£25.26	11,480	£289,985	21.25%	

1 The share price at date of grant is the mid-market price quoted over a two-day average on 6 and 7 December 2017 in accordance with the Plan rules.

2 R J Armitage's LTIP award was granted on 16 May 2018, following his appointment. The share price at date of grant is the mid-market price quoted over a two-day average on 14 and 15 May 2018 in accordance with the Plan rules.

Directors' remuneration report continued

Annual Report on Remuneration continued

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 2018 financial year is shown in bold.

Plan	Grant date	Exercise price	No. of share awards at 1 October 2017	Granted during the year	Vested/ exercised during the year	Lapsed during the year	No. of share awards at 30 September 2018	End of performance period	Date from which exercisable ¹	Expiry date
D R Hummel¹										
LTIP	15/12/2014	nil	29,749	—	6,574	23,175	—	30/09/2017	n/a	n/a
	14/12/2015	nil	34,256	—	19,565	14,691	—	31/03/2018	n/a	n/a
	08/12/2016	nil	41,469	—	17,278	24,191	—	31/03/2018	n/a	n/a
L S Burdett²										
LTIP	15/12/2014	nil	15,848	—	1,167	12,346	2,335	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
	08/12/2016	nil	17,745	—	—	17,745	—	30/09/2019	08/12/2019	08/12/2026
T J Cooper										
LTIP	15/12/2014	nil	13,735	—	1,011	10,700	2,024	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
	08/12/2016	nil	15,379	—	—	—	15,379	30/09/2019	08/12/2019	08/12/2026
	08/12/2017	nil	—	11,678	—	—	11,678	30/09/2020	14/12/2022	14/12/2027
SAYE	01/04/2016	£12.66	710	—	—	—	710	n/a	01/04/2019	30/09/2019
SAYE	01/04/2018	£21.64	—	415	—	—	415	n/a	01/04/2020	30/09/2020
Deferred shares ³	05/12/2017	nil	—	2,315	—	—	2,315	n/a	05/12/2020	n/a
M L Court										
LTIP	15/12/2014	nil	12,679	—	934	9,877	1,868	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
	08/12/2016	nil	14,802	—	—	—	14,802	30/09/2019	08/12/2019	08/12/2026
	08/12/2017	nil	—	11,480	—	—	11,480	30/09/2020	14/12/2022	14/12/2027
SAYE	01/04/2016	£12.66	710	—	—	—	710	n/a	01/04/2019	30/09/2019
SAYE	01/04/2018	£21.64	—	415	—	—	415	n/a	01/04/2020	30/09/2020
Deferred shares ³	05/12/2017	nil	—	2,228	—	—	2,228	n/a	05/12/2020	n/a
J O Sigurdsson										
LTIP	08/12/2017	nil	—	24,742	—	—	24,742	30/09/2020	14/12/2022	14/12/2027
SAYE	01/04/2018	£21.64	—	831	—	—	831	n/a	01/04/2020	30/09/2020
R J Armitage										
LTIP	16/05/2018	nil	—	13,574	—	—	13,574	30/09/2020	16/05/2023	16/05/2028

1 D R Hummel retired from the Board on 31 March 2018. As part of his exit agreement, his 2015 and 2016 LTIP awards vested early and were tested under the normal performance conditions. He exercised all available options on 16 May 2018.

2 L S Burdett resigned from the Board on 30 April 2018. As part of her exit agreement, she retained the remaining tranches (tranches 2 and 3) in the 2014 award which will be exercisable in accordance with the scheme rules. All other awards lapsed.

3 The deferred shares for T J Cooper and M L Court represent 25% of their FY 2017 bonus.

The vesting of all LTIP awards is subject to satisfying the relevant EPS and TSR conditions.

During the year ended 30 September 2018, the Directors below either received or exercised nil-cost options which had vested in previous financial years. The table below shows the gains that each of the Directors made, totalling £1,262,826. No gains were made by Directors in 2017. The gain made by the highest paid Director in 2018 was £1,181,354 (2017: £nil).

Annual Report on Remuneration continued

Outstanding share awards continued

Executive	Scheme	Description of options	Number exercised	Gain 2018
D R Hummel	Dec 2014/2015/2016	LTIP 2009	43,417	1,181,354
T J Cooper	Dec 2014	LTIP 2009	1,011	26,468
L S Burdett	Dec 2014	LTIP 2009	1,167	30,552
M L Court	Dec 2014	LTIP 2009	934	24,452

Payments to past Directors (audited)

No payments were made to past Directors during the year ended 30 September 2018 (2017: none).

Payments for loss of office (audited)

Under the terms of her termination agreement, L S Burdett resigned with effect from 30 April 2018 and received the following:

L S Burdett – remuneration at termination

Element	Value	Note
Base pay	£316,573	Equal monthly payments to be paid throughout the remainder of the unexpired notice period or until an alternative remunerated position is secured
Bonus FY2018		Not eligible to participate
LTIP December 2014		Vests and is exercisable in tranches:
<i>Date of vesting</i>	<i>Actual number vesting</i>	<i>Last date for exercise</i>
15 Dec 2017	1,167	15 Jun 2018
15 Dec 2018	1,167	14 Jun 2019
15 Dec 2019	1,169	15 Jun 2020
LTIP December 2015		Lapse in full
LTIP December 2016		
Pension		
Car		All cease at termination date
Benefits		

The base pay element was paid from 1 May 2018 to 21 October 2018 when L S Burdett commenced her new employment.

No payments for loss of office were made during the year ended 30 September 2017.

Implementation of Policy in 2018/19

Salaries and fees

Executive Directors

In accordance with recruitment policy the Committee purposefully appointed Jakob Sigurdsson on a base salary that reflected his experience with the intention of making phased increases over the first few years as he develops in the role of CEO. Accordingly the Committee approved an increase of 9% effective 1 October 2018 which results in a base salary that remains below that of both his predecessor and the normal market rate. The Committee will continue to monitor the CEO's performance and competitiveness of his total compensation arrangements as he continues to develop in role. The other executive Directors received a base salary increase of 3% which was in line with those of the wider workforce with the exception of the new Group Finance Director, Richard Armitage, who received £nil, recognising that he was appointed during the year.

	2019	2018	% increase
J O Sigurdsson	£545,000	£500,000	9
R J Armitage	£360,000	—	n/a
T J Cooper	£303,850	£295,000	3
M L Court	£298,700	£290,000	3
D R Hummel	—	\$375,000 ¹	n/a
L S Burdett	—	£316,573	n/a

¹ To ensure a smooth transition, D R Hummel remained an executive Director up until the 2018 AGM. He retired as an employee on 31 March 2018 and received a commensurate reduction in base salary to reflect the reduced responsibilities during the period.

Directors' remuneration report continued

Annual Report on Remuneration continued

Implementation of Policy in 2018/19 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. No changes to non-executive Director fees are proposed for the 2019 financial year. Following a review of the market in conjunction with the Committee advisors Willis Towers Watson, the Remuneration Committee approved an increase in the Chairman's fee as outlined below. Should the resolution regarding the proposed increase to non-executive fee limits not be approved, the Chairman will not receive any increase for 2019.

Position	2019	2018	% increase
Chairman	£195,700	£190,000	3
Base fee	£48,000	£48,000	—
Senior Independent Director	£7,500	£7,500	—
Audit Committee Chair	£10,000	£10,000	—
Remuneration Committee Chair	£10,000	£10,000	—

Annual bonus

The maximum bonus potential for the year ended 30 September 2018 will remain at 125% of salary for the Chief Executive and 100% of basic salary for the other executive Directors. 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 Committee considers certain of the performance targets for the annual bonus to be commercially sensitive and, as such, they will be disclosed either at the end of the performance period or when they are no longer commercially sensitive. 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 three years.

Long-term incentives

The extent to which LTIP awards to be granted for the 2019 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 467p over the three-year period. This element of the award is reduced to 20% on a pro-rata basis if cumulative EPS is 424p over the three-year period and is reduced to nil if cumulative EPS over the period fails to exceed 424p.

As set out in the Directors' Remuneration Policy, awards granted are subject to malus and clawback provisions.

Statement of Directors' shareholdings and share interests (audited)

Director	Beneficially owned at 1 October 2017	Beneficially owned at 30 September 2018 ¹	Outstanding LTIP awards at 30 September 2018	Outstanding deferred share awards	Outstanding share awards under all-employee share plans	Shareholding as a % of salary at 30 September 2018
J O Sigurdsson	—	3,250	24,742	—	831	21
R J Armitage	n/a	—	13,574	—	—	—
T J Cooper	7,667	8,294	44,408	2,315	1,125	92
M L Court	869	1,452	42,902	2,228	1,125	16
L C Pentz	4,000	4,000	—	—	—	n/a
P J Kirby	3,000	3,000	—	—	—	n/a
B W D Connolly	—	—	—	—	—	n/a
J E Ashdown	—	—	—	—	—	n/a
D J Thomas	—	—	—	—	—	n/a
J E Toogood	—	—	—	—	—	n/a

¹ The table above includes the holdings of persons connected with each of the Directors. The holdings stated represent shares beneficially held and excludes share options held with the Company.

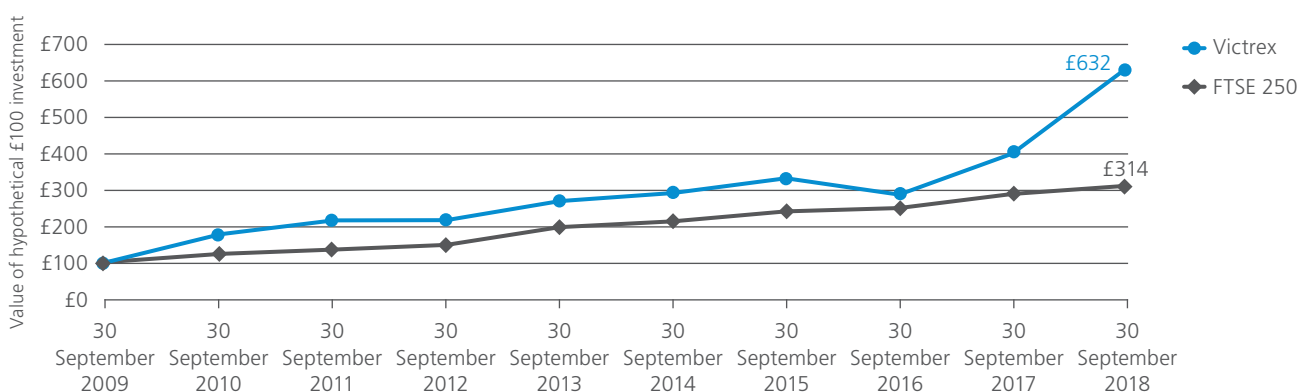
T J Cooper and M L Court acquired an additional nine shares each during the period from 1 October 2018 to the date of this report through their participation in the All-Employee Share Ownership Scheme.

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 2018 of £32.72.

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.



Source: DataStream Return Index.

CEO total remuneration

The total remuneration figures for the CEO during each of the last nine 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	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total remuneration	£1,071,351	£1,462,274	£668,211	£735,103	£832,147	£709,288	£1,532,239	£2,382,086	£1,357,393
Annual bonus (% of maximum)	81.25%	97%	—	22.5%	53.1%	— ¹	17.3%	71.5%	81.3%
LTIP vesting (% of maximum)	n/a²	22.1%	—	—	—	16.56%	100%	100%	91.23%

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

2 J O Sigurdsson was appointed as CEO on 1 October 2017. His first tranche of LTIPs are eligible to vest in 2020 subject to performance testing and a holding period until 2022.

Percentage change in CEO's remuneration

The table below shows the percentage change in the CEO's salary, benefits and annual bonus between the financial years ended 30 September 2017 and 30 September 2018, compared to that of the total amounts for all UK employees of the Group for each of these elements of pay.

	2018	2017	% change
Salary			
Chief Executive (£000)	500	588	(15.0)
UK employee average (£000)	48	46	4.0
Benefits			
Chief Executive (£000)	61	8	662.5
UK employee average (£000)	1	1	—
Annual bonus			
Chief Executive (£000)	406	570	(28.8)
UK employee average (£000)	9	6	50.0
Average number of UK employees	625	582	7.4

Note: Prior year figures relate to D R Hummel, who retired on 31 March 2018. The amounts have been converted to Sterling using an average exchange rate of £1/\$1.27.

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:

	2018 £m	2017 £m	% change
Staff costs	72.4	62.1	17
Dividends ¹	51.2	46.1	11
Tax	16.9	11.5	47
Profit for the year attributable to owners of the Parent	110.6	99.5	11

1 2018 includes a proposed final regular dividend of 46.14p. Special dividends have not been included.

£5.0m (2017: £3.5m) of the staff costs figures relate to pay for the Directors, of which £0.9m relates to the highest paid Director (2017: £1.2m). Total pension contributions were £0.3m (2017: £0.3m) and for the highest paid Director were £0.1m (2017: £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:

- J E Ashdown (Remuneration Committee Chair)
- P J Kirby
- J E Toogood
- B W D Connolly
- D J Thomas

Biographical information on the Committee members and details of attendance at the Committee's meetings during the year are set out on pages 42, 43 and 46.

The Committee has access to independent advice where it considers it appropriate. WillisTowersWatson is the appointed remuneration consultant and has advised the Committee during the year. WillisTowersWatson 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 WillisTowersWatson for providing advice in relation to executive remuneration over the financial year under review were £23,830.

Statement of voting at general meeting

At the 2018 AGM, the following votes were received from shareholders:

	Remuneration report	
Votes cast in favour ¹	55,074,084	96.44%
Votes cast against	2,034,531	3.56%
Total votes cast	57,108,615	100%
Abstentions	4,382,279	

1 Includes Chairman's discretionary votes.

Approved by the Board on 4 December 2018

Janet Ashdown

Chair of the Remuneration Committee

Directors' report – other statutory information

The Directors present the Annual Report and financial statements to shareholders for the year ended 30 September 2018.

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 1 to 39. The report sets out the business model, strategy and likely future developments, 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. Such information is incorporated into this report by reference and is deemed to form part of this report.

Research & Development

The Group's spend on Research & Development is disclosed in note 9 to the financial statements. Such information is incorporated into this report by reference and is deemed to form part of this report.

Results and dividends

Group profit before tax for the year was £127.5m (2017: £111.0m).

The Directors recommend the payment of a final dividend of 46.14p per ordinary share that, subject to shareholder approval at the Company's Annual General Meeting being held on 6 February 2019, will be paid on 22 February 2019 to all shareholders on the register of members as at 6:30pm on 1 February 2019. Together with the interim dividend paid in July 2018, this makes a total regular dividend of 59.56p per ordinary share for the year (2017: 53.80p per ordinary share).

In addition to the final dividend, the Directors are recommending the payment of a special dividend of 82.68p per ordinary share that, subject to shareholder approval at the Company's Annual General Meeting being held on 6 February 2019, will be paid on 22 February 2019 to all shareholders on the register of members as at 6:30pm on 1 February 2019. The proposal to pay a special dividend reflects exceeding the trigger point set by the Company under the capital allocation policy.

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

On 26 October 2018, the High Court handed down its judgment in the Lloyds Banking Group case relating to equalisation of member benefits for the gender effects of Guaranteed Minimum Pensions ('GMP equalisation'). This addressed a long-standing legal uncertainty for Defined Benefit pension schemes, and will result in an increase in scheme liabilities. GMP equalisation represents a scheme amendment, where an additional past service cost is chargeable, due to a change in the benefits payable and will be recognised in full in the Group's

financial statements in the year ended 30 September 2019. The impact is expected to be in the range of £1m–£2m. This High Court judgment represents a condition that arose after the balance sheet date and has therefore been treated as a non-adjusting post balance sheet event (in accordance with IAS 10) for the year ended 30 September 2018.

There have been no other 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 2018, 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.

Details of related party transactions are given in note 20 to the financial statements.

Share capital

The Company has a single class of shares in the form of ordinary shares with a nominal value of 1p 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 19 to the financial statements. During the year 288,728 shares were issued in respect of options exercised under employee share schemes. Details of these schemes are summarised in note 19 to the financial statements. The information in notes 18 and 19 to the financial statements 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.

Directors' report – other statutory information continued

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 19 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 23 of the Notice of Annual General Meeting ('AGM') and which can be found on page 111.

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

A total of 174,813 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 2018. The Directors are beneficiaries of the EBTs.

AGM

The Notice of the 2019 AGM of the Company and explanatory notes are given on pages 110 to 119.

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 28 November 2018:

	Number of ordinary shares held	Percentage
Aberdeen Standard Investments	4,384,504	5.09%
M&G Investment Management Ltd	3,995,865	4.64%
Columbia Threadneedle Investments	3,901,037	4.53%
T. Rowe Price Group	3,645,228	4.23%
BlackRock Inc	3,516,123	4.08%
Baillie Gifford & Co Ltd	3,499,320	4.06%
Schroders Plc	3,147,801	3.65%
Mondrian Investment Partners Ltd	3,035,315	3.52%
The Vanguard Group Inc	2,718,317	3.15%
Royal London Asset Management Ltd	2,584,619	3.00%

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) as at 28 November 2018.

Directors

The following served as Directors during the financial year:

- Larry Pentz
- Jakob Sigurdsson
- David Hummel
- Richard Armitage
- Louisa Burdett
- Tim Cooper
- Martin Court
- Patrick De Smedt
- Andrew Dougal
- Pamela Kirby
- Jane Toogood
- Janet Ashdown
- Brendan Connolly
- David Thomas

Details of the Directors of the Company are given on pages 42 and 43. Details of Directors' interests in shares are provided in the Directors' remuneration report on page 66. Details of Directors are also provided on the Company website, www.victrexplc.com.

Appointment and replacement of Directors

The Articles of Association of the Company limit the number of Directors to twelve. Directors may be appointed by an Ordinary Resolution of the shareholders 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 AGMs 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 of Association 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 AGM in 2018 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 £268,249 (being approximately one third of the issued share capital prior to that AGM) and (b) a further maximum aggregate nominal amount of £286,249 (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 2019 AGM. At the 2019 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 20 on page 110 of the Notice of Annual General Meeting.

The Directors were empowered at the 2018 AGM to make non-pre-emptive issues for cash up to a maximum aggregate nominal amount of £42,937 (being approximately 5% of the issued share capital prior to that AGM). This power is also due to lapse at the 2019 AGM and shareholders will be asked to grant a similar power (Resolution 21 of the Notice of Annual General Meeting on page 111).

Resolution 22 is in addition to Resolution 21. As supported by the Pre-Emption Group's Statement of Principles, as updated in March 2015, Resolution 22 will enable the Directors to allot shares for cash or sell shares out of treasury up to a further nominal amount of £43,081, representing approximately 5% of the issued ordinary share capital as at 30 November 2018 (the latest practicable date before the publication of the Notice of Annual General Meeting), 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 22, 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 20 to 22 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 2018 AGM under a Special Resolution to make market purchases of the Company's own ordinary shares up to a maximum aggregate number of 8,587,471 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 2019 AGM when it is proposed that shareholders grant a similar authority.

The authority contained in Resolution 23 will expire at the earlier of 31 March 2020 or the conclusion of the 2020 AGM. 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 23, the shares would either be cancelled (and the number in issue would be reduced accordingly) or 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 Shareholder 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 2018 AGM, 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 24 seeks such approval. The approval will be effective until the Company's next AGM, 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.

Directors' fees

The Articles of Association of the Company limit the fees that can be paid to non-executive Directors. This limit is currently at £400,000. At the 2019 AGM, the Directors will be seeking shareholder approval by way of an Ordinary Resolution, in accordance with the Articles of Association, to increase this amount to £600,000. The £400,000 limit has been in place since 2010 when the Board of the Company was smaller in numbers. Given the increase in the number of Directors to ten in the current year, authority is sought to increase the maximum fee amount payable in line with comparable FTSE 250 companies.

Conflict of interest duties

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

Directors' report – other statutory information continued

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 28 to 39. 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 2018 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 38 and 39. Such information is incorporated into this report by reference and is deemed to form part of this report.

UK Corporate Governance Code

The Company's statement on corporate governance can be found in the Corporate governance report on pages 41 to 73. 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 to the financial statements. 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

The Group made no political donations in the UK or European Union ('EU') during the year ended 30 September 2018 (2017: £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 69 to 72 and pages 1 to 39 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 page 69 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

An Ordinary Resolution will be put before the 2019 AGM to re-appoint PricewaterhouseCoopers LLP as external auditor for the 2019 financial year.

By order of the Board

Louise Waldek

General Counsel and Company Secretary

4 December 2018

Statement of Directors' responsibilities

in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. 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 Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in your Board of Directors section confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Richard Armitage
Group Finance Director
4 December 2018

Independent auditors’ report to the members of Victrex plc

Report on the audit of the financial statements

Opinion

In our opinion, Victrex plc’s Group financial statements and Company financial statements (the ‘Financial Statements’):

- give a true and fair view of the state of the Group’s and of the Company’s affairs as at 30 September 2018 and of the Group’s profit and the Group’s and the Company’s cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by the European Union and, as regards the Company’s financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- 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.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance sheets as at 30 September 2018; the Consolidated income statement and Consolidated statement of comprehensive income, the Cash flow statements, and the Consolidated statement of changes in equity and Company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (‘ISAs (UK)’ and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

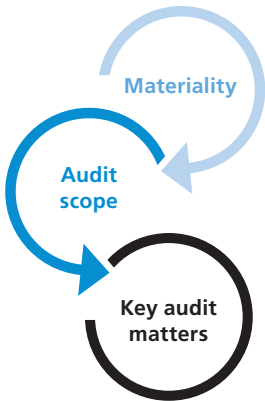
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 3 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 October 2017 to 30 September 2018.

Our audit approach

Overview



- Overall Group materiality: £6.4 million, based on 5% of profit before tax.
- Overall Company materiality: £1.9 million, based on 1% of total assets.
- Of the Group’s 21 reporting components we subjected five to audits for Group reporting purposes, and one to specified risk-focused audit procedures, over revenue and trade receivables.
- Our audit focused on those entities with the most significant contribution to the Group’s results, being Victrex Manufacturing Limited, Invibio Limited, Invibio Inc, Victrex USA Inc, Victrex Plc and the consolidation journals.
- The components within the scope of our work accounted for 84% of Group revenue and 84% of Group profit before tax.
- Valuation of the UK defined benefit pension scheme – refer to page 53 (Audit Committee report), page 100 (accounting policy) and pages 100 to 102 (financial disclosures).
- Valuation of inventories – refer to page 53 (Audit Committee report) and page 95 (accounting policy and financial disclosures).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industries in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, Pensions legislation and Tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with legal advisors and enquiries of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

Report on the audit of the financial statements continued

Our audit approach continued

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of the UK defined benefit pension scheme</p> <p>Refer to page 53 (Audit Committee report), page 100 (accounting policy) and pages 100 to 102 (financial disclosures).</p> <p>Significant assumptions are made in valuing the UK's defined benefit pension scheme (before deducting scheme assets) including in particular the discount rate, inflation rates and the average life expectancy. Small changes in the assumptions used could have a significant effect on the financial position of the Group.</p>	<p>Our procedures included:</p> <p>Challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data and internally developed benchmarks;</p> <p>Considering the adequacy of the Group's disclosures in respect of the sensitivity of the surplus to changes in these assumptions;</p> <p>Recognition of the surplus in line with accounting standards; and</p> <p>Obtaining confirmations from fund managers over the pension asset values and reviewing the validity of pension scheme member data used.</p> <p>We found the assumptions made in the valuation of the UK defined benefit pension scheme to be acceptable.</p>
<p>Valuation of inventories</p> <p>Refer to page 53 (Audit Committee report) and page 95 (accounting policy and financial disclosures).</p> <p>A number of estimates are involved in arriving at the valuation of inventories.</p> <p>A standard costing process is adopted to value work in progress and finished goods. At each period end, adjustments are made to capitalise variances where necessary. This involves estimation of normal levels of production and adjustments are made where considered necessary to reflect the impact of variances in the carrying value of stock.</p> <p>In addition, stock provisions are recorded based on a specific accounting policy, taking into account batch ageing and the quality process. Judgements are made with regard to the categorisation of stock as non conforming and/or slow moving/obsolete, and therefore whether items should be considered for provision. Estimation is then involved in arriving at a provision against cost in respect of non conforming product and/or slow moving inventories so that inventory is carried at the lower of cost and net realisable value.</p>	<p>We have reviewed the assessment of normal levels of production for standard costing purposes by comparing actual and budgeted levels of production over the past three years; and have understood and corroborated the impact of manufacturing variances in relation to production output.</p> <p>We have compared inventory levels to historical sales data to challenge whether slow moving and obsolete inventories have been appropriately identified.</p> <p>We have reviewed post year-end sales in order to be comfortable that inventory items are held at the lower of cost and net realisable value.</p> <p>We have considered the realisation of inventories categorised as non conforming and obsolete or slow moving at the prior year end and compared actual recoveries in the year to the Group's expected recoveries.</p> <p>We have attended year-end inventory counts at the main UK manufacturing facility to gain an understanding of management's controls over the identification of non conforming and obsolete or slow moving product.</p> <p>We found the estimates made in the valuation of inventory to be acceptable.</p>

We determined that there were no key audit matters applicable to the Company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

Of the Group's 21 reporting components we subjected five to audits for Group reporting purposes, and one to specified risk-focused audit procedures, over revenue and trade receivables. The components for which we performed specified risk-focused procedures were not individually financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed including revenue and trade receivables.

For the 15 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. The Group audit team carried out the work on all the components at the Group's offices in Thornton Cleveleys, Lancashire, other than two US divisions where the work was carried out in the US by the Group audit team.

Independent auditors' report to the members of Victrex plc continued

Report on the audit of the financial statements continued

Our audit approach continued

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£6.4 million.	→ £1.9 million.
How we determined it	5% of Profit before tax.	→ 1% of Total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	→ We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark for non trading companies.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1.9 million and £6 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.3 million (Group audit) and £0.1 million (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our Auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 ('CA06'), ISAs (UK) and the Listing Rules of the Financial Conduct Authority ('FCA') require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Report on the audit of the financial statements continued

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 30 September 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements (CA06).

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report (CA06).

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on pages 26 and 27 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on pages 26 and 27 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 73, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 53 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006 (CA06).

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 73, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Victrex plc continued

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 9 February 2018 to audit the financial statements for the year ended 30 September 2018 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Ian Morrison (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Manchester

4 December 2018



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Consolidated income statement

for the year ended 30 September

	Note	2018 £m	2017 £m
Revenue	2	326.0	290.2
Cost of sales	3	(118.0)	(106.4)
Gross profit		208.0	183.8
Sales, marketing and administrative expenses	3	(81.1)	(72.7)
Operating profit	2	126.9	111.1
Financial income		0.6	0.3
Financial expenses		—	(0.4)
Profit before tax		127.5	111.0
Income tax expense	5	(16.9)	(11.5)
Profit for the year attributable to owners of the Parent		110.6	99.5
Earnings per share			
Basic	6	128.8p	116.4p
Diluted	6	128.2p	116.2p
Dividend per ordinary share			
Interim	19	13.42p	12.20p
Final	19	46.14p	41.60p
Special	19	82.68p	68.00p
	19	142.24p	121.80p

A final dividend in respect of 2018 of 46.14p and a special dividend of 82.68p per ordinary share has been recommended by the Directors for approval at the Annual General Meeting in February 2019.

Consolidated statement of comprehensive income

for the year ended 30 September

	Note	2018 £m	2017 £m
Profit for the year		110.6	99.5
Items that will not be reclassified to profit or loss			
Defined benefit pension schemes' actuarial gains	15	5.6	13.6
Income tax on items that will not be reclassified to profit or loss	5	(0.9)	(2.3)
		4.7	11.3
Items that may be reclassified subsequently to profit or loss			
Currency translation differences for foreign operations		1.1	(1.5)
Effective portion of changes in fair value of cash flow hedges		(4.6)	2.9
Net change in fair value of cash flow hedges transferred to profit or loss		(4.3)	13.3
Income tax on items that may be reclassified to profit or loss	5	2.0	(3.3)
		(5.8)	11.4
Total other comprehensive (expense)/income for the year		(1.1)	22.7
Total comprehensive income for the year attributable to owners of the Parent		109.5	122.2

Balance sheets

as at 30 September

		Group		Company	
	Note	2018 £m	2017 £m	2018 £m	2017 £m
Assets					
Non-current assets					
Property, plant and equipment	8	253.4	258.6	—	—
Intangible assets	9	27.6	30.6	—	—
Investments	10	4.5	10.0	131.9	111.6
Deferred tax assets	11	7.2	5.6	—	—
Retirement benefit asset	15	13.5	3.8	—	—
		306.2	308.6	131.9	111.6
Current assets					
Inventories	12	69.3	61.5	—	—
Current income tax assets		0.1	2.4	—	—
Trade and other receivables	13	42.7	37.9	61.7	76.1
Derivative financial instruments	14	1.1	7.6	—	—
Other financial assets	14	73.2	—	—	—
Cash and cash equivalents	14	71.2	120.1	—	—
		257.6	229.5	61.7	76.1
Total assets		563.8	538.1	193.6	187.7
Liabilities					
Non-current liabilities					
Deferred tax liabilities	11	(22.5)	(18.4)	—	—
		(22.5)	(18.4)	—	—
Current liabilities					
Derivative financial instruments	14	(9.3)	(4.2)	—	—
Current income tax liabilities		(5.3)	(3.0)	—	—
Trade and other payables	16	(36.8)	(34.1)	(8.5)	(8.6)
		(51.4)	(41.3)	(8.5)	(8.6)
Total liabilities		(73.9)	(59.7)	(8.5)	(8.6)
Net assets		489.9	478.4	185.1	179.1
Equity					
Share capital	19	0.9	0.9	0.9	0.9
Share premium	19	48.0	43.0	48.0	43.0
Translation reserve	19	3.8	2.7	—	—
Hedging reserve	19	(3.4)	3.8	—	—
Retained earnings ¹	19	440.6	428.0	136.2	135.2
Total equity attributable to owners of the Parent		489.9	478.4	185.1	179.1

1 The profit for the financial year dealt with in the financial statements of the Company is £104.0m, which includes dividends from subsidiaries of £104.4m (2017: profit of £99.5m, which includes dividends from subsidiaries of £100.0m).

These financial statements of Victrex plc, registered number 2793780, were approved by the Board of Directors on 4 December 2018 and were signed on its behalf by:

Jakob Sigurdsson
Chief Executive Officer

Richard Armitage
Group Finance Director

Cash flow statements

for the year ended 30 September

	Note	Group		Company	
		2018 £m	2017 £m	2018 £m	2017 £m
Profit after tax for the year		110.6	99.5	104.0	99.5
Income tax expense	5	16.9	11.5	—	—
Financial income		(0.6)	(0.3)	—	—
Financial expenses		—	0.4	—	—
Dividends received from subsidiaries		—	—	(104.4)	(100.0)
Operating profit/(loss)		126.9	111.1	(0.4)	(0.5)
Adjustments for:					
Depreciation	8	15.3	15.3	—	—
Amortisation	9	2.7	2.3	—	—
Loss on disposal of non-current assets	8	0.7	—	—	—
(Increase)/decrease in inventories		(7.1)	0.2	—	—
(Increase)/decrease in receivables		(5.6)	8.9	16.9	(64.3)
Increase in payables		1.9	5.6	—	—
Equity-settled share-based payment transactions	18	2.6	2.3	—	—
Losses/(gains) on derivatives recognised in income statement that have not yet settled	14	2.6	(7.5)	—	—
Retirement benefit obligations charge less contributions		(4.2)	(0.8)	—	—
Cash generated from/(used in) operations		135.8	137.4	16.5	(64.8)
Interest received		0.6	0.3	—	—
Interest paid		—	(0.3)	—	—
Tax paid		(7.4)	(19.8)	—	—
Net cash flow generated from/(used in) operating activities		129.0	117.6	16.5	(64.8)
Cash flows from investing activities					
Acquisition of property, plant and equipment and intangible assets		(9.9)	(16.7)	—	—
Increase in other financial assets	14	(73.2)	—	—	—
Dividends received		—	—	104.4	100.0
Cash received from investments	10	5.5	—	—	—
Increase in investment in subsidiaries	10	—	—	(20.3)	—
Cash consideration of acquisitions		—	(9.9)	—	—
Cash acquired with acquisitions		—	0.9	—	—
Net cash flow (used in)/generated from investing activities		(77.6)	(25.7)	84.1	100.0
Cash flows used in financing activities					
Proceeds from issue of ordinary shares exercised under option	19	5.0	5.2	5.0	5.2
Dividends paid	19	(105.6)	(40.4)	(105.6)	(40.4)
Net cash flow used in financing activities		(100.6)	(35.2)	(100.6)	(35.2)
Net (decrease)/increase in cash and cash equivalents		(49.2)	56.7	—	—
Effect of exchange rate fluctuations on cash held		0.3	(0.6)	—	—
Cash and cash equivalents at beginning of year		120.1	64.0	—	—
Cash and cash equivalents at end of year		71.2	120.1	—	—

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 2016		0.9	37.8	4.2	(9.2)	355.4	389.1
Total comprehensive income for the year							
Profit		—	—	—	—	99.5	99.5
Other comprehensive (expense)/income							
Currency translation differences for foreign operations		—	—	(1.5)	—	—	(1.5)
Effective portion of changes in fair value of cash flow hedges		—	—	—	2.9	—	2.9
Net change in fair value of cash flow hedges transferred to profit or loss		—	—	—	13.3	—	13.3
Defined benefit pension schemes' actuarial gains	15	—	—	—	—	13.6	13.6
Tax on other comprehensive income	5	—	—	—	(3.2)	(2.4)	(5.6)
Total other comprehensive (expense)/income for the year		—	—	(1.5)	13.0	11.2	22.7
Total comprehensive (expense)/income for the year		—	—	(1.5)	13.0	110.7	122.2
Contributions by and distributions to owners of the Company							
Share options exercised	19	—	5.2	—	—	—	5.2
Equity-settled share-based payment transactions	18	—	—	—	—	2.3	2.3
Dividends to shareholders	19	—	—	—	—	(40.4)	(40.4)
Equity at 30 September 2017		0.9	43.0	2.7	3.8	428.0	478.4
Total comprehensive income for the year							
Profit		—	—	—	—	110.6	110.6
Other comprehensive income/(expense)							
Currency translation differences for foreign operations		—	—	1.1	—	—	1.1
Effective portion of changes in fair value of cash flow hedges		—	—	—	(4.6)	—	(4.6)
Net change in fair value of cash flow hedges transferred to profit or loss		—	—	—	(4.3)	—	(4.3)
Defined benefit pension schemes' actuarial gains	15	—	—	—	—	5.6	5.6
Tax on other comprehensive income/(expense)	5	—	—	—	1.7	(0.6)	1.1
Total other comprehensive income/(expense) for the year		—	—	1.1	(7.2)	5.0	(1.1)
Total comprehensive income/(expense) for the year		—	—	1.1	(7.2)	115.6	109.5
Contributions by and distributions to owners of the Company							
Share options exercised	19	—	5.0	—	—	—	5.0
Equity-settled share-based payment transactions	18	—	—	—	—	2.6	2.6
Dividends to shareholders	19	—	—	—	—	(105.6)	(105.6)
Equity at 30 September 2018		0.9	48.0	3.8	(3.4)	440.6	489.9

Company statement of changes in equity

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total £m
Equity at 1 October 2016		0.9	37.8	73.8	112.5
Total comprehensive income for the year					
Profit (includes dividends from subsidiaries of £100.0m)		—	—	99.5	99.5
Contributions by and distributions to owners of the Company					
Share options exercised	19	—	5.2	—	5.2
Equity-settled share-based payment transactions	18	—	—	2.3	2.3
Dividends to shareholders	19	—	—	(40.4)	(40.4)
Equity at 30 September 2017		0.9	43.0	135.2	179.1
Total comprehensive income for the year					
Profit (includes dividends from subsidiaries of £104.4m)		—	—	104.0	104.0
Contributions by and distributions to owners of the Company					
Share options exercised	19	—	5.0	—	5.0
Equity-settled share-based payment transactions	18	—	—	2.6	2.6
Dividends to shareholders	19	—	—	(105.6)	(105.6)
Equity at 30 September 2018		0.9	48.0	136.2	185.1

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 2018 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 4 December 2018.

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 with the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost basis except for derivative financial instruments, defined benefit pension scheme assets and investments which 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 39. 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 multi-currency revolving credit facility of £40m (£20m committed and £20m accordion) which expires in June 2022. This facility was undrawn at 30 September 2018 and remained undrawn at 4 December 2018 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 ending 30 September 2019 and longer-term strategic forecasts and plans including consideration of the principal risks faced by the Company, as detailed on pages 23 to 27. 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 21.

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

The accounting policies have been consistently applied by Group entities.

A number of new standards and amendments to existing standards were effective for the financial year ended 30 September 2018, which included:

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- Annual Improvements to IFRSs – 2014–2016 Cycle
- Disclosure Initiative (Amendments to IAS 7)

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. These include:

- IFRS 9 – Financial Instruments: this standard is effective from 1 January 2018 and will be adopted by the Group on 1 October 2018. This standard replaces IAS 39 – Recognition and Measurement. The main changes the new standard introduces are:
 - new requirement for the classification and measurement of financial assets;
 - a new impairment model for financial assets held at amortised cost based on expected credit losses; and
 - changes to hedge accounting by aligning hedge accounting more closely to an entity's risk management objectives.

Notes to the financial statements continued

1. Basis of preparation continued

Basis of preparation continued

The Group has performed a detailed assessment of the three areas of the new standard. The main impacts are assessed as:

- (1) The Group's approach to currency hedging meets the criteria to be net hedged under IFRS 9. In accordance with IFRS 9, this will result in a presentational change on the face of the income statement for the year ended 30 September 2019, with the fair value gains and losses recognised on cash flow hedges being disclosed separately within gross margin, rather than included within the line item of the underlying hedged transaction. Revenue, cost of sales and sales, marketing and administration expenses will, therefore, be recognised at the average exchange rate prevailing at the date of the transaction. The revised presentation will potentially result in an increase in gross margin percentage volatility.

The Group will apply this change prospectively and will use the practical expedient allowed to de-designate the old IAS 39 hedging relationships in existence on 1 October 2018 and start a new hedging relationship under the new IFRS 9 model.

- (2) Revision of the Group's existing incurred loss provisioning model for its trade receivables to the required expected credit loss model. The resulting reassessment of existing provisions will be immaterial on the net assets of the Group. As such any impact will be included in the income statement for the year ending 30 September 2019, with no modified retrospective adjustment recognised to the opening balance sheet as at 1 October 2018.

There will be no significant changes required in classification or measurement base in the transition to IFRS 9 for Victrex's financial assets. See note 14 for further details.

- IFRS 15 – Revenue from Contracts with Customers: this standard is effective from 1 January 2018 and will be adopted by the Group on 1 October 2018. IFRS 15 provides a principles-based approach for revenue recognition.

The Directors have now completed the detailed assessment for the expected impact of IFRS 15. Consistent with the preliminary analysis performed, there will be no impact on the timing and recognition of revenue for the sale of goods, which are recognised in line with Incoterms (either on dispatch or delivery). IFRS 15 does result in an element of variable consideration in relation to Medical Unit Payments ('MUP'), which is determined and contingent on onward sale of a medical device, made from Group material, by the customer. Under IAS 18 MUP revenue is typically recognised in the period the customer confirms the onward sale. However under IFRS 15 the Group must now recognise when the performance obligation is satisfied. Revenue recognition will be accelerated from the point when onward sale is confirmed by the customer, to the point when the material is sold by the Group.

The material to which the MUP relates is not disclosed by the customer until there is an onward sale, making any assessment of the value of revenue to accelerate on adoption judgemental. The Directors have performed a detailed assessment and concluded that, based on the judgements made, the amount which would be accelerated is not material and therefore for existing MUP contracts no modified retrospective adjustment to the opening balance sheet as at 1 October 2018 will be made and no revenue will be accelerated.

- IFRS 16 – Leases: the standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 October 2019. The Directors have assessed the likely impact on the reported results and financial position of the Group on the basis that it will use the modified retrospective approach. This will result in the recognition of an asset and liability at the present value of remaining lease payments, discounted using the incremental borrowing rate at the date of adoption. The existing obligations under operating lease agreements at 30 September 2018 are £7.6m, which primarily relate to buildings. If the Company were to adopt IFRS 16 on 1 October 2018, an asset and corresponding lease liability of approximately £6.5m would be recognised. The income statement for the year ending 30 September 2019 would be adversely impacted at a profit before tax level of approximately £0.1m. Further details of the Group's current lease arrangements are included in note 8.

The cumulative impact of the adoption of all other 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, which focuses on our Automotive, Aerospace, Electronics and Energy markets; and Medical, which focuses on providing specialist solutions for medical device manufacturers.

	Industrial 2018 £m	Medical 2018 £m	Group 2018 £m	Industrial 2017 £m	Medical 2017 £m	Group 2017 £m
Revenue from external sales	270.4	55.6	326.0	236.3	53.9	290.2
Segment gross profit	158.6	49.4	208.0	135.5	48.3	183.8
Sales, marketing and administrative expenses			(81.1)			(72.7)
Operating profit			126.9			111.1
Net financing income/(expense)			0.6			(0.1)
Profit before tax			127.5			111.0
Income tax			(16.9)			(11.5)
Profit for the year attributable to owners of the Parent			110.6			99.5

2. Segment reporting continued

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, which is when the goods are dispatched or delivered in line with Incoterms. Medical Unit Payments, contingent on onward sale, are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group. This is typically the period the customer confirms the onward sale and the amount can be measured reliably.

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	
	2018 £m	2017 £m
United Kingdom	6.0	5.8
Europe, the Middle East and Africa ('EMEA')	139.0	126.8
Americas	92.9	89.5
Asia-Pacific	88.1	68.1
	326.0	290.2

Information about major customers

In the current year one customer contributed more than 10% to Group revenue (2017: one customer). The one customer was in the Industrial operating segment (2017: Industrial operating segment).

3. Expenses by nature

	Note	2018 £m	2017 £m
Staff costs	4	72.4	62.1
Depreciation of property, plant and equipment	8	15.3	15.3
Loss on disposal of non-current assets	8	0.7	—
Operating lease rentals	8	1.7	1.3
Amortisation of intangibles	9	2.7	2.3
Trade receivable impairment allowance	14	0.2	—
Research and development expenditure	9	17.4	14.5
Other costs of manufacture		78.6	73.5
Other sales, marketing and administrative expenses		10.1	10.1
		199.1	179.1

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

Exceptional items were as follows:

	2018 £m	2017 £m
Included within sales, marketing and administrative expenses:		
Restructuring costs	—	(2.0)
Exceptional items before tax	—	(2.0)
Tax on exceptional items	—	0.4
Exceptional items	—	(1.6)

Notes to the financial statements continued

3. Expenses by nature continued**Restructuring costs**

Restructuring costs in the prior period were incurred relating to a reorganisation across a number of the Group's manufacturing and non-manufacturing locations.

Auditors' remuneration was as follows:

	2018 £000	2017 £000
Audit services relating to:		
– Victrex plc Annual Report	47	49
– The Company's subsidiaries, pursuant to legislation	114	104
	161	153
Interim review	16	14
Other services	10	15
	26	29
	187	182

There has been a change of auditors during the year, with PricewaterhouseCoopers LLP being appointed on 9 February 2018. The 2018 fees above reflect its remuneration from this date. The 2017 comparative reflects fees paid to KPMG LLP.

4. Staff costs

	Note	2018 £m	2017 £m
Wages and salaries		58.7	50.2
Social security costs		6.1	5.3
Defined contribution pension schemes		5.2	4.0
Defined benefit pension schemes	15	(0.2)	0.3
Equity-settled share-based payment transactions	18	2.6	2.3
		72.4	62.1

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

	2018 Number	2017 Number
Make	493	410
Develop, Market and Sell	250	232
Support	131	121
	874	763

There are no people employed by the Company (2017: same).

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 current and prior years, using tax rates (and tax laws) enacted or substantively enacted at the balance sheet date.

Provisions are recognised for uncertain tax positions when the Group has a present obligation as a result of a past event and management judge that it is probable that there will be a future outflow of economic benefits from the Group. Provisions are measured using management's estimate of the most likely outcome.

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.

5. Income tax expense continued

	Note	2018 £m	2017 £m
Current tax			
UK corporation tax on profits for the year		13.0	7.7
Overseas tax on profits for the year		3.1	2.2
		16.1	9.9
Deferred tax			
Origination and reversal of temporary differences	11	2.0	0.7
		2.0	0.7
Tax adjustments relating to prior years		(1.2)	0.9
Total tax expense in income statement		16.9	11.5

Reconciliation of effective tax rate

	2018		2017	
	%	£m	%	£m
Profit before tax		127.5		111.0
Tax expense at UK corporation tax rate	19.0	24.2	19.5	21.6
Effects of:				
– Expenses not deductible for tax purposes		0.7		0.5
– Higher rates of tax on overseas earnings		1.4		0.9
– UK Research & Development tax credits and other allowances		(0.5)		(0.4)
– Tax adjustments relating to prior years		(1.2)		0.9
– Difference in rates between deferred tax and corporation tax		0.3		(0.1)
– Patent Box deduction		(8.0)		(11.9)
Effective tax rate and total tax expense	13.3	16.9	10.4	11.5

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2017 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020.

Deferred tax assets/liabilities have been measured at the rate they are expected to reverse. For UK assets/liabilities this is 17% (2017: 17%), being the UK tax rate effective from 1 April 2020. For overseas assets/liabilities the corresponding overseas tax rate has been applied.

Tax credit/(charge) recognised in other comprehensive income

	2018 £m	2017 £m
Cash flow hedges	1.7	(3.2)
Defined benefit pension schemes	(0.9)	(2.3)
Equity-settled transactions	0.3	(0.1)
	1.1	(5.6)

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 19).

	2018	2017
Earnings per share – basic	128.8p	116.4p
– diluted	128.2p	116.2p
Profit for the financial year	£110.6m	£99.5m
Weighted average number of shares used:		
– Issued ordinary shares at beginning of year	85,864,468	85,518,764
– Effect of own shares held	(174,813)	(222,070)
– Effect of shares issued during the year	167,610	209,223
Basic weighted average number of shares	85,857,265	85,505,917
Effect of share options	442,381	190,685
Diluted weighted average number of shares	86,299,646	85,696,602

Notes to the financial statements continued

7. Acquisitions

The acquisition method is used to account for business combinations. Goodwill represents the difference between the acquisition date fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree (if any) 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.

The value of non-controlling interests at the acquisition date is measured as the non-controlling interests' proportionate share of net assets of the acquiree or at fair value. The choice of measurement basis is determined on an acquisition-by-acquisition basis as permitted by IFRS 3. Financial derivatives in place over the remaining equity of an entity are taken into account when calculating the proportionate share of the non-controlling interest.

Any contingent consideration is measured at fair value at the date of acquisition. Subsequent changes to the fair value of contingent consideration are recognised in the Consolidated income statement.

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

Prior year investment in joint ventures and acquisitions

TxV Aerospace Composites ('TxV')

On 10 January 2017 Victrex established a joint venture with Tri-Mack Plastics. The results and financial position of TxV are consolidated into the Group income statement and Group balance sheet respectively based on the level of control Victrex exerts over TxV. Victrex's investment in TxV amounts to \$14m.

Under the terms of the Joint Venture Agreement both parties have access to financial derivatives (via put or call options) over the equity of TxV. The nature of these derivatives provides Victrex with the potential to increase its level of ownership. Where this is not under Victrex's control the exercise price of the derivative is recognised as a financial liability as required by IAS 32 – Financial Instruments – Disclosure. The value of this liability as at 30 September 2018 is \$4m (£3.1m).

Acquisition of Zyex Group Limited ('Zyex')

On 3 April 2017, the Group acquired 100% of the issued share capital of Zyex, and its two subsidiary undertakings, Zyex Limited and Zyex Reclaim Limited, for a cash consideration of £9.9m.

The net identifiable assets on acquisition of £7.3m include intangible assets of £2.4m, representing the fair value of the Zyex brand name and customer relationships, property, plant and equipment of £3.5m, net working capital of £2.0m and cash of £0.9m. A deferred tax liability of £0.8m has also been recognised in relation to property, plant and equipment and intangible assets.

The Board considers that the excess of consideration paid over the fair value of the net identifiable assets of £2.6m is goodwill on acquisition representing employee expertise and anticipated future operating synergies. See note 9 for further details. None of the goodwill recognised is expected to be deductible for income tax purposes.

The measurement period concluded in the year ended 30 September 2018, 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 the 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 2016	53.9	286.7	7.3	3.5	14.5	365.9
Exchange differences	—	(0.1)	—	(0.1)	—	(0.2)
Additions	0.2	4.4	0.1	0.1	10.1	14.9
Acquisitions (see note 7)	—	3.3	0.1	0.1	—	3.5
Disposals	—	(0.1)	(0.1)	—	—	(0.2)
Reclassification	2.4	15.8	0.1	—	(18.3)	—
At 30 September 2017	56.5	310.0	7.5	3.6	6.3	383.9
Exchange differences	0.1	0.1	—	—	0.1	0.3
Additions	1.0	0.9	0.1	—	8.6	10.6
Disposals	(0.1)	(1.1)	(0.7)	—	—	(1.9)
Reclassification	1.2	4.6	0.3	0.1	(6.2)	—
At 30 September 2018	58.7	314.5	7.2	3.7	8.8	392.9
Accumulated depreciation						
At 1 October 2016	8.0	94.8	5.3	2.3	—	110.4
Exchange differences	—	(0.1)	—	(0.1)	—	(0.2)
Disposals	—	(0.1)	(0.1)	—	—	(0.2)
Depreciation charge	1.5	12.4	0.9	0.5	—	15.3
At 30 September 2017	9.5	107.0	6.1	2.7	—	125.3
Exchange differences	—	—	—	0.1	—	0.1
Disposals	(0.1)	(0.6)	(0.5)	—	—	(1.2)
Depreciation charge	1.7	12.6	0.6	0.4	—	15.3
At 30 September 2018	11.1	119.0	6.2	3.2	—	139.5
Carrying amounts						
At 30 September 2018	47.6	195.5	1.0	0.5	8.8	253.4
At 30 September 2017	47.0	203.0	1.4	0.9	6.3	258.6
At 30 September 2016	45.9	191.9	2.0	1.2	14.5	255.5

Reclassification relates to the movement from assets in course of 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 payable as follows:

	Land and buildings		Other		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
As at 30 September						
Not later than one year	1.1	0.7	0.4	0.4	1.5	1.1
Later than one year but not later than five years	3.4	1.9	0.4	0.4	3.8	2.3
Later than five years	2.3	2.5	—	—	2.3	2.5
	6.8	5.1	0.8	0.8	7.6	5.9

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

Operating lease rentals of £1.7m (2017: £1.3m) 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

Goodwill arising on the acquisition of business is allocated, at acquisition, to the cash-generating units ('CGUs') that are expected to benefit from that business combination.

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 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 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 recoverable value (the higher of value in use and fair value less costs to sell) and are recognised in the income statement.

Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and any provisions for impairment. Other intangibles are assessed for impairment only when there is an indication that they might be impaired. 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.

Intangible assets not yet ready for use are not amortised, but are subject to annual impairment reviews. Other intangible assets are amortised from the time they are first ready for use.

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
Brand name	5 years systematic

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

	Goodwill £m	Computer software £m	Customer relationships £m	Brand name £m	Assets in course of construction £m	Total £m
Cost						
At 1 October 2016	11.7	12.7	0.3	—	—	24.7
Additions	—	1.2	—	—	—	1.2
Acquisitions	2.6	—	1.7	0.7	3.0	8.0
Exchange differences	—	—	—	—	0.2	0.2
At 30 September 2017	14.3	13.9	2.0	0.7	3.2	34.1
Additions	—	0.1	—	—	—	0.1
Disposals	—	(0.4)	—	—	—	(0.4)
Exchange differences	—	—	—	—	—	—
At 30 September 2018	14.3	13.6	2.0	0.7	3.2	33.8
Accumulated amortisation						
At 1 October 2016	—	1.1	0.1	—	—	1.2
Amortisation charge	—	1.9	0.3	0.1	—	2.3
At 30 September 2017	—	3.0	0.4	0.1	—	3.5
Amortisation charge	—	2.0	0.6	0.1	—	2.7
At 30 September 2018	—	5.0	1.0	0.2	—	6.2
Carrying amounts						
At 30 September 2018	14.3	8.6	1.0	0.5	3.2	27.6
At 30 September 2017	14.3	10.9	1.6	0.6	3.2	30.6
At 30 September 2016	11.7	11.6	0.2	—	—	23.5

9. Intangible assets continued

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 2019 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.

The Group has two cash-generating units, Industrial and Medical, which are the smallest identifiable independent groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where assets and costs are shared between the two cash-generating units a reasonable apportionment of these are made for the purpose of the impairment calculation.

The goodwill and other intangible assets all relate to the Industrial cash-generating unit, into which Kleiss Gears, Zyex and TxV have been fully integrated. These businesses are employed to generate revenue across all industrial geographies and markets.

The long-term average growth rate used was 2.0% (2017: 2.0%) and the risk-adjusted pre-tax discount rate was 9.6% (2017: 9.6%). 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 or other intangibles.

Research & 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 & Development expenditure of £17.4m (2017: £14.5m) was expensed to the income statement in the year within sales, marketing and administrative expenses. No development expenditure met the criteria to be capitalised (2017: same).

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, at the balance sheet date, there is an identified 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.

Interests in joint arrangements

A joint arrangement is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint arrangements are either joint operations or joint ventures.

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control have the rights to the assets, and obligations for the liabilities, relating to the arrangement or other facts and circumstances indicate that this is the case. The Group's share of assets, liabilities, revenue, expenses and cash flows are combined with the equivalent items in the financial statements on a line-by-line basis.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control have the rights to the net assets of the arrangement. The results and assets and liabilities of joint ventures are incorporated in the consolidated financial statements using the equity method of accounting.

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.

Non-controlling interests in the net assets of consolidated subsidiaries are distinguished from the equity attributable to holders of the Parent. The value of non-controlling interests comprises the value of non-controlling interests on the date control commences adjusted for the non-controlling interests' share of any subsequent changes in equity.

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.

Notes to the financial statements continued

10. Investments continued

Group

	Investments £m
Cost and carrying value	
At 1 October 2017	10.0
Repayment of investment in Magma Global Limited	(5.5)
At 30 September 2018	4.5

Following the capital contribution into Magma Global Limited by TechnipFMC, £5.5m of the initial investment was redeemed during April 2018.

Company

	Shares in Group undertakings £m
Cost and carrying value	
At 1 October 2017	111.6
Investment in subsidiaries	20.3
At 30 September 2018	131.9

During the year, as part of a reorganisation of its US subgroup, an additional £20.3m of capital was invested into Victrex USA Holdings Inc.

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

	Company number	Company status	Registered office address
Subsidiary undertakings			
Victrex Manufacturing Limited ¹	2845018	Trading entity	
Invio Limited ¹	4088050	Trading entity	
Invio Knees Limited	8149440	Dormant	
Invio Device Component Manufacturing Limited	8861250	Trading entity	
Juvora Limited	8149439	Trading entity	Victrex Technology Centre, Hillhouse International, Thornton Cleveleys, Lancashire, FY5 4QD, UK
Victrex Trading Limited ¹	4956435	Dormant	
Victrex Trustee Limited ¹	3075501	Dormant	
Victrex USA Holdings Limited ^{1,4}	7752971	Intermediate holdings company	
Zyex Limited ³	2890014	Trading entity	
Zyex Group Limited	2839512	Intermediate holdings company	
Zyex Reclaim Limited	2890011	Dormant	
Victrex USA Holdings Inc. ¹		Intermediate holding company	
Victrex USA, Inc.		Trading entity	
Invio Inc.		Trading entity	300 Conshohocken State Road, Suite 120, West Conshohocken, PA 19428, USA
Invio Device Components Manufacturing Inc.		Trading entity	
Victrex Europa GmbH ¹		Trading entity	Langgasse 16, 65719 Hofheim, Germany
Victrex Japan, Inc. ¹		Trading entity	Mita Kokusai Building Annex, 1-4-28 Mita, Minato-ku, Tokyo, 108/0073, Japan
Victrex High Performance Materials (Shanghai) Co., Ltd		Trading entity	Victrex Asian Innovation & Technology Centre, Part B Building G, No. 1688, Zhuanxing Road, Xinzhuang Industry Park, Shanghai, 201108, China
Invio (Beijing) Trading Co., Limited		Trading entity	Room 7108, Building 7, Second Lane 5, The South of Xiang Jun, Chao Yang District, Beijing, 100020, China
Kleiss Gears, Inc.		Trading entity	390 Industrial Avenue, Grantsburg, WI 54840, USA
Joint ventures			
TxV Aerospace Composites LLC		Trading entity	55 Broadcommon Road, Bristol, Rhode Island, RI 02809, USA
Aghoco 1491 Limited ²	10523749	Trading entity	Victrex Technology Centre, Hillhouse International, Thornton Cleveleys, Lancashire, FY5 4QD, UK
Investments			
Magma Global Limited	6528820	Trading entity	Magma House, Trafalgar Wharf, Hamilton Road, Portsmouth, Hampshire, PO6 4PX, UK

¹ Directly held by Victrex plc.

² On 13 December 2016, the Group, via its subsidiary Victrex Manufacturing Limited, incorporated Aghoco 1491 Limited with AGC Chemicals Europe Limited. Aghoco 1491 Limited is a joint arrangement in which the Group holds equal ownership and rights over the entity. The purpose of Aghoco 1491 Limited is to build, operate and maintain an electrical substation (cost of c. £3m) for both parties' own use to ensure continuity of electrical supply. Due to the terms of the joint arrangement, Aghoco 1491 Limited meets the criteria to be accounted for as a joint operation.

³ On 1 August 2018, Victrex Manufacturing Limited acquired the trade and assets of Zyex Group Limited for consideration equal to the net book value.

⁴ During the year, the Group performed a reorganisation of its US subgroup. This resulted in Victrex USA Holdings Limited becoming directly held by Victrex plc.

10. Investments continued

Company continued

All subsidiaries are wholly owned and are involved in the principal activities of the Group.

In the opinion of the Directors the investments in and amounts due from the Company's subsidiary undertakings are worth at least the amounts at which they are stated in the balance sheet.

11. Deferred tax assets and liabilities

	As at 30 September 2018					As at 30 September 2017				
	Property, plant and equipment £m	Employee benefits £m	Inventories £m	Other £m	Total £m	Property, plant and equipment £m	Employee benefits £m	Inventories £m	Other £m	Total £m
Deferred tax assets	—	2.1	3.7	1.4	7.2	—	0.5	3.7	1.4	5.6
Deferred tax liabilities	(19.0)	(2.6)	—	(0.9)	(22.5)	(18.0)	—	—	(0.4)	(18.4)
Net deferred tax (liabilities)/assets	(19.0)	(0.5)	3.7	0.5	(15.3)	(18.0)	0.5	3.7	1.0	(12.8)
					Note	Property, plant and equipment £m	Employee benefits £m	Inventories £m	Other £m	Total £m
Movement in net provision										
At 1 October 2016						(19.2)	2.9	4.0	2.0	(10.3)
Prior period adjustment						1.6	(0.1)	—	(0.1)	1.4
Acquisitions						(0.4)	—	—	(0.4)	(0.8)
Recognised in income statement					5	—	0.1	(0.3)	(0.5)	(0.7)
Recognised in other comprehensive income					5	—	(2.4)	—	—	(2.4)
At 30 September 2017						(18.0)	0.5	3.7	1.0	(12.8)
Prior period adjustment						(1.3)	—	1.7	(0.3)	0.1
Recognised in income statement					5	0.3	(0.4)	(1.7)	(0.2)	(2.0)
Recognised in other comprehensive income					5	—	(0.6)	—	—	(0.6)
At 30 September 2018						(19.0)	(0.5)	3.7	0.5	(15.3)

There is an unrecognised deferred tax asset of £1.5m (2017: £2.6m) in respect of unutilised deductions in overseas subsidiaries over which there is uncertainty over the future deductibility.

No deferred tax has been recognised on unremitted earnings on the basis that UK legislation largely exempts overseas dividends remitted from UK tax. Deferred tax is provided where there is an intention to distribute earnings and a tax liability arises. It is impractical to estimate the amount of unrecognised deferred tax liabilities in respect of the unremitted earnings.

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 standard cost 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 21.

As at 30 September	2018 £m	2017 £m
Raw materials and consumables	16.5	18.1
Work in progress	6.6	5.7
Finished goods	46.2	37.7
	69.3	61.5

The amount of inventory expensed in the period is £106.1m (2017: £96.5m).

Notes to the financial statements continued

13. Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business.

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

As at 30 September	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Trade receivables	33.6	32.4	—	—
Amounts owed by Group undertakings	—	—	61.7	76.1
Prepayments	6.3	4.5	—	—
Other	2.8	1.0	—	—
	42.7	37.9	61.7	76.1

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

Amounts owed to Group undertakings are interest free, unsecured and repayable on demand.

14. Financial risk management

Derivative financial instruments and hedging activities

Derivative financial instruments are used by the Group to manage its exposure to changes in foreign exchange rates relating to overseas sales and purchases. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

The Group hedges a proportion of its forecast sales, purchases and capital expenditure which are denominated in a foreign currency (cash flow hedge) using forward exchange contracts. The Board is responsible for setting the hedging policy which is detailed above. These foreign exchange contracts are initially recognised at fair value, with most having maturities of less than one year after the balance sheet date.

The method of recognising any gain or loss on remeasurement to fair value depends on whether or not the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Cash flow hedges

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.

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 via the statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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 in the corresponding line that the hedged item goes through being revenue, cost of sales or sales, marketing and administrative expenses. 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.

Other derivative financial instruments

For financial instruments not designated in hedge accounting relationships or that do not meet the criteria for hedge accounting, the gain or loss on remeasurement to fair value is recognised immediately in the income statement.

Other financial derivatives are stated at the present value of the exercise price which is based on the expected cash payment associated with the arrangement and are included as a liability in the Group's balance sheet. Subsequent changes in the value of the liability to fair value are recognised in the income statement.

If the financial derivative expires unexercised, the liability is derecognised and a corresponding non-controlling interest is recognised, with any difference being recognised in equity.

14. Financial risk management continued

Group

Currency risk

Currently, the Group exports 98% 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 Officer 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 2018 is £6.5m, £4.9m and £1.2m (2017: £5.9m, £4.5m and £1.0m) respectively. The impact of a 5% movement in the average Sterling/US Dollar, Sterling/Euro and Sterling/Yen rates on equity for 2018 is £3.6m, £0.3m and £0.5m (2017: £2.6m, £0.3m and £0.3m) respectively.

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 2018		As at 30 September 2017	
	Notional contract amount £m	Carrying amount and fair value £m	Notional contract amount £m	Carrying amount and fair value £m
Current assets	39.0	1.1	181.2	7.6
Current liabilities	180.5	(6.2)	18.0	(1.2)
	219.5	(5.1)	199.2	6.4

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 2018				As at 30 September 2017			
	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	39.0	8.2	20.9	9.9	181.2	95.9	84.2	1.1
– Liabilities	180.5	92.9	73.4	14.2	18.0	7.8	3.5	6.7
	219.5	101.1	94.3	24.1	199.2	103.7	87.7	7.8

Gains and losses deferred in the hedging reserve in equity on forward foreign exchange contracts at 30 September 2018 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 2018, there are a number of hedged foreign currency transactions which are expected to occur at various dates during the next twelve months. During the year, losses of £0.9m (2017: gains of £1.7m) relating to forward exchange contracts on the balance sheet at 30 September 2018 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 £2.6m in the year (2017: gain of £7.5m).

Notes to the financial statements continued

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 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	2018 £m	2017 £m
Amounts neither past due nor impaired	29.9	26.0
Amounts past due but not impaired:		
– Less than 30 days	3.6	2.8
– 30–60 days	0.1	1.5
– More than 60 days	—	2.1
Total past due but not impaired	3.7	6.4
Amounts impaired	0.7	0.5
Impairment allowances	(0.7)	(0.5)
Carrying amount of impaired receivables	—	—
Trade receivables net of allowances	33.6	32.4

Trade receivables are considered to be impaired when the amount is in dispute, when 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:

	2018 £m	2017 £m
At beginning of year	0.5	0.5
Charge in the year	0.3	—
Release of allowance	(0.1)	—
At end of year	0.7	0.5

The credit risk in respect of cash and cash equivalents, other financial assets 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.

Other financial assets

Cash invested in term deposits greater than three months in duration does not meet the criteria to be classified as cash and cash equivalents. Accordingly, these deposits have been presented within Other financial assets and are classified as Loans and receivables in accordance with IAS 39.

As at 30 September 2018, the maximum exposure with a single bank for deposits (cash and cash equivalents and other financial assets) was £41.7m (2017: £31.1m) for the Group. As at 30 September 2018, the largest mark to market exposure for gains on forward foreign exchange contracts to a single bank was £0.8m (2017: £3.0m). 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 bank facility of £40m (£20m committed and £20m accordion), which expires in June 2022, all of which was undrawn at the year end.

As at 30 September 2018, the Group had a cash and cash equivalents balance of £71.2m. In addition, cash of £73.2m was invested in term deposit accounts (being accounts with a maturity date of greater than three months when invested). The maximum deposit length utilised by the Group when cash is invested both during the year ended 30 September 2018 and up to the date of this report is six months.

14. Financial risk management continued

Group continued

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 2019, 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.

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

As at 30 September	2018 £m	2017 £m
Total equity	489.9	478.4
Total assets	563.8	538.1
Equity ratio	87%	89%

Summary of categories of financial assets and liabilities

As at 30 September	Note	Original classification under IAS 39	New classification under IFRS 9 ¹	Carrying amount and fair value 2018 £m	Carrying amount and fair value 2017 £m
Financial assets					
Forward exchange contracts used for hedging (derivative instruments)		Fair value – hedging instrument	Fair value – hedging instrument	1.1	7.6
Equity investments	10	FVTPL	FVTPL	4.5	10.0
Trade and other receivables	13	Loans and receivables	Amortised cost	36.4	33.4
Cash and cash equivalents		Loans and receivables	Amortised cost	71.2	120.1
Other financial assets		Loans and receivables	Amortised cost	73.2	—
Financial liabilities					
Forward exchange contracts used for hedging (derivative instruments)		Fair value – hedging instrument	Fair value – hedging instrument	(6.2)	(1.2)
Other derivative instruments	7	FVTPL	FVTPL	(3.1)	(3.0)
Other financial assets	16	Other financial liabilities	Other financial liabilities	(4.8)	(6.2)

1 IFRS 9 – Financial Instruments will be adopted by the Group on 1 October 2018. The table above shows the new measurement categories under IFRS 9 for each class of the Group financial assets and liabilities as at 1 October 2018.

All financial assets and liabilities are categorised as Level 2 within the fair value hierarchy under IFRS 7, with the exception of investments in unquoted companies which are categorised as Level 3.

The maturity profiles of the derivative instruments in designated hedge accounting relationships and trade receivables are given on page 97.

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 receivables of the Company are amounts owed by UK subsidiary undertakings, which are financial assets designated as loans and receivables. Under IFRS 9 these will be classified as Amortised cost.

Notes to the financial statements continued

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. 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.

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. The defined benefit scheme closed on 31 March 2016, with employees in the scheme eligible to join the defined contribution scheme.

The latest triennial valuation was performed to 31 March 2016 and showed a scheme surplus of £773,000. The surplus position means the Company has no current obligation to make further contributions to the scheme, although this may change following future valuations. Additional contributions of £3.9m were made during the year as part of an ongoing programme with the Trustees to work towards self-sufficiency.

Where the IAS 19 valuation shows scheme assets in excess of scheme liabilities, an asset is recognised based on the fact that under the terms of the Trust Deed agreement, the sponsoring Company is entitled to any assets that remain in the scheme after the settlement of all pension liabilities.

On 26 October 2018, the High Court handed down its judgment in the Lloyds Banking Group case relating to equalisation of member benefits for the gender effects of Guaranteed Minimum Pensions ('GMP equalisation'). This addressed a long-standing legal uncertainty for Defined Benefit pension schemes, and will result in an increase in scheme liabilities. GMP equalisation represents a scheme amendment, where an additional past service cost is chargeable, due to a change in the benefits payable and will be recognised in full in the Group's financial statements in the year ended 30 September 2019. The impact is expected to be in the range of £1m–£2m. This High Court judgment represents a condition that arose after the balance sheet date and has therefore been treated as a non-adjusting post balance sheet event (in accordance with IAS 10) for the year ended 30 September 2018.

IAS 19 disclosures relating to defined benefits are as follows:

Principal actuarial assumptions

As at 30 September

	2018	2017
Discount rate	2.95%	2.80%
RPI inflation	3.40%	3.50%
CPI inflation	2.40%	2.50%
Future pension increases	3.30%	3.30%
Mortality tables	S2NA CMI 2017 (1.25%)	S2NA CMI 2016 (1.25%)
Life expectancy from age 62 of current pensioners:		
– Male	25.0 yrs¹	25.1 yrs ²
– Female	27.1 yrs¹	27.2 yrs ²
Life expectancy from age 62 of active and deferred members:		
– Male	26.2 yrs³	26.4 yrs ⁴
– Female	28.4 yrs³	28.5 yrs ⁴

1 Life expectancy from age 62 for members aged 62 in 2018.

2 Life expectancy from age 62 for members aged 62 in 2017.

3 Life expectancy from age 62 for members aged 45 in 2018.

4 Life expectancy from age 62 for members aged 45 in 2017.

15. Retirement benefit obligations continued

Principal actuarial assumptions continued

The average duration of the benefit obligation at the end of the reporting period is 23 years (2017: 23 years).

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate and inflation rate. The sensitivity analysis below has been determined based on reasonably possible changes in 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 2018	Increase in fund deficit as at 30 September 2017
Reduce discount rate by 1% p.a.	£17.1m	£18.4m
Increase inflation expectations by 1% p.a.	£12.5m	£15.2m
Increase life expectancy by 1 year	£2.1m	£2.2m

In reality one might expect interrelationships between the assumptions, especially between discount rate and 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	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Present value of funded obligations	(72.1)	(73.6)	(82.4)	(60.4)	(60.2)
Fair value of schemes' assets	85.6	77.4	71.8	54.6	52.4
Net asset/(liability) before deferred taxation	13.5	3.8	(10.6)	(5.8)	(7.8)
Related deferred taxation (liability)/asset	(2.3)	(0.6)	1.8	1.2	1.6
Net asset/(liability) after deferred taxation	11.2	3.2	(8.8)	(4.6)	(6.2)
Change in assumptions and experience adjustments arising on schemes' liabilities	2.0	9.4	(22.2)	1.1	(6.3)
Experience adjustments arising on schemes' assets	3.6	4.2	10.6	0.3	1.1

Changes in the present value of the funded obligation

	2018 £m	2017 £m
Defined benefit obligation at beginning of year	(73.6)	(82.4)
Exchange difference	(0.2)	(0.1)
Interest cost	(2.0)	(2.0)
Actuarial gains	2.0	9.4
Benefits paid	1.7	1.5
Defined benefit obligation at end of year	(72.1)	(73.6)

Changes in the fair value of the schemes' assets

	2018 £m	2017 £m
Fair value of schemes' assets at beginning of year	77.4	71.8
Exchange difference	0.1	0.1
Interest income on assets	2.2	1.7
Actuarial gains	3.6	4.2
Contributions by employer	4.0	1.1
Benefits paid	(1.7)	(1.5)
Fair value of schemes' assets at end of year	85.6	77.4

Major categories of schemes' assets

As at 30 September	2018 £m	2017 £m
UK equities	0.4	0.9
Non-UK equities	7.6	15.6
Diversified growth and absolute return funds ¹	16.9	26.3
Liability-driven instruments ²	37.4	11.2
Debt instruments	20.5	20.8
Cash	0.6	0.7
Insurance policies	2.2	1.9
Fair value of schemes' assets at end of year	85.6	77.4

1 Diversified growth and absolute return funds are funds that invest in a wide variety of asset classes in order to deliver real capital appreciation over the medium to long term, typically aiming for a certain level of absolute return.

2 Liability-driven instruments are a portfolio of assets that are linked to the drivers of movements in pension liabilities such as inflation and interest rates. These are assets designed to deliver geared movements in the underlying liabilities as they reflect changes to inflation and interest rates.

Notes to the financial statements continued

15. Retirement benefit obligations continued**Amounts recognised in the income statement**

	Note	2018 £m	2017 £m
Interest on liabilities		(2.0)	(2.0)
Interest income on assets		2.2	1.7
Total included in 'staff costs'	4	0.2	(0.3)

Of the total included in staff costs, £nil is included within cost of sales (2017: £nil) and £0.2m is included within sales, marketing and administrative expenses (2017: £(0.3m)).

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

	2018 £m	2017 £m
Cumulative amount at beginning of year	(13.0)	(26.6)
Movement in year	5.6	13.6
Cumulative amount at end of year	(7.4)	(13.0)

16. Trade and other payables

Trade payables are obligations to pay for goods acquired in the ordinary course of business from suppliers.

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

	Group		Company	
As at 30 September	2018 £m	2017 £m	2018 £m	2017 £m
Trade payables	2.5	3.4	—	—
Amounts owed to Group undertakings	—	—	8.5	8.5
Accruals	32.0	27.9	—	—
Other	2.3	2.8	—	0.1
	36.8	34.1	8.5	8.6

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

Amounts owed to Group undertakings are interest free, unsecured and repayable on demand.

17. Contingent liabilities**Contingent liabilities**

Contingent liabilities are potential future cash outflows, where the likelihood of payment is considered more than remote, but is not considered probable or cannot be measured reliably.

At 30 September 2018, the Company had no contingent liabilities (2017: none).

18. Share-based payments**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 include performance targets such as share price or total shareholder return, would not result in a reversal of original estimates in the income statement and any remaining charges would be accelerated.

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.

18. Share-based payments continued

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 vesting, the EPS growth of the Group must exceed 2% per annum with some awards requiring this growth to be above the Retail Price Index. 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 vesting 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 57.

Victrex 2017 Deferred Bonus Plan ('DBS')

Adopted by the Remuneration Committee on 9 October 2017, this plan requires executive Directors, to defer up to a maximum of 100% of their earned bonus into shares for three years.

Number and weighted average exercise prices of share options

	ESOP		Sharesave Plan		Stock Purchase Plan		LTIP		DBS	
	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	Weighted average exercise price	Number of options
Outstanding at 1 October 2016	1,691p	1,042,376	1,305p	419,207	—	—	nil p	278,435	—	—
Granted during the year	1,887p	310,496	1,555p	60,982	1,319	10,934	nil p	95,448	—	—
Forfeited during the year	1,760p	(56,833)	1,356p	(53,110)	—	—	nil p	(59,326)	—	—
Exercised during the year	1,541p	(285,475)	1,293p	(48,834)	1,319	(10,934)	nil p	—	—	—
Outstanding at 30 September 2017	1,789p	1,010,564	1,340p	378,245	—	—	nil p	314,557	—	—
Granted during the year	2,599p	233,449	2,164p	56,840	1,624p	11,713	nil p	65,806	n/a	4,543
Forfeited during the year	1,859p	(68,292)	1,480p	(13,837)	—	—	nil p	(188,684)	—	—
Exercised during the year	1,748p	(251,527)	1,571p	(25,949)	1,624p	(11,713)	nil p	(47,184)	—	—
Outstanding at 30 September 2018	2,000p	924,194	1,439p	395,299	—	—	nil p	144,495	n/a	4,543
Range of exercise prices 2018	805p–2,730p		1,266p–2,164p		—		nil p		n/a	
2017	752p–2,052p		1,266p–1,633p		—		nil p		—	
Weighted average contractual life (years) 2018	7.7		1.9		0.4		8.4		7.3	
2017	7.7		2.5		0.4		8.0		—	
Exercisable at end of year 2018	1,697p	181,975	—	—	—	—	—	—	—	—
2017	1,474p	206,153	—	—	—	—	—	—	—	—

Notes to the financial statements continued

18. Share-based payments continued

Fair value of share options and assumptions

Fair value of share options and weighted average assumptions

	As at 30 September 2018					As at 30 September 2017			
	ESOP	Sharesave Plan	Stock Purchase Plan	LTIP	DBS	ESOP	Sharesave Plan	Stock Purchase Plan	LTIP
Fair value at measurement date	433p	330p	418p	1,607p	2,391p	414p	299p	346p	1,365p
Share price at grant	2,024p	1,670p	1,944p	2,157p	2,391p	1,801p	1,553p	1,552p	1,837p
Exercise price	2,000p	1,439p	n/a	nil p	n/a	1,789p	1,340p	n/a	nil p
Expected volatility	28%	25%	23%	25%	n/a	31%	26%	27%	25%
Expected dividends	2.4%	2.9%	2.4%	2.3%	0.0%	2.5%	3.0%	3.0%	2.5%
Risk-free interest rate	1.2%	0.7%	0.0%	0.7%	n/a	1.3%	0.7%	0.2%	0.8%

The expected volatility is based on historical 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	2018 £m	2017 £m
ESOP		1.0	0.9
Sharesave Plan		0.5	0.6
LTIP		1.1	0.8
	4	2.6	2.3

19. Share capital and reserves

Share capital

	2018		2017	
	Number	£m	Number	£m
Allotted, called up and fully paid shares of 1p each				
At beginning of year	85,864,468	0.9	85,518,764	0.9
Issued for cash	288,728	—	345,704	—
At end of year	86,153,196	0.9	85,864,468	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 288,728 (2017: 345,704) shares were issued for cash, resulting in an increase in share premium of £5.0m (2017: £5.2m).

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 2018 was 174,813 (2017: 222,070). Distribution of shares from the trusts is at the discretion of the trustees. Dividends attaching to these shares have been waived.

The Company's distributable amount contained within retained earnings is £135.2m (2017: £132.1m).

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.

19. Share capital and reserves continued

Dividends to shareholders

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.

	2018 £m	2017 £m
Year ended 30 September 2016		
– Final dividend paid February 2017 at 35.09p per ordinary share	—	30.0
Year ended 30 September 2017		
– Interim dividend paid July 2017 at 12.20p per ordinary share	—	10.4
– Final dividend paid February 2018 at 41.60p per ordinary share	35.7	—
– Special dividend paid February 2018 at 68.00p per ordinary share	58.4	—
Year ended 30 September 2018		
– Interim dividend paid July 2018 at 13.42p per ordinary share	11.5	—
	105.6	40.4

A final dividend in respect of 2018 of £39.7m (46.14p per ordinary share) and a special dividend of £71.1m (82.68p per ordinary share) have been recommended by the Directors for approval at the Annual General Meeting in February 2019. These financial statements do not reflect these dividends.

20. 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	
	Note	2018 £m	2017 £m
Trading transactions with subsidiaries			
Administrative expenses paid on Company's behalf by subsidiaries		0.5	0.5
Management charge to subsidiaries		2.7	2.3
Amounts receivable from subsidiaries	13	61.7	76.1
Amounts owed to Group undertakings	16	8.5	8.5
Financing transactions with subsidiaries			
Dividends received from subsidiaries		104.4	100.0
Cash transfers received from subsidiaries		105.6	40.4
Cash transfers made to subsidiaries		89.4	105.1

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.

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 55 to 68.

Directors of the Company control 0.02% of the voting shares of the Company, details of which are given on page 66.

Details of Directors' indemnities are given on page 72.

Notes to the financial statements continued

21. 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.

Judgements made in applying accounting policies

Other than judgements involving the use of estimates, the Directors do not consider there are any judgements made in applying the Group's significant accounting policies which would have a material impact on the amounts recognised in the financial statements.

Sources of estimation uncertainty

The Group uses estimates and assumptions in applying the critical accounting policies to value balances and transactions recorded in the financial statements. The estimates and assumptions that, if revised, would have a significant risk of a material impact on the valuation of assets and liabilities within the next financial year are as follows:

Inventory valuation

The valuation of inventory, detailed in note 12, requires the use of estimates, with judgement required both in identification of directly attributable costs, to be absorbed into inventory valuation, and the level of normal production over which these costs are absorbed. The estimation of normal production considers current year actual, prior period actual and budgeted production when concluding on the appropriate level over which to absorb production costs. Similarly judgement is used in determining which costs are considered to be directly attributable to the production of inventory. Management use their detailed experience in this process in forming their view on the adjustment required to record inventory of cost.

Inventory provisions are put in place for slow moving and potentially obsolete inventory as well as damaged and/or out of specification product where cost is considered to be higher than net realisable value. The level of provisioning is an estimate, with judgement required 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 estimates 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 and also the sensitivity of the pension liability to movements in these assumptions.

Tax provisioning

The Group operates in a number of geographies and different tax jurisdictions. There is an inherent ambiguity in some of these jurisdictions with the tax calculation involving estimation in respect of matters where the tax impact is only known when a conclusion is reached with the relevant tax authority. 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. Based on recently granted UK patents and following discussions with Her Majesty's Revenue & Customs ('HMRC') about the UK's Patent Box legislation, management included an estimation of the benefit in the prior year and current year tax charge. As shown in note 5, the cumulative benefit recognised in relation to Patent Box is £19.9m (2017: £11.9m). Management will reassess this position if there are any changes in the legislation and/or further discussions are held with HMRC.

22. 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:

	2018		2017	
	Average	Closing	Average	Closing
US Dollar	1.30	1.30	1.37	1.34
Euro	1.13	1.11	1.23	1.14
Yen	144	149	150	151

The average exchange rates in the above table take into account the impact of gains and losses on foreign currency contracts. These rates are referred to elsewhere in the Annual Report as the effective rates for the period.

23. Events after the reporting period

On 26 October 2018, the High Court handed down its judgment in the Lloyds Banking Group case relating to equalisation of member benefits for the gender effects of Guaranteed Minimum Pensions ('GMP equalisation'). This addressed a long-standing legal uncertainty for Defined Benefit pension schemes, and will result in an increase in scheme liabilities. GMP equalisation represents a scheme amendment, where an additional past service cost is chargeable, due to a change in the benefits payable and will be recognised in full in the Group's financial statements in the year ended 30 September 2019. The impact is expected to be in the range of £1m–£2m. This High Court judgment represents a condition that arose after the balance sheet date and has therefore been treated as a non-adjusting post balance sheet event (in accordance with IAS 10) for the year ended 30 September 2018.

Five-year financial summary

for the year ended 30 September

	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
Results					
Revenue	252.6	263.5	252.3	290.2	326.0
Profit before tax	102.7	106.4	100.3	111.0	127.5
Balance sheet					
Property, plant, equipment and intangible assets	237.7	271.7	279.0	289.2	281.0
Investments	—	—	10.0	10.0	4.5
Inventories	44.2	57.4	61.8	61.5	69.3
Net cash	89.6	53.8	64.0	120.1	71.2
Other financial assets	—	—	—	—	73.2
Trade receivables and other assets	44.8	43.6	57.9	53.5	51.1
Retirement benefit obligations	(7.8)	(5.8)	(10.6)	3.8	13.5
Trade payables and other liabilities	(55.1)	(62.1)	(73.0)	(59.7)	(73.9)
Equity shareholders' funds	353.4	358.6	389.1	478.4	489.9
Cash flow					
Net cash flow from operating activities	97.8	87.6	83.4	117.6	129.0
Capital expenditure	(65.6)	(41.2)	(25.9)	(16.7)	(9.9)
Acquisition	—	(4.0)	(10.0)	(9.0)	—
Increase in other financial assets	—	—	—	—	(73.2)
Dividends and other items	(34.1)	(78.8)	(38.9)	(35.2)	(95.1)
Net (decrease)/increase in cash and cash equivalents	(1.9)	(36.4)	8.6	56.7	(49.2)
Ratios					
Earnings per ordinary share – basic	94.6p	98.1p	96.8p	116.4p	128.8p
Full-year dividend per ordinary share	45.15p	46.82p	46.82p	53.80p	59.56p
Special dividend per ordinary share	50.00p	—	—	68.00p	82.68p
Sales volume					
Tonnes	3,551	4,217	3,952	3,992	4,407

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 23 to 25.

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 sixth Annual General Meeting ('AGM') of Victrex plc (the 'Company') will be held at 11am on 6 February 2019, at J.P. Morgan, 1 John Carpenter Street, London EC4Y 0JP, to transact the business set out below. Resolutions 1 to 20 will be proposed as Ordinary Resolutions and Resolutions 21 to 24 will be proposed as Special Resolutions.

Ordinary Resolutions

1. To receive the Company's audited financial statements and the Auditors' and Directors' reports for the year ended 30 September 2018.
2. To approve the Directors' remuneration report in the form set out in the Annual Report and Accounts for the year ended 30 September 2018.
3. To declare a final dividend of 46.14p per share on the Company's ordinary shares of par value 1p each in respect of the year ended 30 September 2018.
4. To declare a special dividend of 82.68p per share on the Company's ordinary shares of par value 1p each.
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 Ms J E Toogood as a Director of the Company.
8. To re-elect Ms J E Ashdown as a Director of the Company.
9. To re-elect Mr B W D Connolly as a Director of the Company.
10. To re-elect Mr J O Sigurdsson as a Director of the Company.
11. To re-elect Mr T J Cooper as a Director of the Company.
12. To re-elect Dr M L Court as a Director of the Company.
13. To elect Mr D J Thomas as a Director of the Company.
14. To elect Mr R J Armitage as a Director of the Company.
15. That the maximum fees of Directors permitted under article 87 of the Company's Articles of Association be increased from £400,000 to £600,000.
16. To re-appoint PricewaterhouseCoopers LLP as auditor of the Company.
17. To authorise the Directors to determine the auditors' remuneration.
18. That the rules of the Victrex Long Term Incentive Plan in the form produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification (the 'LTIP'), the principal terms of which are summarised in the Appendix to this Notice of Meeting, be and are hereby approved, and the Directors of the Company be and are hereby authorised to:
 - a) adopt the LTIP and do all acts and things which they may, in their absolute discretion, consider necessary or expedient to establish and give effect to the LTIP; and
 - b) adopt further plans based on the LTIP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the LTIP.
19. 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 2020 (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.
20. That the Directors are and be 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 ('Allotment Rights'), but so that:
 - a) the maximum amount of shares that may be allotted or made the subject of Allotment Rights under this authority are shares with an aggregate nominal value of £574,414 of which one half may be allotted or made the subject of Allotment Rights in any circumstances and the other half may be allotted or made the subject of Allotment Rights pursuant to any rights issue (as referred to in the Financial Conduct Authority's Listing Rules) or pursuant to any arrangements made for the placing or underwriting or other allocation of any shares or other securities included in, but not taken up under, such rights issue;
 - b) this authority shall expire at the conclusion of the Company's next Annual General Meeting (or, if earlier, at the close of business on 31 March 2020; and
 - c) the Company may make any offers and enter into agreements before such expiry which would, or might, require shares to be allotted or Allotment Rights to subscribe for or convert securities into shares to be granted after the authority expires and the Directors 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

21. That, conditional upon Resolution 20 in this Notice of Annual General Meeting being passed, the Directors be and are 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:
- to the allotment of equity securities and sale of treasury shares in connection with any rights issue or open offer (each as referred to in the Financial Conduct Authority's Listing Rules) or any other pre-emptive offer that is open for acceptance for a period determined by the Directors to the holders of ordinary shares on the register on any fixed record date in proportion to their existing holdings of ordinary shares (and, if applicable, to the holders or any other class of equity security in accordance with the rights attached to such class) subject in each case to such exclusions or other arrangements as the Directors may deem necessary or appropriate in relation to fractions of such securities, the use of more than one currency for making payments in respect of such offer, treasury shares, any legal or practical problems in relation to any territory or the requirements of any regulatory body or any stock exchange; and
 - 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 £43,081.

Such power shall expire at the conclusion of the Company's next Annual General Meeting (or, if earlier, at the close of business on 31 March 2020), save that the Company may make offers, and enter into agreements, before such expiry which would, or might, require equity securities to be allotted after the power expires and the Directors may allot equity securities under any such offer or agreement as if the power had not expired.

22. That, conditional upon Resolution 20 in this Notice of Annual General Meeting being passed, the Directors be and are hereby given power in addition to any authority granted under Resolution 21 to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash under the authority given by that Resolution 20 (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 to the allotment of equity securities or sale of treasury shares up to a maximum aggregate nominal amount of £43,081; and
 - 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 Directors determine 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 shall expire at the conclusion of the Company's next Annual General Meeting (or, if earlier, at the close of business on 31 March 2020), save that the Company may make offers, and enter into agreements, before such expiry, which would, or might, require equity securities to be allotted after the power expires to have effect and the Directors may allot equity securities under any such offer or agreement as if the power had not expired.

23. 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:
- to a maximum aggregate number of 8,616,205 Ordinary Shares;
 - 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 maximum price permitted under the Financial Conduct Authority's Listing Rules or, in the case of a tender offer (as referred to in those rules), 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 the terms of the tender offer are announced; and
 - 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 31 March 2020) 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.

24. 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

Louise Waldek

General Counsel and Company Secretary

4 December 2018

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 4 February 2019 (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 11am on 4 February 2019. 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 11am on 4 February 2019.
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 4 February 2019. 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 30 November 2018 (being the last practicable date prior to the publication of this document) the Company's issued share capital consisted of 86,162,058 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 30 November 2018 were 86,162,058. 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 auditors' 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 Registrars 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 General Counsel and 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; and
 - the Directors' Deeds of Indemnity.

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 Auditors' report, the Strategic report, the Directors' report and the Directors' remuneration report. In accordance with the 2016 UK Corporate Governance Code, the Company proposes, as an Ordinary Resolution, a resolution on its Annual Report and Accounts for the year ended 30 September 2018.

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 2018. The Directors' remuneration report is set out on pages 55 to 68 of the Annual Report and Accounts. The vote on this resolution is advisory only and the Directors' entitlement to remuneration is not conditional on its being passed.

Resolution 3 – Declaration of final dividend

A final dividend of 46.14p per ordinary share has been recommended by the Directors for the year ended 30 September 2018. 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 final dividend will be paid on 22 February 2019 to shareholders on the register at 6.30pm on 1 February 2019.

Resolution 4 – Declaration of special dividend

In addition to the final dividend, the Board is proposing the payment of a special dividend of 82.68p per ordinary share. 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 special dividend will be paid on 22 February 2019 to shareholders on the register at 6.30pm on 1 February 2019.

Resolutions 5 to 14 – Re-election and election of Directors

In accordance with the 2016 UK Corporate Governance Code, all Directors shall be subject to annual election by shareholders. The Chairman confirms that, following formal evaluation (as referred to on pages 47 and 48 of the Annual Report and Accounts), 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).

The Company's Articles of Association state that any Director appointed by the Board during the year must stand at the next AGM following appointment. Mr Richard Armitage and Mr David Thomas were appointed Directors on 1 May 2018 and 14 May 2018 respectively and now stand for election by shareholders. Each of Resolutions 5 to 14 shall be proposed as an Ordinary Resolution.

The biographical details, skills and experience of each Director standing for re-election or election are set out below:

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 multinational corporations in a variety of operational and general management positions, with extensive experience in developing strategy for and successfully leading international growth businesses. Larry was instrumental in the acquisition and integration of multiple catalyst and chemical companies for Johnson Matthey Plc, and was formerly an 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 as well as group-level responsibilities for operational excellence and environmental, health and safety. Larry is non-executive chairman of Scapa Group plc.

Dr Pamela Kirby, Senior Independent Director

Pamela Kirby was appointed to the Board in 2011 and as 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 at AstraZeneca PLC, where she was a regional director, and F. Hoffmann-La Roche Ltd, where she was director of strategic marketing and business development. She was previously non-executive chairman of Oxford Immunotec Limited and a 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.

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 business management, senior commercial and business development roles within the global chemical industry, including Borealis, ICI and Uniqema, and also 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 the sector chief executive, efficient natural resources at Johnson Matthey Plc.

Resolutions 5 to 14 – Re-election and election of Directors continued

Ms Janet Ashdown, Non-executive Director

Janet Ashdown was appointed to the Board as a non-executive Director on 9 February 2018. Janet has over 30 years' experience of the international energy sector in a variety of senior executive roles at BP plc, most recently as director, BP Oil UK Limited, and head of UK retail and commercial fuels. Janet is currently non-executive director and senior independent director of Marshalls plc and is chair of its remuneration committee. Janet is also a non-executive director of SIG Plc, chairs the remuneration committee and is a member of its audit, nomination and governance committees. Janet has also been nominated as a non-executive director to the board of RHI Magnesita N.V.

Mr Brendan Connolly, Non-executive Director

Brendan Connolly was appointed to the Board as a non-executive Director on 9 February 2018. Brendan has over 35 years' experience in the international oil & gas industry serving in a number of senior executive roles. Until June 2013, Brendan was a senior executive at Intertek Group plc and had previously been chief executive officer of Moody International (which was acquired by Intertek in 2011). Prior to Moody, he was managing director of Atos Origin UK, and spent more than 25 years of his career with Schlumberger in senior international roles over three continents. Brendan is a non-executive director and senior independent director of Synthomer plc, in addition to being chairman of its remuneration committee and a member of its audit and nomination committees. Brendan is also chairman of two private equity-backed companies.

Mr Jakob Sigurdsson, Executive Director

Jakob Sigurdsson was appointed to the Board in October 2017. Jakob has more than 20 years' experience in large multinational companies, both listed and private, including nine years with Rohm & Haas (now part of Dow Chemical) in the US, as well as chief executive of food manufacturer Alfesca in Europe and as chief executive of Promens. His executive responsibilities have spanned marketing, supply chain, business development, strategy and M&A, with particular emphasis on growth in new or developing markets.

Between September 2016 and June 2017, Jakob was chief executive officer of VÍS, the largest Icelandic insurance and reinsurance company. Jakob holds a BSc in chemistry from the University of Iceland and an MBA from Northwestern University in the US.

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. Tim was appointed non-executive director of Renold plc in November 2018.

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 Cytac Industries, and in a number of senior roles at both ICI and UCB. He is an INSEAD alumnus and 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.

Mr David Thomas, Non-executive Director

David was appointed to the Board in May 2018 and chairs the Audit Committee. David was chief financial officer at Invensys plc from 2011 until his retirement in 2014, having held senior roles across the business since 2002. Prior to joining Invensys, he was a senior partner in Ernst & Young ('E&Y'), specialising in long-term industrial contracting businesses and is a former member of the Auditing Practices Board.

Mr Richard Armitage, Executive Director

Richard Armitage, FCMA, was appointed to the Board in May 2018. He was previously group finance director of Samworth Brothers, a UK-based branded and own-label food manufacturer, which he joined in 2014. Prior to Samworth Brothers he was chief financial officer of McBride plc. His other roles include finance director for Premier Foods plc's grocery and chilled divisions, and at Courtaulds, ICI and Boots plc. Richard trained through the Courtaulds and ICI management development programmes.

Resolution 15 – Increase in the fee limit permitted to be paid to Directors

The current maximum fees permitted to be paid to non-executive Directors under the Company's Articles of Association is limited to £400,000. Resolution 15 seeks shareholder approval to increase this limit from £400,000 to £600,000. This increase is required given the increase in Board Members since the limit was incorporated in the Articles in 2010. The Board considered that an increase in the number of Board members would be beneficial to the Company.

Resolutions 16 and 17 – 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. Pricewaterhouse Coopers ('PwC') has indicated its willingness to continue as the Company's auditor. The Audit Committee has recommended to the Board, and the Board now proposes to shareholders that PwC be re-appointed as auditor of the Company. The Audit Committee has confirmed to the Board that its recommendation is free from third party influence and that no restrictive contractual provisions have been imposed on the Company limiting its choice of auditors.

Resolution 17 is an Ordinary Resolution giving the Directors discretion to determine the remuneration of PwC.

Explanatory notes continued

Resolution 18 – To approve the new Victrex Long Term Incentive Plan

The Company is seeking approval for the introduction of a new Long Term Incentive Plan (the 'New LTIP'). The existing Victrex 2009 Long Term Incentive Plan (the 'Existing LTIP') was adopted on 10 February 2009 and will expire when it reaches its 10-year anniversary in 2019. The Remuneration Committee considers that the Existing LTIP has been highly effective in motivating Executive Directors and senior employees and rewarding their commitment to the Company, while strengthening their alignment with shareholders. It therefore proposes to introduce the New LTIP to replace the Existing LTIP. The main features of the New LTIP are summarised in the Appendix to this Notice of Meeting. The New LTIP provides for participants to be granted options or conditional awards over shares in the Company, and has been designed taking account of best practice, which has evolved since the Existing LTIP was adopted. Malus and clawback provisions under the Existing LTIP have been broadened and will apply to each award made under the New LTIP (see section 6 of the Appendix to this Notice of Meeting for more details). The Committee will have an overriding discretion to adjust vesting outcome to ensure that pay-outs under the New LTIP are fully reflective of the Company's performance (see section 4 of the Appendix to this Notice of Meeting). The rules of the LTIP will be available for inspection from the date of sending this Notice until the close of the AGM at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY and at the place of the general meeting for at least 15 minutes before and during the meeting.

Resolution 19 – 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 twelve-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 2020.

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 20 – Authority to allot shares

The authority of shareholders is required to enable Directors to allot shares. The authority conferred on the Directors at the 2018 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 the forthcoming 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 31 March 2020, 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 30 November 2018 (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 4 December 2018.

Resolutions 21 and 22 – 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 21 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 £43,081, representing approximately 5% of the issued ordinary share capital as at 30 November 2018 (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 22 is in addition to Resolution 21. As supported by the Pre-Emption Group's Statement of Principles, as updated in March 2015, Resolution 22 will enable the Directors to allot shares for cash or sell shares out of treasury up to a further nominal amount of £43,081, representing approximately 5% of the issued ordinary share capital as at 30 November 2018 (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 22, 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 21 and 22 will lapse at the earlier of the conclusion of the next Annual General Meeting of the Company or 31 March 2020, if sooner. These resolutions will be proposed as Special Resolutions, which require a 75% majority of the votes to be cast in favour.

Resolution 23 – Authority to purchase own shares

In certain circumstances, it might be advantageous to the Company to purchase its own shares. Resolution 23 specifies the maximum number of shares which may be acquired (approximately 10% of the Company's issued ordinary share capital as at 30 November 2018 (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 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 30 November 2018, options over a total of 1,318,672 Ordinary Shares were outstanding and not exercised. That number of Ordinary Shares represents 1.53% of the Company's issued Ordinary Share capital at 30 November 2018. It would represent 1.70% 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 23 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 31 March 2020, if sooner.

Resolution 24 – 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 24 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 2016 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 Annual General Meeting are in the best interests of the Company and of its shareholders as a whole and they unanimously recommend that you vote in favour of them, as they intend to do so in respect of their own shares (save in respect of those matters in which they are interested).

Appendix

A summary of the Victrex plc 2019 Long Term Incentive Plan is set out below

1. Administration

The Remuneration Committee of the Board of Directors of the Company (the 'Committee') will be responsible for the operation and administration of the Victrex Long Term Incentive Plan (the 'LTIP').

2. Eligibility

Any employee (including an executive Director) of the Company and its subsidiaries will be eligible to participate in the LTIP at the discretion of the Committee.

3. Grant of awards

The Committee may grant awards to acquire ordinary shares in the Company ('Shares') within six weeks following the Company's announcement of its results for any period. The Committee may also grant awards within six weeks of shareholder approval of the LTIP or at any other time when the Committee considers there are exceptional circumstances which justify the granting of awards.

The Committee may grant awards in the form of an option with an exercise period (either with or without an exercise price), or as a conditional right to acquire Shares at no cost to the participant. The Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so.

An award may not be granted more than 10 years after shareholder approval of the LTIP.

No payment is required for the grant of an award. Awards are not transferable, except on death. Awards under the LTIP will not form part of pensionable earnings.

4. Individual limit

The value of Shares over which an award may be granted to an individual in a year may not exceed the percentage of the individual's pay which is equivalent to the percentage limit on awards that can be made to the Chief Executive Officer of the Company under the Company's then approved Remuneration Policy.

5. Performance conditions

When granting an award under the LTIP, the Committee may make its vesting conditional on the satisfaction of one or more performance conditions. Any performance conditions will be specified at the award date.

The Committee may vary the performance conditions applying to existing awards if it considers it would be appropriate to do so but it will consult with major shareholders, where appropriate, before doing so.

The Committee has an overriding discretion to adjust vesting outcomes where, acting fairly and reasonably, it considers the application of formulaic performance conditions to be inappropriate.

6. Vesting of awards

Awards normally vest on the third anniversary of grant to the extent that any applicable performance conditions (see above) have been satisfied and provided the participant is still employed in the Company's Group. For awards granted in the form of options, participants will (subject to the Committee deciding a shorter period before grant) have a seven-year period from the date of vesting in which to exercise their options.

The Committee may grant awards subject to a post-vesting holding period, during which they may not be disposed of.

Participants will receive a payment (in cash and/or Shares) on or shortly following the vesting of their awards, of an amount equivalent 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 vested. The Committee will decide the basis on which the value of such dividends will be calculated, which may assume the reinvestment of dividends.

7. Malus and clawback

Before vesting (or in the case of options, exercise), awards may be subject to malus provisions and, after vesting (or, in the case of options, exercise), awards may be subject to clawback. The clawback period will last until the later of the first anniversary of vesting, the first anniversary of the expiry of any holding period, the publication of the Company's first set of audited financial accounts following such vesting, and such later date as the Committee may specify at grant.

Malus or clawback may apply on such basis that the Committee considers to be fair, reasonable and proportionate where, in the Committee's opinion, there are exceptional circumstances. Such exceptional circumstances include serious reputational damage, a failure of risk management, an error in available financial information which led to the award being greater than it would otherwise have been, or personal misconduct by the relevant participant.

8. Leaving employment

As a general rule, an unvested award will lapse upon a participant ceasing to hold employment or be a Director within the Company's Group. However, if a participant ceases to be an employee or a Director because of his death, retirement (with the agreement of his employer), ill health or disability (evidenced to the satisfaction of the Committee), or in other circumstances at the discretion of the Committee, then his award will vest when he leaves unless the Committee determines that it will vest on a later date.

The extent to which an award will vest in these situations will depend upon: (i) the extent to which any performance and other conditions have been satisfied; and (ii) unless the Committee decides otherwise, time pro-rating to reflect the period of employment since the grant date.

A summary of the Victrex plc 2019 Long Term Incentive Plan is set out below continued

9. Corporate events

In the event of a takeover, scheme of arrangement or winding-up of the Company, outstanding awards will vest early subject to: (i) the extent that any performance and other conditions have been satisfied at that time; and (ii) unless the Committee decides otherwise, time pro-rating to reflect the reduced period of time between their grant and vesting.

In the event of an internal corporate reorganisation in which a company obtains control of the Company and at least 75% of the acquiring company's shares are expected to be held by substantially the same persons who, immediately before the reorganisation, were shareholders in the Company, the Committee, with the consent of the acquiring company, may decide that awards will not vest as outlined above but will be replaced by equivalent new awards over shares in the acquiring company.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Shares to a material extent, then the Committee may decide that awards will vest on the basis which would apply in the case of a takeover, scheme of arrangement or winding-up, as described above.

10. Rights attaching to shares

Awards will not confer any shareholder rights until vested Shares have been transferred to participants.

Any Shares allotted when an award vests or is exercised will rank equally with Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

11. Variation of awards

In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Shares, the Committee may make such adjustment as it considers appropriate to the number and/or class of Shares subject to an award and/or the exercise price of options (if any).

12. Overall plan limits

Awards may be granted over newly issued Shares, treasury Shares or Shares purchased in the market.

In any ten-calendar-year period, the Company may not allocate more than:

- (a) 10% of the issued Ordinary Share capital of the Company under the LTIP and any other employee share plan adopted by the Company; and
- (b) 5% of the issued Ordinary Share capital of the Company under the LTIP and any other executive share plan adopted by the Company.

Treasury Shares will cease to count as allocated Shares for the purposes of these limits if institutional investor guidelines cease to require that they count.

13. Alterations to the plan

The Committee may, at any time, amend the LTIP or the terms of any award in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the provisions governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of treasury Shares, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash to be provided under the LTIP and the adjustment that may be made to awards in the event of any variation of capital.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the LTIP, to comply with or take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's Group. Shareholder approval will also not be required for any amendments to any performance and other conditions applying to an award.

Alterations to the material disadvantage of participants in the LTIP (save for variations to performance and other conditions) require the relevant participants to be invited to approve the alteration and for it to be approved by a majority of those who indicate approval or disapproval.

14. Overseas plans

The shareholder resolution to approve the LTIP will allow the Board to establish further plans for overseas territories, any such plan to be similar to the LTIP, but modified to take account of local tax, exchange control or securities laws, provided that any Shares made available under such further plans are treated as counting against the limits on individual and overall participation in the LTIP.

Financial calendar and advisors

Ex-dividend date	31 January 2019
Record date ¹	1 February 2019
Annual General Meeting	6 February 2019
Payment of final dividend	22 February 2019
Announcement of 2019 half-yearly results	May 2019
Payment of interim dividend	July 2019

¹ The date by which shareholders must be recorded on the share register to receive the dividend.

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This is the Annual Report of Victrex plc for the year ended 30 September 2018.

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 6 February 2019 is also included within the report commencing on page 110.

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 2018, 2017 and 2016 are to the financial years ended 30 September 2018 (for 2018), 30 September 2017 (for 2017) and 30 September 2016 (for 2016). Unless otherwise stated, all non-financial statistics are at 30 September 2018.

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' and '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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