



SHAPING FUTURE PERFORMANCE

VICTREX PLC
ANNUAL REPORT 2019

An **innovative world leader** in
high performance polymer solutions



POLYMER & PARTS:

delivering on our strategy

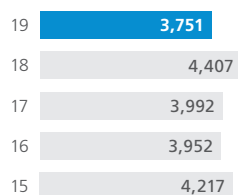
Victrex is an innovative world leader in high performance polymer solutions, focused on the strategic markets of Automotive, Aerospace, Energy (including Manufacturing & Engineering), Electronics and Medical. Every day, millions of people rely on products and applications which contain our polymers and 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, and selected semi-finished and finished parts which shape future performance for our customers and markets, and drive value for our shareholders.

Cyclical weakness offsetting growth markets

FINANCIAL HIGHLIGHTS

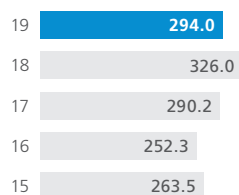
Group sales volume
tonnes

3,751 -15%



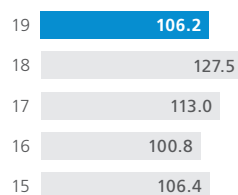
Group revenue £m

294.0 -10%



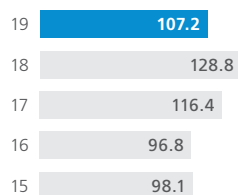
Underlying profit
before tax¹ £m

106.2 -17%



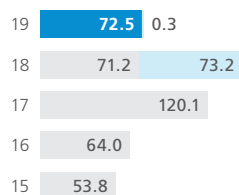
Earnings per share p

107.2 -17%



Cash (available¹) £m

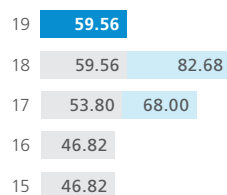
72.8 -50%



■ Cash
■ Cash invested in term deposits greater than three months in duration

Dividend per share p

59.56 -58%



■ Regular dividends only
■ Special dividend

OPERATIONAL HIGHLIGHTS

Good growth in Aerospace, Energy & Medical offset by Auto & Electronics cyclicality

- FY 2019 Group sales volumes down 15% impacted by Auto, Electronics & Value Added Resellers
- Run rate stabilising in Q4, with sequential improvement
- Good performance in Medical; revenue +4% with strong growth in Asia
- Underlying PBT¹ down 17%, with Group PBT down 18%

Further progress to commercialise 'mega-programme' pipeline

- First commercial order for Aerospace composite parts; new US facility operational
- New Aerospace Structures mega-programme (long-term development alliance with Airbus)
- More than ten development programmes for PEEK Gears
- Double-digit revenue growth in next generation PEEK-OPTIMA™ HA Enhanced Spine product
- PEEK Knee clinical trial underway

Cash generation impacted by Brexit & debottlenecking inventory build

- Operating cash conversion¹ of 87%, impacted by stock build; available cash¹ of £72.8m
- Final dividend held at 46.14p/share
- Investments to support 3D printing and moulding technology
- Two-year £15m debottlenecking investment underway, unlocking incremental capacity

¹ Alternative performance measures are defined in note 22.

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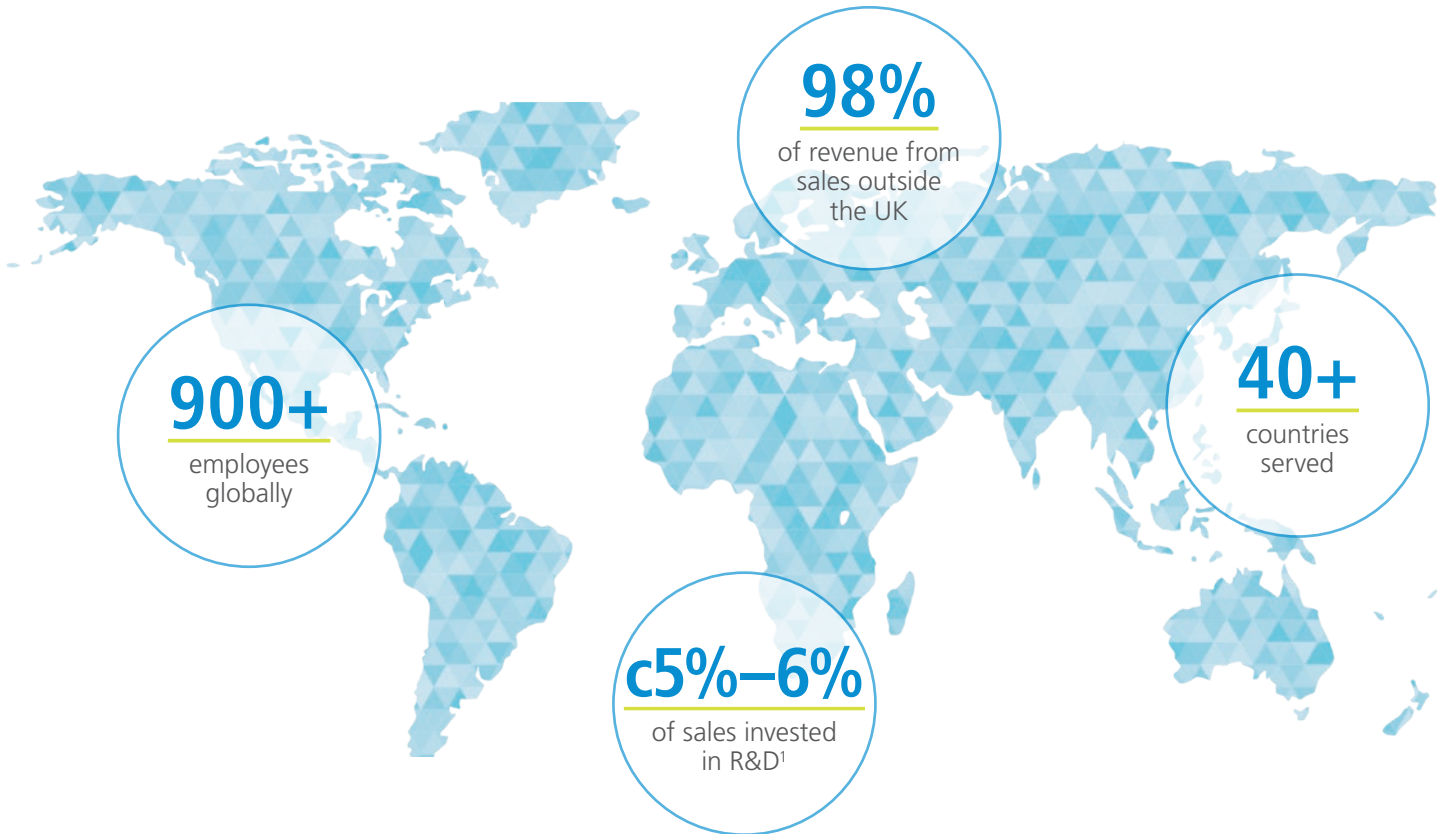
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Visit www.victrexplc.com or scan with your QR code reader to visit our Group website

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 purpose

We bring transformational solutions which address the world's material challenges every day.

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

7

mega-programmes



Our markets and megatrends
Pages 4 and 5

...ACROSS OUR MAJOR MARKETS

Victrex solutions are found across a range of applications.



AEROSPACE

20,000+

aircraft flying with
Victrex solutions



ENERGY

75m+

Victrex™ PEEK seal rings
in use today



AUTOMOTIVE

500m+

Victrex™ PEEK
applications in cars



MANUFACTURING & ENGINEERING

100m+

machines using
Victrex solutions



ELECTRONICS

4bn+

mobile devices using
APTIV™ film



MEDICAL

9m+

implanted devices

Note: Source data available on request.

A focused and differentiated
strategy: moving downstream

10–20%

aspiration for total sales from
new products in medium term



Overview of strategy
Pages 12 and 13

Highly cash-generative
business model

£73m

available cash



Our business model
Pages 8 and 9

Sector leading returns

20%+

return on capital
employed ('ROCE')¹








Financial review
Pages 18 to 21

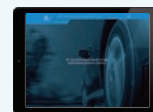
¹ Alternative performance measures are defined in note 22.

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.

	END MARKETS	MARKET OPPORTUNITY
INDUSTRIAL	 Aerospace	2x current global airline fleet by 2035 Source: Airbus.
	 Automotive	12g PEEK/car average increase from current 8g over medium term (Victrex internal aspiration)
	 Electronics	25bn+ 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 (Victrex internal aspiration)



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 CO₂ reduction trends with more efficient manufacturing using PEEK, PAEK and composites mean 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, CO₂ reduction, 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, comfort, heat resistance 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 benefits

- 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.
- More efficient manufacturing processes create 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

- Invia 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.

SHORT-TERM CHALLENGES, LONG-TERM OPPORTUNITIES

Larry Pentz
Chairman



2019 was a more challenging year for the Group, principally reflecting the slowdown in global Automotive and Electronics markets, but with our Polymer & Parts strategy and a focus on growth markets, long-term opportunities remain strong. Our strategy involves differentiating against our competitors through being focused on existing and new applications in the PEEK and PAEK polymer space, through developing new polymer grades and product forms, including composites, and through building new markets in 'parts' alongside our core polymer offering.

As a sustainable business bringing transformational solutions which address the world's material challenges, Victrex works 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.

Whilst our current sales are still largely derived from core polymer materials or product forms, 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') will enable Victrex to capture a higher value share from each application and deliver continued strong returns for our shareholders.

Growth pipeline

With a strong track record of developing new applications for PEEK and PAEK polymers, together with our 'mega-programmes' for our newer 'parts' programmes, our growth pipeline across Polymer & Parts remains healthy. Each of our mega-programmes offers the potential for over £50m of annual revenue in their 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.

Whilst we saw short-term challenges in our core polymer business, 2019 saw continued progress in the early commercialisation of several mega-programmes, with new milestones delivered.

Our PEEK Gears mega-programme offers several performance benefits against metal gears. We now have over ten development programmes in place, as we seek to increase commercialisation of this opportunity. Our TxV Aero Composites facility became operational during the year and we have now supplied the first

composite parts, gaining revenue from major Aerospace customers. In Medical, whilst we saw slower take-up for our Dental programme, a more stable Spine market helped us to deliver strong growth in our next generation PEEK-OPTIMA™ HA Enhanced product. We also saw our PEEK Knee programme commence a clinical trial, as we seek to capture opportunity in a market where demand for alternatives is growing.

Results

Like many global companies with industrial market exposure, Victrex was impacted by a slowdown in Automotive and Electronics markets, although we continued to see growth in Aerospace and Energy, whilst Medical continued the improvement trend from FY 2018. Group revenue of £294.0m was 10% down on the prior year (FY 2018: £326.0m). Underlying Group profit before tax ('PBT') of £106.2m (FY 2018: £127.5m) was down 17%, with reported Group PBT of £104.7m (FY 2018: £127.5m) down 18%. Earnings per share of 107.2p (FY 2018: 128.8p) was down 17%.

Investment for growth

Innovation and technical excellence remain key differentiators for Victrex, with R&D expenditure of £18.0m (FY 2018: £17.4m) representing approximately 6% of Group revenue. Much of this investment is in development activity, helping to create new applications which use our PEEK polymers. M&A and partnerships remain key options for Victrex in supporting our growth programmes and we have the opportunity to develop assets or capability ourselves, or buy in this capability as we have done with Kleiss Gears, our TxV Aero Composites investment and the acquisition of Zyex.

During the year we invested in Surface Generation and Bond 3D – companies which provide us with enhanced capability for product moulding and 3D printing, as part of our growth pipeline. These investments totalled £11.8m.

Capital expenditure was £22.7m (FY 2018: £9.9m), which reflects investment in our Gears production facility, and our TxV Aero Composites facility. Whilst additional polymer production capacity will be required in the coming years, the weaker trading environment has pushed out the need for larger scale organic investment, enabling us to invest during FY 2020 and FY 2021 to debottleneck our existing assets and increase the effective production capacity. We believe this is a smart and efficient use of capital. Options for future capacity, both organic and inorganic, remain in focus.



As a sustainable business, Victrex works across its markets and with customers to deliver solutions and performance benefits.

Cash-generative business model

Victrex retains a highly cash-generative business model, supporting investment for growth and appropriate returns to shareholders. With weaker trading and cash conversion, higher inventories to support Brexit and debottlenecking contingency and higher capital expenditure, the Group's closing cash balance (including cash held on deposit) reached £72.8m this year (FY 2018: £144.4m), with no debt. Operating cash conversion¹ was 87% (FY 2018: 107%).

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. This will retain our flexibility to invest in downstream manufacturing 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 medium-term opportunities for shareholder returns, whilst keeping the primary focus on growth investment.


Our regular dividend seeks to maintain cover at or around 2x. Whilst earnings per share was down 17%, the Group is proposing to keep the final dividend flat, paying a final dividend of 46.14p per share (FY 2018: 46.14p), taking total regular dividends for the year to 59.56p (FY 2018: 59.56p). Dividend cover¹ is at 1.8x (FY 2018: 2.2x).

 **Financial review**
Pages 18 to 21

Governance and the Board

Our Board blends complementary skills and experience to shape our future performance. Our female representation on the Board at the end of FY 2019 was 30%. During the year, Tim Cooper, executive Director, signalled his intention to retire in 2020, after ten years with Victrex. Tim stepped down from the Board in September 2019 and I would like to thank him for his service and strong contribution to Victrex. Pamela Kirby, Senior Independent Director, also announced her intention not to seek re-election at the 2020 AGM. I would like to thank Pamela for her diligence and insight since 2011. Whilst my role as Chair has exceeded the recommended nine years under the Code, the oversight required since 2017 for the CEO and CFO transitions, non-executive appointments and forthcoming search for a new Senior Independent Director means that ongoing stability and continuity have been key, and will continue to be so until a new Senior Independent Director is fully embedded in the role, to ensure effective succession planning. The new Senior Independent Director, once fully embedded in the role, will in due course turn to the search process for a new Chair.

Below Board level, we have a strong focus on diversity and inclusion. During the year the executive Directors have managed the business with support from two senior managers, both of whom are female.

 **Corporate governance**
Pages 47 to 102

A broader Victrex Management Team was established for FY 2020 and we will report in more detail next year about its members and how it operates.

Safety

Victrex recorded no lost time accidents or employee reportable incidents, a measure of our safety practices, but did record one environmentally notifiable event. Away from our manufacturing operations, we have an unwavering safety focus across our global teams, which continue to drive the market opportunities for our polymers, whether at commercial, marketing, technical or support services level.

Sustainability

Victrex continued to make progress against its 2023 Vision (timed to celebrate the 30th anniversary of Victrex's formation), although we anticipate some revisions to our targets during FY 2020 to reflect the increasing diversity of our business and to align with the UN's Sustainable Development Goals. The lightweighting and environmental and recycling credentials of our materials continue to be recognised in the FTSE Russell Green Revenues Index, a global measure of companies with sustainable products which can help reduce carbon emissions, and we improved our score to B- in the Carbon Disclosure Project, above the average for global chemical companies. Further detail can be found in the Sustainability report on pages 32 to 45.

People & stakeholders

In a more challenging trading environment, it is imperative that our people remain focused on our long-term opportunities and delivery of our Polymer & Parts strategy. On behalf of the Board I would like to thank each and every one of Victrex's employees for their continued contribution. We have an active stakeholder engagement programme, both internally with our employees and externally in the communities where we operate, including supporting subjects to help those considering careers built on science and innovation. 31 apprentices are currently with us, demonstrating our support and commitment for the next generation of employees. Our training investment has also yielded good results, supporting many of our employees in gaining awards and additional qualifications.

We are also focused on diversity and inclusion through our Gender Pay and Group Diversity & Equal Opportunities Policy, details of which can be found on pages 43 and 44 of the Sustainability report.

Our stakeholder engagement programme can be found on pages 14 and 15.

Outlook

Looking forward, Automotive and Electronics are showing signs of stability, although we will retain some caution on these markets at this early stage, with an initial assumption that current trends will continue through the first half year. Our cost-effective debottlenecking project is underway, enabling Victrex to gain significant incremental capacity in support of our medium-term growth programmes, although an extended shutdown will mean some under-recovered overheads. On a full year basis, currency offers a modest tailwind although this will be offset to a large degree by some limited incremental operating investment, cost inflation and our employee bonus scheme. Overall, we remain focused on making year on year progress and our Polymer & Parts strategy keeps us well placed to deliver our medium to long-term growth opportunities.

Larry Pentz
Chairman
5 December 2019

¹ Alternative performance measures are defined in note 22.

Our business model

Who we are

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 use products and applications which contain our materials – from smartphones, aeroplanes and cars to oil and gas operations and medical devices.



Shaping future performance

PEEK polymers offer sustainable performance benefits across a broad range of customers and markets. To support growth, new differentiated applications and products are developed both through Research & Development ('R&D'), and teams focused on market opportunities where PEEK can provide a clear performance benefit. Beyond demanding technical requirements, many applications are subject to rigorous qualification processes.

Key to strategy

-  Drive core business
-  Differentiate through innovation
-  Create and deliver future value
-  Underpin through safety, sustainability and capability

OBJECTIVE

Focus on the megatrends



We employ a rigorous Strategic Market Assessment process to identify those markets with characteristics that support the opportunity for significant growth in the adoption of PEEK. Those megatrends can be environmental, economic, demographic or commercial and are set out on pages 4 and 5. The process then identifies specific sub-sectors where PEEK's unique characteristics will be valued, where there is an opportunity for both the customer and Victrex to enhance their respective shareholder value and where there is the potential for annual revenues of at least £50m to be earned. These are the mega-programmes.

Drive PEEK adoption



We primarily develop solutions that allow PEEK to replace metal. When developed into an application, PEEK can offer benefits of lighter weight, heat and chemical resistance and the ability to be processed much more easily and quickly than metal or thermoset plastics. When used in the human body, PEEK has similar attributes to bone, making it highly suitable for a range of medical applications. When used in vehicles, PEEK can achieve the lightweight, vibration and heat characteristics needed for the future development of electric vehicles. Our approach is therefore to build new markets by creating differentiated applications and products, then demonstrate the 'burden of proof' using prototyping, clinical studies and key opinion leaders.

Manufacturing differentiation, global sales support and technical excellence



We have a unique PEEK manufacturing process, which is different to that of our competitors, and the ability to manufacture differentiated grades, product forms and parts ('Type 1' PEEK). We then support our customers with an extensive Sales and Technical Support team, which is unique in being solely focused on PEEK. This service is vital to our customers' long-term plans for using PEEK, both in existing applications and in the mega-programmes. We invest approximately 5%–6% of sales in global R&D, supporting our ability to partner with customers.

Focused employees



All of our 900+ employees are solely focused on developing further opportunities for PEEK. This differentiates us from our competition who typically offer a range of materials with a broad range of value propositions. Innovation is at the heart of our culture with approximately 5%–6% of sales invested in R&D and other functions organised to provide the maximum support to customer programmes. All employees are rewarded with a profit growth driven bonus scheme, and share options are used extensively. We also invest in training, supporting employees to gain additional awards and qualifications. We value our social responsibility, supporting many good causes and the local communities in which we operate, focusing on the 'next generation' of Victrex employees, in line with our sustainability targets.

Capital and cost focus



Victrex has invested ahead of demand with over £150m invested during the last five years in existing capacity and to support Polymer & Parts manufacture. This allows us to be able to commit to significant customer programmes as they arise. Whilst we will continue to do this, we would expect our utilisation of effective capacity to increase over time. Together with a steadily increasing focus on cost efficiency throughout the business, improving our operating leverage allows us to sustain our return on capital in the medium term.

Sustainable business



PEEK's unique characteristics noted above offer benefits of lightweighting, processability and recyclability that are particularly suitable to help customers meet the environmental and regulatory requirements of future transport and other markets. In Medical, PEEK applications will have greater durability than metal, leading to enhanced patient welfare. Together with our expected achievement of carbon neutral status in the coming years, we are confident in Victrex's future as a sustainable business.

WHY THIS IS IMPORTANT

- Supportive megatrends offer the opportunity to align with long-term global growth areas and create value for all our stakeholders
- Targeting the right end markets enables us to develop a clear value proposition for PEEK

HOW WE DIFFERENTIATE TO ACHIEVE SUCCESS

- We target segments which offer above average market growth opportunities
- Identifying PEEK's value proposition helps us deliver a performance benefit and provide a competitive advantage

OUTCOMES

- Alignment with megatrends and developing selected products and applications which can support them offers sustainable revenue opportunities across our markets
- Rigorous and focused growth pipeline

- PEEK competes on performance, with its unique combination of properties offering advantages over metal and other materials
- Our customers require validation in critical applications

- Developing new applications or new polymer grades helps us to keep innovating and differentiating against competitors
- Our technical and commercial capabilities mean we offer solutions rather than just materials

- Innovation in PEEK has delivered new and differentiated polymer grades including VICTREX FG (food grade), low-melt PEEK and 3D printed PEEK grade, supporting our ability to further drive adoption in our end markets based on customer and market need

- Our process patents and know-how help ensure we are the only type 1 PEEK producer
- Global Sales and Customer Service teams are organised by market, ensuring we understand our customer needs
- Investment in R&D supports our ability to accelerate adoption of new products

- With a unique manufacturing process, securing specification with customers for VICTREX™ PEEK creates a clear differentiator
- Customers need us to understand their performance challenges, beyond what PEEK can deliver
- With over 200 patents in place or pending, our global technical excellence helps to ensure constant innovation

- Our manufacturing differentiation, unique production process and technical support help to distinguish us from competitors, whereby if customers specify VICTREX™ PEEK, we can truly differentiate our product, to bring unique properties to an application, ultimately solving a problem for customers

- A sole focus on PEEK means we operate as a solutions company, beyond simply manufacturing materials
- Creating and developing new products and applications differentiates us from competitors
- A performance-based culture ensures all our employees can share in our success

- Through our Sales, Technical and Marketing teams, we are market led, identifying customer needs
- High investment in R&D and ensuring we have appropriate skills in this area helps us bring leading-edge products to market

- As the no.1 PEEK experts, retaining a clear focus on our technology and our family of polymers, with a performance and innovation-based culture, helps us to remain market led, identifying and solving customer problems
- High retention rate, with voluntary employee turnover 5% in FY 2019

- Product quality and cost efficiency are key drivers for us to remain competitive
- Retaining customer confidence in our ability to supply is important
- The ability to deliver economies of scale from our investments

- Investment in quality systems helps to retain customer confidence
- Security of supply supports our customers' ability in using PEEK for new products
- Cost efficiency and resource allocation offer us operating leverage opportunities

- Deploying capital appropriately helps ensure we retain strong return on capital metrics, by making selective investments which support future growth

- Increasing focus on sustainability of today's materials
- Environmental and performance requirements in Automotive & Aerospace are increasing
- Surgeons and medical device companies are focused on better patient outcomes

- Investment in Gears and Composites enables us to leverage more sustainable trends in Transport markets
- Identifying specific applications in electric vehicles offers a long-term opportunity up to 100g/PEEK per vehicle
- Building clinical evidence for our products in Spine, Dental, Trauma and Knee helps us in creating a long-term Medical portfolio

- Our customers, investors, suppliers and other key stakeholders are increasingly focusing on a clear sustainability strategy: ensuring our products (sustainable solutions), our processes (resource efficiency) and how we operate (social responsibility) can demonstrate a sustainable business model, with Victrex being a company they can invest in and conduct business with

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

& PARTS

...future value

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



AEROSPACE



AUTOMOTIVE



ENERGY



ELECTRONICS



MEDICAL



MANUFACTURING & ENGINEERING

4. Underpin

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

'BURDEN OF PROOF'

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

POLYMER & PARTS – DRIVING FUTURE GROWTH

Jakob Sigurdsson
Chief Executive Officer



Dear shareholders,

Despite short-term challenges and the impact of a downturn in several cyclical markets during FY 2019, principally in Automotive and Electronics, the long-term growth opportunities from metal replacement across our end markets remain attractive. Megatrends supporting the use of high performance polymers like Victrex™ PEEK, and increasingly thermoplastic composite materials, whether that be from CO₂ reduction, biocompatibility, the need for lightweighting, faster manufacturing, durability, waste reduction, recyclability or other performance benefits, continue to point towards further opportunities for our products. As a sustainable business, we bring transformational solutions that address world material challenges every day. With six key growth markets and seven mega-programmes as part of our new product pipeline (each estimated to offer the opportunity of £50m+ revenue in their peak sales year), the diversity of our portfolio keeps us well positioned.

Polymer & Parts

Our strategy seeks to catalyse adoption of our technology as well as capture increased value from each application opportunity, for example not only by supplying polymer, but by developing selected product forms and parts which can replace metal and offer a total solution to our customers, for example in PEEK Gears within Automotive. We are continuing to invest to support our strategy, particularly in the areas of innovation, including Research & Development ('R&D'), as well as utilising Continuous Improvement and Integrated Business Planning processes, which are helping us become more efficient in our operations and elsewhere, as well as providing responsiveness in our various interactions with our customers.

Differentiation against competitors

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. In addition to creating the market for our polymers, this will help us access new revenue and margin streams and differentiate against our competitors. Whilst the risk profile from moving further 'downstream' into manufacturing selected parts increases, our quality management systems, enhanced skills and capability in this area, and our ability to protect our intellectual property ('IP') through patents or know-how keep us in a good position.



As a sustainable business, we bring transformational solutions that address world material challenges every day.

A sustainable business

We are already a sustainable business, recognised by FTSE Russell's Green Revenues Index, helping to deliver lighter products which can support the trend of CO₂ reduction, particularly in Automotive and Aerospace. PEEK also has the potential for recyclability in applications.

Growth of shareholder returns

Whilst growth remains the key focus for Victrex, I believe our investment case has other attractions. We also remain highly cash generative, with sector leading returns, and whilst the priority continues to be investment in support of growth, shareholders have good medium-term opportunities for returns via both regular and special dividends.

Delivering our strategy

Through our four strategic imperatives (right), we continue to make progress. With over 900 people waking up every day focused on making a difference to our customers and our markets, we are the no.1 PEEK experts. With an unchanged strategy and supportive megatrends, our challenge is how we can deliver our opportunities with greater speed, shaping future performance for our customers and markets, differentiating our business against our competitors and delivering sustainable growth and returns for our shareholders.

The Strategic report on pages 1 to 45 was approved by the Board and signed on its behalf by the Chief Executive Officer.

Jakob Sigurdsson
Chief Executive Officer

5 December 2019

Our strategic imperatives



DRIVE CORE BUSINESS

- Execute on key growth programmes in six strategic markets
- Drive growth in emerging geographies
- Continuous improvement, cost efficiency, quality

Strategic highlights in 2019

- Good growth in Aerospace & Energy
- Emerging geography growth (Asia Medical revenue +79%)



DIFFERENTIATE THROUGH INNOVATION

- Market-led innovation
- Investment in R&D
- Move further downstream: new applications, new forms, new materials and new product launches

Strategic highlights in 2019

- Investment to develop 3D printing eco-system
- First commercial order for Aerospace composite parts



CREATE & DELIVER FUTURE VALUE

- Strong new product pipeline
- M&A/JVs, partnerships
- Downstream manufacturing capability
- Drive adoption: 'burden of proof'

Strategic highlights in 2019

- Multiple PEEK Gear development programmes
- New Airbus development alliance



UNDERPIN THROUGH SAFETY, SUSTAINABILITY AND CAPABILITY

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

Strategic highlights in 2019

- 0.9 million hours worked with no reportable injuries
- Over 1,000 employee hours supporting local communities

Q&A

with Jakob Sigurdsson

Why has this year been much weaker after two good years of growth?

The well publicised slowdown in Automotive – driven by new emissions testing – and in Electronics – from lower smartphone sales and reduced investment in Semiconductor – impacted us in FY 2019. These markets together, through direct and indirect sales, are approximately 50% of our Group sales volume, meaning that despite growth in our other markets, progress was offset by the challenges in Automotive and Electronics. These markets are cyclical in nature and Victrex is not immune; however, it has been pleasing to see pockets of growth within them, including in PEEK Gears within Automotive and Home Appliances within Electronics. This underlines that structural growth opportunities remain strong, despite the effects of cyclical factors. We remain mindful of such short-term impacts but as has been illustrated throughout Victrex's history during previous cycles, the long-term penetration opportunity for PEEK continues to be strong, supported by global megatrends.

Is your strategy still fit for purpose?

Our Board continues to believe 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; instead we seek to further differentiate ourselves against competitors and capture new revenue and margin streams by providing selected parts in addition to our core polymer offering. Going forward, our focus has to be about speed and executing on our strategy quicker, where possible.

Stakeholder engagement

Why we engage

Victrex's Polymer & Parts strategy focuses on being a world leader in value creation through high performance PEEK and PAEK polymers. As a sustainable business, we bring transformational solutions that address world material challenges every day. As a global business, we engage with a range of key stakeholders to ensure we listen and understand the interests and concerns of all our stakeholder groups, as well as seeking to deliver sustainable value for them. We have a high level of investor communication through our financial calendar activity, through investor roadshows, our AGM, site visits and conferences, in the UK, Europe and the US, reflecting the increasing diversity of our shareholder base. We continue to be collaborative with all stakeholder groups including customers, investors, employees, suppliers and regulators, listening to feedback and being open to change.



Key to strategy



Drive core business



Differentiate through innovation



Create and deliver future value



Underpin through safety, sustainability and capability



Strategy and KPIs
Pages 16 and 17

Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders in their decision making. Further detail is included on pages 60 and 61.

KEY STAKEHOLDERS

STAKEHOLDER

LINK TO STRATEGY

Investors



Customers



Employees



Suppliers



Communities and environment





Our markets and megatrends

Pages 4 and 5



Overview of strategy

Pages 12 and 13



Sustainability

Pages 32 to 45



Corporate governance

Pages 47 to 102

FOCUS AREAS

HOW WE ENGAGE

ENGAGEMENT OUTCOMES

<ul style="list-style-type: none"> → A clear and understandable Polymer & Parts strategy → Focus on sustainable growth → Alignment with shareholder interests → Prioritise growth investment → Capital allocation and dividends → Retain sector leading returns 	<ul style="list-style-type: none"> → Financial calendar events → Proactive investor relations function → Global roadshows → AGM, site visits and conferences → Enhanced investor website → Engagement with shareholders on remuneration policy 	<ul style="list-style-type: none"> → Strong returns maintained (ROCE 20%) → 200+ meetings hosted → Two UK, two US, one European roadshow → Three Group investor site visits, seven investor conferences → US shareholding >20% → Remuneration policy dialogue
<ul style="list-style-type: none"> → Solutions-driven culture → Market-led approach → Quality and regulatory support → Technical service offering → Collaboration across the supply chain 	<ul style="list-style-type: none"> → New applications across end markets → Direct Sales and On Demand teams → Build strategic relationships → Quality and Regulatory teams → Supply and development contracts 	<ul style="list-style-type: none"> → New Airbus development alliance → More than ten Gears development programmes in progress → Core development pipeline +24% vs FY 2018 ('MAV') → Increased penetration of PEEK-OPTIMA™ HA Enhanced → Brexit and debottlenecking contingency plans
<ul style="list-style-type: none"> → Innovative culture → Highly motivated and talented employees → High retention rate and appropriate reward → High level of share ownership → Safety focus → Diversity and inclusion agenda 	<ul style="list-style-type: none"> → Employee engagement survey → Global staff briefings (quarterly) → 'Ask Jakob' intranet forum → Development and succession planning → Performance-based reward → STEM activities supporting tomorrow's talent → All-employee bonus and share option schemes 	<ul style="list-style-type: none"> → Seven new senior roles created → Established broader Victrex Management Team ('VMT') for FY 2020 → 31 employees on Victrex apprenticeships → Employee engagement score 75% → 38 employees supported in external qualifications → 0.9 million employee hours with no reportable injuries → Established new workforce engagement non-executive Director
<ul style="list-style-type: none"> → Security of supply → Global supply chain → Fast lead times → Compliance and quality → Reliability and flexibility 	<ul style="list-style-type: none"> → Supply chain risk management → Regular supplier engagement programme → Handbook of standards → Ethical audits → Continuous improvement → Supplier scorecards 	<ul style="list-style-type: none"> → Increased percentage of critical raw materials dual sourced → Improved performance of third-party manufacturers → Long-term agreements on raw materials → Agreed charter on supplier management framework → Implementation of purchase to pay process
<ul style="list-style-type: none"> → Sustainability agenda → Sustainable solutions: environmental benefits → Resource efficiency: maximise resources → Social responsibility: inspire future talent 	<ul style="list-style-type: none"> → Engagement with customers and suppliers → Solutions for supporting CO₂ reduction → Waste impact and improvement plans → STEM ambassadors, schools and colleges → Business in the Community 	<ul style="list-style-type: none"> → 85% of electricity from renewable sources → Carbon Disclosure Project score B- → 250 tonne reduction in monomer waste → Signatory of Operation Clean Sweep (plastics industry campaign)

Strategy and key performance indicators



DRIVE CORE BUSINESS

How we performed in FY 2019

- Good growth in Aerospace, Energy and Medical, offset by Automotive and Electronics
- Driving growth in emerging geographies, Medical revenue up 79% in Asia-Pacific
- Cost management and targeted operating investment to support growth
- Sector leading returns

Focus for FY 2020

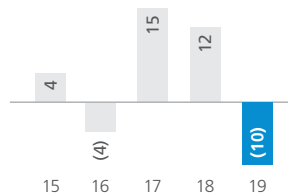
- Revenue growth during FY 2020
- Stabilise and return to growth in Automotive and Electronics
- Cost management and targeted operating investment to support growth
- Sector leading returns

Link to risks [2](#) [4](#) [5](#)

Revenue growth (reported) %



-10%



Definition

The year on year percentage change in total sales for the Group, in live currency.

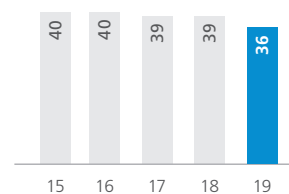
Why it's important

Revenue growth is the measure chosen to reflect the structural growth opportunities for PEEK across our markets, with above-market growth being the medium-term focus.

Return on sales¹ % (underlying PBT/revenue)



36%



Definition

Profit before tax and exceptionals as a percentage of total sales.

Why it's important

Return on sales assesses the overall profitability of the Group. The measure reflects our discipline in seeking growth opportunities which maintain our sector leading returns.



DIFFERENTIATE THROUGH INNOVATION

How we performed in FY 2019

- Further development of new grades including Victrex AE™ 250 composite grade for Aerospace
- Development of eco-system for 3D printing opportunities (investment in Bond 3D & collaborations with Airbus UK, Exeter University and other partners)
- PEEK Gears 'on the road' and more than ten development programmes in progress
- First commercial order for Aerospace composite parts
- Growth in PEEK-OPTIMA™ HA Enhanced product

Focus for FY 2020

- Continued R&D investment to support mega-programme delivery
- Commercialise 3D printing grades and manufacturing process
- Grow new product sales above 4% of revenues
- Commercial revenues from Aerospace composites

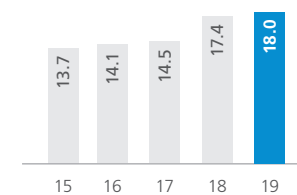
Link to risks [8](#) [9](#)

R&D spend £m



£18.0m

6% of Group revenue



Definition

The total Research & Development spend that the Group has incurred.

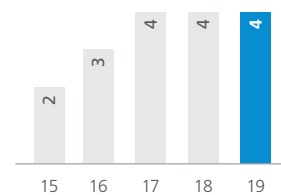
Why it's important

Research & Development spend at 5%–6% of sales underpins our ability to innovate into new applications, supporting our future growth.

New products as a % of Group sales¹ %



4%



Definition

Proportion of Group sales generated from mega-programmes, new differentiated polymers and other pipeline products that were not sold before FY 2014.

Why it's important

New product sales (Vitality Index) is a measure of how successful we are in driving adoption of our new product pipeline.

¹ Alternative performance measures are defined in note 22.

Key to KPIs

£ Financial KPI

£ Non-financial KPI

R₁ Linked to bonus objectives

Remuneration

R₂ Linked to Long Term Incentive Plan ('LTIP') objectives

Principal risks
Pages 27 to 29

+ CREATE AND DELIVER FUTURE VALUE

How we performed in FY 2019

- 59% growth in PEEK-OPTIMA™ HA Enhanced in Medical
- Multiple PEEK Gear development programmes
- Knee clinical trial underway and patient recruitment
- US composite parts facility operational in Aerospace
- Earnings per share down 17%

Focus for FY 2020

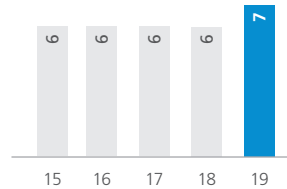
- Translate Gears development programmes into commercial revenues
- Further develop electric vehicle ('EV') application opportunities
- First knee implanted
- Grow earnings per share

Link to risks **5** **9**

Pipeline mega-programmes

£ R₁

7



Definition

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

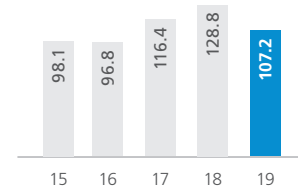
Why it's important

Our new product pipeline is key to differentiating our business, supporting new revenue and margin streams.

Earnings per share p

£ R₂

107.2p



Definition

Profit after tax divided by the basic weighted average number of shares. This includes the impact of exceptional items.

Why it's important

Earnings per share measures the overall profitability of the Group and demonstrates how we convert our top-line revenue opportunities into profitable growth for our shareholders.

✓ UNDERPIN THROUGH SAFETY, SUSTAINABILITY AND CAPABILITY

How we performed in FY 2019

- 0.9 million employee hours worked with no injuries
- Over 20% of revenues defined as 'green' by FTSE Russell
- 85% of electricity sourced from renewables

Focus for FY 2020

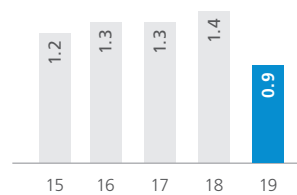
- Zero reportable injuries
- Progress towards carbon neutral (sales to Aerospace & Automotive since 2003 offsetting manufacturing footprint)

Link to risks **1** **3** **6** **7** **8**

Employee hours worked with no reportable injuries m

£ R₁

0.9m



Definition

Total number of hours worked in the year with no reportable injuries.

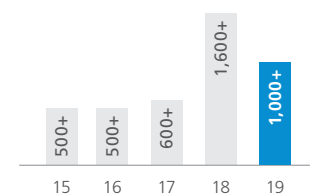
Why it's important

A safe and sustainable business is the highest priority for Victrex.

Hours worked in the community

£ R₁

1,000+



Definition

Total number of hours that Victrex employees have volunteered in community activities.

Why it's important

Our social responsibility strategy is key to giving something back to the communities where we operate, and to supporting our talent strategy in recruiting the employees of tomorrow.

CYCLICAL WEAKNESS OFFSETTING GROWTH MARKETS

Richard Armitage
Chief Financial Officer



FY sales volume down 15%, stabilising in Q4

Group sales volume of 3,751 tonnes was 15% down on the prior year (FY 2018: 4,407 tonnes), principally reflecting the cyclical nature in Automotive and the associated impact on our Value Added Resellers segment, together with some destocking, with supply chain inventories running very low. We also saw an impact from the weaker Electronics market, with both semiconductor and smartphone markets down, as well as a tough year on year comparative for the large Consumer Electronics contract, with negligible volumes in FY 2019. Excluding the effect of the large Consumer Electronics contract, sales volume was down 12%, with revenue down 8%.

Q4 FY 2019 sales volume of 940 tonnes was 5% lower than the comparative period (Q4 FY 2018: 990 tonnes) but slightly improved sequentially on Q3, indicating a degree of stabilisation in our Automotive and Electronics end markets in the final quarter, although we remain cautious on the near-term outlook.

Revenue down 10%

Group revenue was £294.0m, 10% down on the prior year (FY 2018: £326.0m), impacted by the weaker trading performance, but with an improved sales mix as Medical continued to show some growth. Group revenue in constant currency¹ was 11% down on the prior year (FY 2018: £331.8m in constant currency).

Solid performance in Medical, offset by Industrial

Medical revenues were £57.7m, 4% ahead of the prior year (FY 2018: £55.6m) and 1% ahead in constant currency¹. H2 2019 saw an improved performance against a tougher comparative, with revenues 6% ahead. Growth in Medical has been driven principally from Asia-Pacific, including in Spine, Arthroscopy and Cranio Maxillo Facial ('CMF') applications. Whilst PEEK continues to be the material of choice in spinal fusion, the challenge from titanium expandable cage applications remains, as well as 3D printed porous titanium cages, although our investment in Bond 3D – to focus on 3D printing in Medical – is showing good initial results. Pleasingly, progress in our next generation PEEK-OPTIMA™ HA Enhanced product for Spine was strong, with double-digit revenue growth over the year.



Sales, marketing, technical service and R&D are the focus of our investment to support growth.

Our Industrial division reported revenues of £236.3m, 13% down on the prior year (FY 2018: £270.4m), impacted by weaker trading within Automotive, Electronics and the combined impact within Value Added Resellers. Excluding the large Consumer Electronics contract, Electronics was 13% down, whilst we saw growth in the Oil & Gas part of Energy & Other Industrial, and delivered a good performance in Aerospace.

ASP ahead on improved mix

Our average selling price ('ASP') of £78/kg was 5% better than the prior year (FY 2018: £74/kg), with the benefit of a stronger mix. With our assumptions for Medical to remain solid and our near-term caution around Automotive, Electronics and VAR within Industrial, as well as a currency tailwind, at this early stage ASP for FY 2020 is expected to be slightly ahead of FY 2019.

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 ASP and margin percentage over the coming years.

Losses on foreign currency net hedging

Following adoption of IFRS 9 on 1 October 2018, any fair value gains and losses on foreign currency contracts, where net hedging is applied on cash flow hedges, are required to be separately disclosed on the face of the income statement. In FY 2019, a loss of £5.9m has been recognised accordingly, largely from USD contracts where the deal rate obtained (placed up to twelve months in advance in accordance with the Group's hedging policy) was adverse to the average exchange rate prevailing at the date of the related hedged transactions. In the comparative period, all corresponding gains and losses on foreign currency contracts were included within the line item of the underlying hedged transaction and totalled a net gain of £4.3m.



Currency, raw material and energy inflation impacting gross margin

Group gross margin of 60.0% (FY 2018: 63.8%) was materially lower than the prior year, impacted by adverse currency, which was approximately half of the margin decline (including the presentational impact of adopting IFRS 9), raw material and energy inflation, and lower overhead recovery, as volumes fell.

Our differentiated downstream products are helping 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 increase absolute margin, as well as further differentiating our business and offering the potential of sustainable returns.

Underlying PBT down 17% and EPS down 17%

Underlying profit before tax ('PBT') of £106.2m was 17% down on the prior year (FY 2018: £127.5m), reflecting weaker trading, adverse currency, and raw material and energy inflation. Operating investment was reined back to ensure the Group focuses on critical operating items, for example R&D expenditure to support our mega-programmes. Underlying PBT in constant currency¹ was down 14%. Reported Group PBT of £104.7m was 18% down on the prior year (FY 2018: £127.5m).

Our 'front-end' functions of sales, marketing and R&D support existing business growth and our mega-programmes and whilst we will continue to invest in these areas where appropriate, for FY 2020 we anticipate a similar level of absolute investment compared to FY 2019. No accrual was made for the Group's employee bonus scheme – which is based on profit growth – in FY 2019 compared to approximately £12m in the prior year. Based on initial market expectations assuming profit growth in FY 2020, we expect to accrue for the employee bonus scheme.

Basic earnings per share of 107.2p was 17% down (FY 2018: 128.8p). The effective tax rate was 11.7%, in line with the prior year (FY 2018: 13.3%), reflecting the ongoing benefit of Patent Box.

Adverse currency

Currency was adverse in 2019, with all of the headwind coming in the first half year, including the £5.9m loss on foreign currency net hedging. Including the effect of raw material and energy inflation, the Group saw an impact to profit of approximately £6m. For FY 2020, whilst currency is currently indicating a modest tailwind, we expect this will largely be offset by raw material and wage inflation, and accrual for our all-employee bonus scheme. We also note the ongoing volatility in currency rates, with hedging cover being less than 80% at the start of the financial year FY 2020.

Our hedging policy seeks to substantially protect our cash flows from currency volatility on a rolling twelve-month basis. The policy requires that at least 80% (previously 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. During FY 2020, the Group expects to review the ongoing effectiveness of the policy.

Brexit

As previously communicated, the Group continues to consider the potential impact of Brexit, with a team in place comprised of senior leaders to manage various contingencies through any transition period and beyond. For now, existing laws and trading arrangements are unchanged.

Victrex has indicated previously that the principal risk is 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. As part of our contingency plans, additional warehousing for finished goods stock was secured in mainland Europe (Germany) and China with a minimum of eight weeks of finished goods stock held outside the UK. Our German warehouse has been operational since February 2019, with capability to supply European customers. We also secured additional raw material stocks. Group inventories reached £92.2m in FY 2019 as a consequence (FY 2018: £69.3m) and with continued uncertainty over Brexit, as well as reduced production availability in our polymer assets due to debottlenecking, we anticipate maintaining a continued higher level of inventory through FY 2020.

Whilst we note the political uncertainty, our assessment of the potential financial impact of a 'no deal' Brexit is based on standard WTO tariffs being applied, bringing increased costs in the short term through the application of duties to the import of certain raw materials and on the export of finished goods. This short-term cost would be partially mitigated by the impact on the unhedged portion of our currency flows in the event of any weakening of Sterling. Once existing hedges roll off, there is also the potential for weaker Sterling to provide a tailwind in the event of a 'no deal' scenario. As the only current manufacturer of PEEK products in the EU, we also have the opportunity to seek tariff mitigation that may be available to us, although we note this option could reasonably be expected to take up to a year to secure.

Financial review continued

Investment to drive growth

Our 'front-end' sales, marketing, technical service and R&D capabilities are critical to our ongoing success and are the focus of our investment to support growth, alongside the appropriate quality resource.

Operating overheads, before exceptional items of £1.5m and profit related remuneration (bonus, LTIP and share options) of £1.1m, increased by 5% to £69.6m (FY 2018: £66.6m) reflecting further investment in the 'front-end' activities noted above. Profit related remuneration reduced by £13.4m, primarily reflecting a zero accrual for the all-employee bonus scheme. Exceptional items of £1.5m relate to acquisition costs. Research & Development investment was £18.0m (FY 2018: £17.4m) representing approximately 6% of revenues¹.

For FY 2020, we expect operating overheads (excluding bonus) to be slightly ahead of FY 2019, although we will focus on cost efficiencies that will be reinvested in support of growth where possible. Based on market expectations of profit growth in FY 2020, the Group will also accrue for the all-employee bonus scheme, which is based on underlying PBT growth. As a consequence, we anticipate total overheads will be modestly ahead of FY 2019. As noted below, the Group will embark on a major debottlenecking project at its Hillhouse site in FY 2020. This is likely to lead to an extended shutdown and a period of under-recovered overheads, which we anticipate treating as an exceptional item. Together with anticipated M&A costs, the exceptional charge in FY 2020 is expected to be £10m–£12m.

Investment to support downstream strategy

Capital expenditure was £22.7m (FY 2018: £9.9m) and our guidance for normalised Group capital expenditure over the medium-term cycle remains at approximately £20m–£25m, or around 6% of sales. FY 2019 expenditure has included investment in our Aerospace Loaded Brackets and composite parts facility, which became operational during the year. This supported our first commercial orders based on our AE™ 250 polymer grade, which has pre-qualification with the major aerospace manufacturers. We have also continued to invest in our Automotive PEEK Gears facility as it develops its capabilities for a range of potential customers and applications.

We made two investments during the period in support of our Polymer & Parts strategy, which, once fully invested, will have a combined potential investment value of up to £20m. A small equity investment was made in UK-based Surface Generation Limited, to form a partnership utilising potentially state of the art manufacturing processes, which will support Victrex's mega-programmes. The PTF5 (Production to Functional Specification) technology offers the potential for enhanced manufacturing effectiveness beyond standard moulding technology, including driving reductions in energy consumption and cycle times required to process the most complex material and part combinations.



The Group also invested in Bond 3D High Performance Technology BV, a Dutch company developing unique, IP protectable 3D printing (additive manufacturing) processes which are capable of producing high strength parts from existing grades of PEEK and PAEK polymers. The investment offers the potential of utilising this technology to help accelerate the market adoption of 3D printed PEEK parts, with particular emphasis on the Medical market. Good progress has already been made, particularly in the opportunity for porous PEEK cages.

Debottlenecking investment underway

'Debottlenecking' of our existing Hillhouse polymer manufacturing facilities is underway, which will allow the site to move towards its 'nameplate' capacity of 7,150 tonnes. At a capital cost of approximately £15m, weighted to FY 2020, this represents an efficient and smart use of cash, as well as enabling us to defer any large-scale organic capacity investment by a number of years. The project will result in an extended shutdown during FY 2020, which will lead to under-recovered overhead in the region of £8m–£10m, which we intend to treat as an exceptional charge. This project also influenced our inventory build, to ensure we effectively manage security of supply for our customers during an extended shutdown of our polymer manufacturing facilities. We continue to keep up to date with options for both organic and inorganic investments, ensuring we have capacity ahead of demand, particularly noting some of our potentially high volume mega-programmes and supporting specific geographical opportunities for growth.

Mega-programme progress

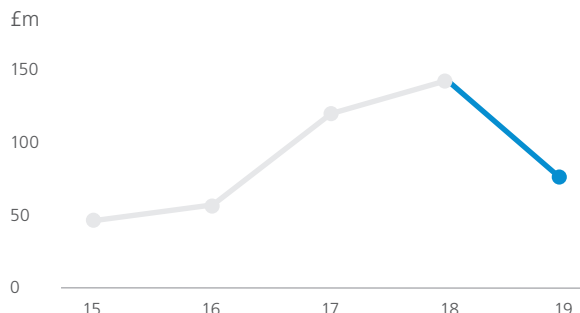
Whilst trading was tough through FY 2019, pleasingly we continued to see milestones delivered in our mega-programmes and new product pipeline.

Our PEEK **Gears** are now 'on the road' following a first supply agreement in 2018. 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 intellectual property ('IP') but is able to help accelerate the market for PEEK Gears. We now have several contracts in place, as well as over ten development programmes with major car manufacturers. We had also noted in July that a contract with a major OEM had been secured, which was the first of several programmes with this customer. This has now been rescoped although our technical standing with that OEM remains strong and we are excited about the potential for a broader range of developments with them.

Our **Aerospace Loaded Brackets** programme is benefiting from the completion of our TxV Aero Composites manufacturing facility in the US, which gives us the capability to manufacture parts that fly. Whilst the initial focus is on revenue-earning prototype parts with all major airframe manufacturers, first commercial orders have been secured for interior parts, meaning the first composite parts manufactured in our US facility are expected to be in the air on a near-term basis, supporting the opportunity of meaningful revenue in FY 2020.

For the longer term, we have signed a development alliance with Airbus, as part of its 'Clean Sky 2' programme, which has now become our '**Aerospace Structures**' mega-programme. The alliance will support the development and commercialisation of thermoplastic composites in Aerospace over the coming years, with a focus on both larger primary and secondary Aerospace structures. With projections of approximately 37,000 new or replacement aircraft required globally by 2037 (source: Airbus), this alliance will build on the attractive long-term opportunities in this market, offering further growth opportunities for Victrex over the next decade. This opportunity is incremental to Victrex's Aerospace Loaded Brackets programme. Victrex's AE™ 250 composites grade will be integral to both of these opportunities.

Available cash



Magma saw a lower level of revenue for FY 2019 as a whole against a tougher comparative although medium-term opportunities remain attractive. TechnipFMC continues to focus on the potential within the Libra field development in Brazil, with significant time and resource being deployed on their part to ensure the capability is in place and for pre-qualification work. Ahead of the outcome of the Libra pre-development work over the next 18 months using a Hybrid Flexible Pipe ('HFP') model, other opportunities exist with Ocyan as part of a Composite Riser opportunity, which would also use a Magma-based solution.

In Medical, we made good progress with our PEEK-OPTIMA™ HA Enhanced product, with double-digit sales growth. Our focus to grow our non-Spine business in **Dental** has been slower than we anticipated, where we signed a customer agreement with Straumann Dental in 2018. Our Invivio Dental product (Juvora™) continues to have a good clinical proposition and we believe the medium to long-term opportunity remains attractive, although additional distribution agreements will need to be secured to gain further market penetration.

With a collaboration agreement in **Trauma** – with a top five player – we continue to use clinical data and marketing awareness through trade shows and key opinion leaders to support this programme. In **Knee**, and through our partner Maxx, the clinical trial in Italy is now underway. The trial is expected to run for a minimum of 18 months, with 30 patients. We are also focusing on securing a second OEM partner in this programme.

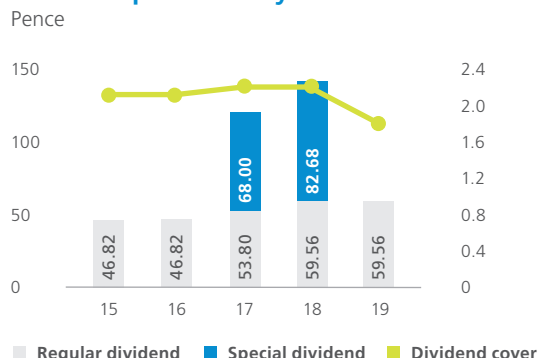
Strong balance sheet

Our growth investment and security of supply to our customers is underpinned by our strong balance sheet. Net assets at 30 September 2019 totalled £461.6m (FY 2018: £489.9m). With our Brexit contingency plans and support for debottlenecking, inventories increased to £92.2m (FY 2018: £69.3m), as we saw stock build in Europe and globally. Subject to no disruption to ports and supply routes, and successful completion of debottlenecking, we would expect to start to unwind this inventory position over two financial years, starting late in FY 2020 and into FY 2021.

Robust cash generation

Cash generated from operations was £90.3m (FY 2018: £135.8m) representing an operating cash conversion¹ of 87% (FY 2018: 107%) reflecting the increased inventory and unwind of the FY 2018 bonus accrual. Available cash¹ (with no debt) at 30 September 2019 was £72.8m (FY 2018: £144.4m), based on available cash¹, which includes cash held on deposit. In February 2019 we paid the 2018 full year final dividend of 46.14p/share and the special dividend of 82.68p/share, whilst in July 2019 we paid the interim dividend of 13.42p/share. Combined, dividend payments in FY 2019 totalled £122.4m (FY 2018 dividends paid: £105.6m).

Dividend per ordinary share



Taxation

The Group's effective tax rate reflects the associated benefit from Victrex filing patents as part of its unique chemistry and IP, through the UK government's 'Patent Box' scheme. The effective tax rate of 11.7% for FY 2019 (FY 2018: 13.3%) also reflects the deferred tax impact of profit in stock consolidation adjustments from building overseas inventory.

Dividends

Retaining the flexibility to invest in support of our growth remains our top priority, whether that is through capital expenditure, M&A, joint arrangements or partnerships. Whilst an investment decision for any organic multi-year polymer manufacturing capacity has been deferred for a number of years, a range of options continue to be assessed, both organic and inorganic. The Board assessed several distribution options for future shareholder returns during FY 2018, whilst noting these investment needs. As a result, our capital allocation policy has been retained, which is to grow the regular dividend broadly in line with earnings, whilst maintaining dividend cover¹ around 2x, and retain the threshold for payment of a special dividend at 50p/share subject to no additional investment requirements.

With the Group delivering a weaker performance in FY 2019 and some key industrial markets remaining weak, the final dividend will be held flat at 46.14p/share (FY 2018: 46.14p/share), with dividend cover at 1.8x (FY 2018: 2.2x). With year-end net cash not exceeding the £85m threshold, no special dividend is proposed.

Outlook

Looking forward, Automotive and Electronics are showing signs of stability, although we will retain some caution on these markets at this early stage, with an initial assumption that current trends will continue through the first half year. Our cost-effective debottlenecking project is underway, enabling Victrex to gain significant incremental capacity in support of our medium-term growth programmes, although an extended shutdown will mean some under-recovered overheads. On a full year basis, currency offers a modest tailwind although this will be offset to a large degree by some limited incremental operating investment, cost inflation and our employee bonus scheme. Overall, we remain focused on making year on year progress and our Polymer & Parts strategy keeps us well placed to deliver our medium to long-term growth opportunities.

Richard Armitage
Chief Financial Officer

5 December 2019

¹ Alternative performance measures are defined in note 22.

Chief Commercial Officer's report

INDUSTRIAL

Martin Court
Chief Commercial Officer

Industrial revenue

£236.3m -13%
-14%*

Industrial gross profit

£128.2m -19%
-18%*

* Constant currency



Group performance is reported through the Industrial and Medical 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, Transport (Automotive & Aerospace) and Electronics.

Our Industrial business delivered revenue of £236.3m (FY 2018: £270.4m), 13% lower than the prior year, reflecting the weaker Automotive, Electronics and Value Added Resellers markets, and the year on year comparative from negligible volumes as part of the large Consumer Electronics contract. Revenue in constant currency was down 14%. Gross margin fell to 54.3% (FY 2018: 58.7%), reflecting the impact of currency (including the change in presentation of gains and losses on foreign currency contracts), raw material and energy inflation, and lower overhead recovery as volumes fell.

Energy & Other Industrial

Our Energy & Other Industrial market (which includes volumes reported for Manufacturing & Engineering) saw sales volume of 673 tonnes, which was flat on the prior year (FY 2018: 680 tonnes), with Oil & Gas up 6% overall. Whilst rig count in 2019 has reduced through the year, robust oil prices and activity continue to be supportive to sales. Our Magma Oil & Gas mega-programme saw lower year on year revenue as anticipated, principally reflecting completion of specific projects in FY 2018. The long-term opportunity offshore in Brazil with TechnipFMC continues to support the proposition, with significant time and resource being allocated to this opportunity by TechnipFMC and Magma, with Victrex supporting the material requirements.

Manufacturing & Engineering ('M&E') remains a relatively new area for Victrex, which focuses on new or incremental applications in fluid handling, food contact materials and manufacturing equipment applications, where metal replacement requirements are increasing. M&E saw a challenging year as industrial activity weakened globally.

Value Added Resellers

Value Added Resellers ('VAR') 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. This channel to market also typically sees greater levels of destocking as processors or compounders typically reduce inventories in higher value materials when end market demand drops. Sales volume of 1,463 tonnes was 17% lower than last year (FY 2018: 1,766 tonnes), principally reflecting the impact of business being supplied into the Automotive and Electronics markets, together with some destocking.

Transport (Automotive & Aerospace)

Structural megatrends including lightweighting, CO₂ reduction, durability, comfort and heat resistance continue to support the long-term outlook for Transport markets. Sales volume declined 8% to 950 tonnes (FY 2018: 1,035 tonnes), primarily driven by the impact of the World Light Vehicle Testing Programme ('WLTP') on Automotive, offset by growth in Aerospace, as plane build and PEEK penetration increases.



Automotive

The global emissions testing regime and weaker demand impacted sales into this market. Volumes fell by 12%, with significant volatility between quarters (Q1 volumes were down 23%). Market data from IHS forecasts a decline in car build of approximately 6% during 2019, with Victrex volumes weaker than the overall market due to destocking.

On a medium to long-term view, 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, 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 and development programmes in this area.

Following our PEEK Gears 'on the road' deployment in 2018 and two other smaller contracts, we now have over ten development programmes to support the medium to long-term revenue opportunity, although meaningful revenue will now be later than our original assumption of FY 2019, reflecting the rescoping of a US OEM contract. 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 and inertia reduction, and quicker manufacturing compared to metal. To help scale this opportunity further, we will partner with manufacturing companies to support a wider roll-out, whilst retaining the development know-how. A PEEK Gear offers the potential of approximately 20g per application.

Aerospace

Aerospace performed well, with 5% growth in sales volume, reflecting penetration and build rates. 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 TxV US manufacturing facility in Rhode Island, US, is now manufacturing commercial parts, with capability to deliver approximately 150 tonnes of composite parts per year initially, to prove out the benefits. Our development alliance with Airbus as part of their 'Clean Sky 2' programme will also offer opportunities in larger primary and secondary structures – now part of our Aerospace Structures mega-programme – although the revenue opportunity here is around five years away.

Electronics

Electronics volumes fell 36% to 481 tonnes (FY 2018: 746 tonnes), principally reflecting negligible volumes from the large Consumer Electronics order – compared to approximately 200 tonnes in 2018 – lower volumes for an emerging consumer application and weaker Semiconductor markets. Small Space Acoustics, which sees our Aptiv™ film used in smartphones, was weaker this year, offset by some growth in Home Appliances.

Regional trends

Regional trends show Europe was down 14%, with 1,974 tonnes (FY 2018: 2,308 tonnes), reflecting the weakness in Automotive and Value Added Resellers, and slower Industrial markets more generally. Asia-Pacific was down 24% to 961 tonnes (FY 2018: 1,264 tonnes) principally from Electronics, whilst US volumes were steady, 2% down at 816 tonnes (FY 2018: 835 tonnes), reflecting growth in Energy, offset by Electronics and Value Added Resellers.

Chief Commercial Officer's report continued

MEDICAL

Martin Court
Chief Commercial Officer

Medical revenue
£57.7m +4%
+1%*

Medical gross profit
£48.1m -3%
-1%*

* Constant currency

Revenue in Medical was up 4% at £57.7m (FY 2018: £55.6m), reflecting a stable second half year against a tougher comparative. In constant currency, Medical revenue was 1% ahead, continuing the stable trend seen during FY 2018 as share within the US Spine market stabilises. Medical sales are heavily US Dollar denominated, with the average spot rate in the current period impacting us, reflecting rates being adverse to the effective rate in FY 2018, which benefited from deals placed in the FY 2017 financial year. Gross profit was £48.1m (FY 2018: £49.4m) and gross margin was lower at 83.4% (FY 2018: 88.8%). This partly reflected sales mix and an increasing portion of non-Spine sales, particularly from Asia, with the remaining impact being due to currency, including the presentational impact of adopting IFRS 9, which accounts for approximately a third of the margin decline.

Geographically, Asia-Pacific saw strong growth, up 79%, including China, which saw revenue increase by 123%, offset by a decline in the US of 7% and a stable European market. Asia-Pacific growth principally reflects both Spine, as new approvals are secured, and some non-Spine areas such as Cranio Maxillo Facial ('CMF') and Arthroscopy.

Medical market overview

Our medium-term focus is to diversify our Medical business into non-Spine areas, as well as seeking growth in Spine through emerging geographies, and new innovative products. 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. Approximately 60% revenue growth was seen in this product during FY 2019 and we also saw this product used in a new 'Hammertoe' application outside of the Spine market.

Mega-programmes

As previously communicated, our Invivio Dental (Juvora™) branded products have been slower than anticipated following our distribution agreement with Straumann in 2018 and we continue to expect additional agreements will be needed to help market penetration. The medium-term opportunity remains attractive for Dental and the clinical proposition – with lower peri-implantitis rates in PEEK solutions after five years compared to titanium – remains strong. A recent additional study via the well-regarded Malo Clinic, based on three-year clinical data, further validated our Dental proposition.

Our emphasis is on the prosthetic dental market – frames, bridges and partials – rather than the full jaw-based implant, with the Invivio Dental offering focused on improving quality of life and clinical outcomes for patients, whilst offering manufacturing efficiency benefits.

In Trauma, we successfully signed a collaboration agreement with a top five Trauma player last year. We are also continuing to work with smaller innovative players through development agreements.

Our PEEK composite Trauma plates offer the potential for 50 times better fatigue resistance compared to a metal plate. The awareness of composites as a viable metal alternative is growing and we have the manufacturing capability to meet initial demand.

The \$6bn global knee replacement market continues to demand alternatives. With one in five patients dissatisfied with their knee surgery, typically those using metal-based solutions, patient demand for alternatives is growing. The Knee clinical trial is underway, with approximately 30 patients being recruited via an Italian hospital. We expect the trial to run for approximately 18 months to 2 years. Whilst our existing partnership with Maxx Orthopedics is working well, we continue to seek an additional OEM partner to help drive awareness and support the value proposition prior to market penetration.

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.

2 RISK ASSESSMENT How do we assess and record risks?

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.

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.

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.

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 approves the risk management policy.

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Board considers the continued effectiveness of risk management processes, controls and culture, changes to principal risks and their management, and the quality 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 66. 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 do the external auditors on matters identified during the course of their statutory audit work.

Executive Risk Management Committee

The Executive Risk Management Committee, chaired by the Chief Financial Officer, 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 Chief Financial Officer, 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 Executive Risk Management Committee comprises the executive Directors, Group HR Director, General Counsel & Company Secretary and the Director of Risk & Compliance.

Risk management subcommittees

Risk management subcommittees exist at all functional levels, with particular focus on Transport and Medical due to current business activity. These meet and report up to the Executive Risk Management Committee at least half yearly via their respective Chairs, who are Executive 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 Executive 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

MANAGING OUR 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 1	BUSINESS GROWTH 2	RECRUITMENT AND RETENTION OF THE RIGHT PEOPLE 3
<p>Primary link to strategy</p> 	<p>Primary link to strategy</p> 	<p>Primary link to strategy</p> 
<p>Risk area and description</p> <p>Delivery of our strategy is dependent on us conducting our business safely. Given the nature of our various manufacturing facilities, a significant operational disruption could adversely affect the safety of people on or close to our sites. Disruption could also impact our ability to make and supply products.</p> <p>The environment in which Victrex operates is subject to numerous legislative and regulatory requirements. A failure to comply could adversely impact the local environment, our employees, our manufacturing capability, or the attractiveness of our business or products to various stakeholders.</p>	<p>Risk area and description</p> <p>The growth of our existing business is driven by innovation in our core product range, the quality of our technical service offering and continuous improvement activity 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.</p> <p>Growth can be impacted by the performance (growth, stability or turbulence) in the markets that we serve. Challenging market conditions could lead to a fall in customer demand.</p> <p>Growth could also be impacted by the emergence of lower cost competition or lower cost alternatives to our high quality PEEK.</p>	<p>Risk area and description</p> <p>Our success depends on recruiting and retaining the right people in all areas of our business. Victrex relies heavily on the skills, experience and competence of our people to comply with internal procedures and external regulations, to drive business in existing and new markets, to deliver our strategy, to operate our manufacturing assets safely and with a strong regard to the environment, and to successfully execute our downstream strategy.</p>
<p>Mitigation</p> <p>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.</p> <p>Any events that do occur are investigated by regulatory authorities and action plans are put in place to prevent re-occurrence.</p> <p>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 32 to 45.</p>	<p>Mitigation</p> <p>We 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.</p> <p>We keep abreast of technological changes to materials and potential challenges for PEEK and PAEK polymers by developing new grades with differing properties, as well as creating new markets for PEEK/PAEK polymers.</p> <p>The principal mitigation for weak market conditions will be increased penetration in less cyclical segments of our target end markets.</p>	<p>Mitigation</p> <p>We have strategies in place to determine our future resourcing needs and attract and retain the best talent.</p> <p>Our employees have clear objectives, aligned to our strategy, personal development plans and regular reviews to assess their performance and support their development.</p> <p>We have succession plans in place for key roles and develop our future leaders so that we are able to promote internally as well as bringing in new talent from the outside.</p> <p>Where necessary, we will supplement the skills of our own employees with those of third parties in order to deliver our downstream strategy.</p> <p>We operate an equal opportunities policy and aim to continually enhance the diversity of our workforce. We regard this as a commitment to make full use of the talents and resources of all our employees.</p>
<p>Change</p>  No change	<p>Change</p>  An increase in risk has been noted in 2019 due to weaker market conditions, although the demand for differentiated PEEK applications remains strong.	<p>Change</p>  Steps taken to have more flexible working hours and clearer remuneration policies in some of our non-UK entities have resulted in a reduction in risk.
<p>Viability statement links</p>  Risk considered  Risk focused on in sensitivity analysis	<p>Viability statement links</p>  Risk considered  Risk focused on in sensitivity analysis	<p>Viability statement links</p>  Risk considered

Principal risks continued

Key to strategy Drive Differentiate Create & deliver Underpin

FOREIGN CURRENCY RISK 4	BUSINESS CONTINUITY OF SUPPLY CHAIN 5	NETWORK AND IT SYSTEMS AND SECURITY 6
<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>Uncertainty around the Brexit outcome has increased volatility of currency movements but our hedging policy has provided us with some short-term certainty.</p> <p>In FY 2020 we will again review the effectiveness of the policy.</p>	<p>Risk area and description</p> <p>Failure to maintain a secure supply of high quality products to our customers caused by, for example, incapacity of our production facilities, quality failure or restricted access to raw material supplies and transport links could lead to insufficient inventory and capacity, loss of earnings and damage to reputation.</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 currently 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 Group looks for opportunities to increase natural hedging and reduce net currency exposure.</p> <p>The currency policy is managed by a dedicated Currency Committee. The Committee regularly assesses whether the impact of major events, including geopolitical events such as Brexit, requires any modification to that policy.</p> <p>Reflecting the risk, we provide guidance to shareholders on the impact of currency movements.</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>Supply chain management policies and processes are in place. Increases in demand are anticipated by and consistent supply is maintained through integrated business planning ('IBP').</p> <p>Strategic supplier development and performance management to maintain the quality and security of supply of key raw materials.</p> <p>Business continuity plans are in place to identify risks and ensure plans are in place to manage them. These are regularly reviewed to ensure their continued effectiveness.</p> <p>EU warehousing has been established to provide stock contingency for Brexit.</p>	<p>Mitigation</p> <p>Victrex operates a multi-layered approach to providing IT system continuity and to protecting information assets.</p> <p>Continued enhancements to IT infrastructure and defences are carried out, including using best of breed storage, firewall and machine learning anti-virus technologies. A project to improve network segregation and security of plant control systems has also been recently implemented.</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 information security 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 is decreasing as IBP is becoming more effective.</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>

PRODUCT LIABILITY 7	ETHICS AND REGULATORY COMPLIANCE 8	STRATEGY EXECUTION 9
<p>Primary link to strategy</p> 	<p>Primary link to strategy</p> 	<p>Primary link to strategy</p> 
<p>Risk area and description Selling into highly demanding end-use applications and regulated markets means a failure to supply in accordance with the agreed specification has the potential to lead to consumer harm or a potential product liability claim. This in turn could lead to a loss of business and reputational damage.</p>	<p>Risk area and description We are required to adhere to all applicable laws, regulations and ethical standards including those covering:</p> <ul style="list-style-type: none"> → Anti-bribery and corruption → Exports and sanctions → Competition → Data protection → Human rights, modern slavery and labour <p>Any failure to comply with ethical and regulatory compliance standards has the potential to result in loss of earnings, civil or criminal legal exposure, or reputational damage, and could affect our ability to achieve the business strategy.</p> <p>The outcome of Brexit may present risks from changes in certain laws.</p> <p>Our future opportunities in Automotive, Aerospace and Medical will bring new regulatory challenges to meet.</p>	<p>Risk area and description The success of our future business growth will depend on the effective implementation of our Polymer & Parts strategy. This risk considers the potential failure to execute the strategy effectively and generate value. It also focuses on the timing of projects and the need for rigorous project management to ensure our growth programmes, including mega-programmes, do not slip.</p> <p>Key elements include the failure to: gain market deployment through delays in programmes and due to the disruptive nature of the portfolio; develop scalable manufacturing solutions; and develop the Group's infrastructure to be able to support more complex operations.</p> <p>Our plant debottlenecking and upgrade plans also need to be delivered effectively in order to be able to ensure continued supply to our customers.</p>
<p>Mitigation Robust regulatory standards and accredited quality management systems are in place relevant to our markets, including Medical Devices, Automotive and Aerospace.</p> <p>Warranty Committee established to enhance risk management/mitigation processes for key programme activity.</p> <p>Use of external experts to support with complex contract matters.</p> <p>Supply contract terms and conditions, including agreed specifications and manufacturing to verified and validated standards and processes. In addition the Group maintains appropriate levels of product liability insurance.</p> <p>A Management of Change process is in place to ensure that supply and quality are consistent and any change in use is appropriately validated.</p>	<p>Mitigation Compliance policies and procedures are in place for all key regulatory compliance risks.</p> <p>Our Code of Conduct is in place, which is regularly reviewed and mandatory training provided. Compliance is monitored and reported to Executive Management.</p> <p>We continue to use internal and external subject matter experts to support risk identification, set standards and policies and provide advice and training.</p> <p>Commercial contracts and our pricing strategy are reviewed by our Legal and Product Management teams.</p>	<p>Mitigation The Group has a well-established and clear business strategy which is subject to a robust review process to ensure its continued effectiveness. The Board monitors KPIs that measure progress in implementing the strategy at each Board meeting.</p> <p>A Project Management team is in place to manage each growth programme as a clearly defined project. Governance is achieved through a Portfolio Steering Committee which tracks milestone achievement.</p> <p>Compelling business cases are developed to support customer/market adoption, including working with key opinion leaders and demonstrating unique value through data and evidence.</p> <p>It is also Victrex's policy to invest in small but scalable manufacturing facilities for new technologies ahead of growth. This is ensuring that Victrex is ready with capacity as commercial opportunities become available.</p>
<p>Change</p>  <p>Our good progress in Automotive and Aerospace markets has increased our product liability exposure, but enhanced mitigations have addressed the additional risk.</p>	<p>Change</p>  <p>No change</p>	<p>Change</p>  <p>The risk has shifted from one of innovation and product capability to one of gaining market adoption.</p>
<p>Viability statement links</p>  Risk considered  Risk focused on in sensitivity analysis	<p>Viability statement links</p>  Risk considered  Risk focused on in sensitivity analysis	<p>Viability statement links</p>  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 twelve 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 2020 and longer-term strategic forecasts and plans, including consideration of the principal risks faced by the Company, as detailed on pages 27 to 29. 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 Groups business model (detailed on pages 8 and 9) and strategy (detailed on pages 10 to 13 and pages 16 and 17), which are fundamental to understanding the future direction of the business, while factoring in the Group's principal risks (detailed on pages 27 to 29). The Directors have also considered the Group's current strong financial position, including the level of cash at 30 September 2019 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 2024) being approved in March 2019. Subsequently, the more detailed budget for the year ending 30 September 2020 has been finalised, which upholds the key assumptions in the 2019 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 2024, 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 2019 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 (see pages 27 to 29)
1. General competitive pressure in the marketplace resulting in a decrease of Industrial and Medical revenue for both core and mega-programmes.	Business growth Strategy execution
2. A natural, political or other event impairing manufacturing capability 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).	Business growth Strategy execution
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 and environment Product liability
5. A global recession impacting two financial years (similar to impact in 2009 when sales fell by c.25%).	Business growth Strategy execution
6. All of the above, with an associated reduction in the overhead cost base.	

The scenarios tested on page 30 were carefully considered by the Directors, factoring in the potential impact, the 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, assist in reducing the risk of regional economic challenges and sector-specific issues. The strategy of partnering closely with customers to develop the right applications and our existing and growing list of specified products are also important mitigants.

The mitigation assessment also considered the Group's ability to 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 has recently been extended through to October 2024.

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 executive-led Brexit Steering Committee. Contingency plans were implemented during 2019 to mitigate the principal risk of Brexit, being a sustained period when the Group was unable to import certain raw materials or export finished goods. This included securing additional warehousing in Germany and China and increasing the proportion of inventory held in regional warehouses with a target cover of three months in each geography.

Due to the political uncertainty that exists, there remains a wide range of potential outcomes, including a 'no deal' 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 Board has also considered the impact of the debottlenecking project commencing in 2020. While this will restrict manufacturing capability, the shutdowns required will be carefully managed with assets taken down in series not parallel and short-term demand trends assessed before each asset is taken out of service so as not to restrict supply. Inventory has been specifically built to mitigate this risk and cover the forecast plant shutdowns. Scenario 2 covers the risk of supply disruption which would be the result of delayed completion of the project.

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 2024.

SUSTAINABILITY AT OUR CORE

Jakob Sigurdsson
Chief Executive Officer



We seek to bring transformational solutions that address the world's material challenges every day.

Introduction from the Chief Executive Officer – Jakob Sigurdsson

With sustainability at the core of our business model Victrex seeks to bring transformational solutions that address the world's material challenges every day. We seek to deliver sustainable benefits principally in three areas: for our customers and markets through our products, with efficient use of resources and being socially responsible in the communities where we operate. Through our 2023 Vision (timed to mark the 30th anniversary of Victrex's formation) Victrex has clear targets which seek to improve on our strong sustainability platform.

PEEK and the PAEK family of polymers already have a good track record in sustainability, including the potential for recyclability of PEEK in applications and the future possibilities from a circular economy and re-use of materials. We have long-term sustainability targets, with a number of interim targets already completed. Over the next twelve months we expect to further refine these targets, both for practicality and also for the medium term, particularly around our resource efficiency area, where our newer manufacturing acquisitions or investments need to be reflected. We will also take account of the UN's 2030 Sustainable Development Goals in our targets.

Our sustainable solutions area looks to increase the level of PEEK polymers in cars from an average of 8g to 12g in the medium term, with our lightweight and durable polymers supporting the trend for CO₂ reduction, as well as reduced waste through enhanced processing. In our Medical area, we increased our target for the number of implanted patients with PEEK-OPTIMA™ from 9 million to 12 million. Following our initial recognition in 2018, we continue to be part of the FTSE Russell Green Revenues Index, reflecting our sales into transport markets, where our lightweight materials support the trend 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 electricity we buy to 85%. Participation in the Carbon Disclosure Project ('CDP') remains a key priority and I am pleased to note our score improved further this year, to a B-, a great achievement considering our initial E grade in 2013. We also saw some efficiency improvements in our Aptiv™ film processing, through our new film reclaim plant.

In social responsibility, our activities in the community, and to support the next generation of scientists and engineers, show progress. Through supporting STEM (science, technology, engineering and maths) activities in schools, as well as supporting 31 apprentices this year, we have a clear focus with a target of 10,000 employee hours supporting local communities.


Although our sustainability platform is robust, I believe we can make further strides 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 business model and long-term success.

As Chief Executive Officer I have direct responsibility for our sustainability strategy and look forward to continuing our progress.

Jakob Sigurdsson
Chief Executive Officer
5 December 2019

OUR SUSTAINABILITY GOALS

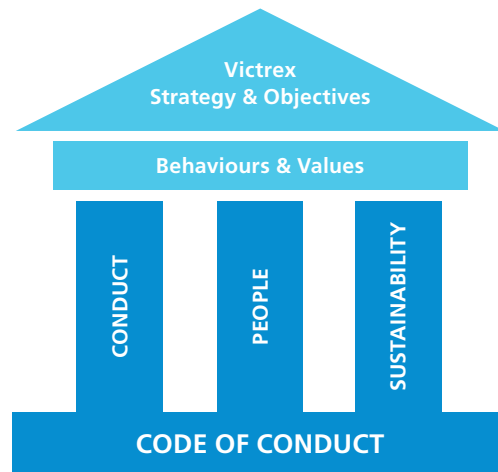
Victrex delivers sustainable benefits and solutions to our customers and our markets, alongside maximising our resource efficiency across our global footprint, and being socially responsible in the communities where we operate.

Sustainable solutions 	Resource efficiency 	Social responsibility 
<p>Vision: Develop and deliver sustainable polymer solutions that provide clear social and environmental benefits to society</p> <hr/> <p>2023 target:</p> <ul style="list-style-type: none"> → 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+) <p>Our 2023 Vision: interim targets</p> <hr/> <p>Metric:</p> <ul style="list-style-type: none"> → CO₂ savings → Scale of patient benefits <hr/> <p>Interim targets:</p> <p>COMPLETED</p> <ul style="list-style-type: none"> → 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 <p>TO DO</p> <ul style="list-style-type: none"> → Extend Invibio solutions into emerging geographies <p>ENHANCED TARGETS</p> <ul style="list-style-type: none"> → Increase volume of PEEK in cars from 8g to 12g over the medium term, supporting lighter vehicles and CO₂ savings 	<p>Vision: Maximise resource efficiency across the value chain</p> <hr/> <p>2023 target:</p> <ul style="list-style-type: none"> → 50% reduction in CO₂ per £ revenue → 50% reduction in waste per £ revenue <p>Our 2023 Vision: interim targets</p> <hr/> <p>Metric:</p> <ul style="list-style-type: none"> → Reduction in energy and waste → Tonnes CO₂ per £ revenue <hr/> <p>Interim targets:</p> <p>COMPLETED</p> <ul style="list-style-type: none"> → 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 <p>TO DO</p> <ul style="list-style-type: none"> → Establish a long-term energy efficiency plan <p>ENHANCED TARGETS</p> <ul style="list-style-type: none"> → Establish long-term resource efficiency plan with raw material supply chain → Translate low carbon energy sourcing strategy across UK manufacturing sites 	<p>Vision: Inspire the next generation by supporting science, technology, engineering and maths education ('STEM')</p> <hr/> <p>2023 target:</p> <ul style="list-style-type: none"> → 10,000 employee hours (cumulative) supporting community activity by 2023 → 1,000 young people reached through education activities → 50% of employees engaged on sustainability <p>Our 2023 Vision: interim targets</p> <hr/> <p>Metric:</p> <ul style="list-style-type: none"> → Employee involvement in the community → Number of young people worked with <hr/> <p>Interim targets:</p> <p>COMPLETED</p> <ul style="list-style-type: none"> → 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 <p>TO DO</p> <ul style="list-style-type: none"> → Ongoing support to high schools 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 of Conduct 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

 [Chief Commercial Officer's report](#)
Pages 22 to 24



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. In September the completion rate was 90%. 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 27 to 29. Our Safety, Health and Environment Policy promotes our continuous improvement in this area.

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 27. Ensuring we recognise the positive contribution of a diverse workforce and hold ourselves to account for delivering it is paramount. As such we have reviewed a number of our key employment policies during FY 2019 to ensure they remain fit for purpose and continue to enhance processes to ensure we recruit the highest quality people with the right fit to our organisation. To enable employees easy access to all policies we have developed a 'one stop shop' Employee Handbook which will be rolled out in the UK in FY 2020. Our Group Diversity & Equal Opportunities Policy has been updated to strengthen our inclusion and diversity stand, including enhancement of our flexible working approach, with a formal policy being rolled out in FY 2020.

We have continued to develop and progress action plans to further develop areas which did not score as highly as we hoped in our FY 2018 employee survey; however, we take pride that this periodic survey did achieve a 75% engagement rate, a near double-digit improvement on our previous survey and some five percentage points above the industry benchmark. The next employee survey is due to be performed in early 2020. While an official survey was not performed during the year ended 30 September 2019 we did a number of other employee engagement activities in the period, e.g. quarterly global staff briefing and Q&A sessions.

Our gender pay gap report was published this year, details of which can be found on page 43 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 and Anti-Bribery and Corruption. Before any vendor can become an approved supplier to Victrex, they must acceptably pass through our due diligence process which involves:

- site-specific audits where appropriate;
- detailed responses to a robust on-boarding process that examines all relevant areas of the business operation, with special focus on issues pertinent to CSR factors; and
- acceptance of the Victrex Supplier Standards Handbook.

Sustainability report continued



Respect for human rights continued

The process is cyclical, to ensure the appropriate focus is maintained on those vendors deemed as strategically important or as high risk to Victrex.

Our Modern Slavery Statement is available on www.victrexplc.com reaffirming our policy commitment and our ongoing actions in this area.

We operate a Global Data Protection Policy (and a suite of supporting procedures and arrangements) to ensure compliance with applicable data protection legislation including GDPR. The policy and procedures are published on the Company's intranet on a dedicated Group Policies page. Employees who handle personal data are required to complete mandatory annual training, including through e-learning. We keep our training materials under regular review and work is underway to create functional specific data protection training materials. The internal audit review programme includes a review of the adequacy of the Company's procedures in relation to data protection compliance.

Anti-bribery and corruption

In conducting business on behalf of Victrex, our employees and representatives must follow our Code of Conduct. This is a commitment to being open, honest and following all relevant laws and regulations. This commitment is supported by underlying policies and processes including with respect to Fraud, Anti-bribery & Corruption, Financial Crime, Gifts & Hospitality, Share Dealing (Market Abuse), Data Protection, Competition Law and Export Controls & Sanction Compliance, and are reflected in our principal risks on pages 27 to 29. 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. The desired outcome of our Code of Conduct, including the policies and procedures which underpin it (including the Anti-bribery & Corruption Policy), is to ensure we act responsibly in all our dealings and foster a sustainable business.

The Company is committed to a zero-tolerance position with regard to bribery, made explicit through its Anti-Bribery & Corruption Policy and supporting policies/guidance on gifts and hospitality, interactions with politically exposed persons and healthcare professionals. The policies and procedures are published on the Company's intranet on a dedicated Group Policies page. The risk of bribery and corruption is considered a key aspect of the Ethics and Regulatory Compliance principal risk on page 29 and a number of mitigations are in place. In addition to ensuring compliance with export controls and sanctions, the Company conducts enhanced due diligence on individuals or organisations where there is a perceived or actual increased risk of bribery (for example, where the Company is engaging with a politically exposed person), or the Company is conducting due diligence for a potential joint arrangement or acquisition. All employees are required to complete Code of Conduct e-learning on commencement of employment and thereafter annually. This contains a section on anti-bribery and corruption matters. We keep our training materials under regular review and work is underway to create specific e-learning modules for anti-bribery and corruption, to supplement classroom-based training sessions. We ensure appropriate anti-bribery and corruption clauses are included in relevant contracts. The Company maintains a register of employee interests (where there are actual or possible conflicts of interest) and a record of gifts and hospitality given and received above certain thresholds in the form of a Giving & Receiving Register. A review of the Company's anti-bribery and corruption arrangements is featured on the Board's programme of business and the internal audit review programme includes a review of the adequacy of the Company's procedures in relation to anti-bribery controls and procedures. Further information on our approach to anti-bribery and corruption matters is contained on page 71.

Non-financial information statement

This section of the Strategic report constitutes Victrex plc's non-financial information statement, produced to comply with sections 414CA and 414CB of the Companies Act 2006. The below table, and information it refers to, is intended to help stakeholders understand our position on key non-financial matters, and where the relevant information is located in this report.

Reporting requirement	Material policies and standards that govern our approach	Key risks relating to these matters (pages 27 to 29)	Risk management and additional information
Environmental matters	<ul style="list-style-type: none"> → Safety, Health & Environment (SHE) Policy* → Environmental Policy (ISO system) → Code of Conduct* 	→ Safety, health and environment	→ Sustainability report – Sustainable solutions and Resource efficiency, pages 38 to 42
Employees	<ul style="list-style-type: none"> → Group Diversity & Equal Opportunities Policy → Disciplinary Policy & Procedure → Grievance Policy & Procedure → Flexible Working Policy (UK)** → Employee Handbook** → Global Whistleblowing Policy → Share Dealing Codes → Code of Conduct* 	→ Recruitment and retention of the right people	<ul style="list-style-type: none"> → Sustainability report – Our Code of Conduct, page 35 → Sustainability report – Social responsibility, pages 43 to 45
Respect for human rights	<ul style="list-style-type: none"> → Modern Slavery & Human Trafficking Policy → Modern Slavery Statement* → Conflict Minerals Policy* → Data Protection Policy → Code of Conduct* 	→ Ethics and regulatory compliance	→ Sustainability report – Our Code of Conduct, pages 35 and 36
Social matters	<ul style="list-style-type: none"> → Sustainability Policy → Code of Conduct* 	→ Recruitment and retention of the right people	→ Sustainability report – Social responsibility, pages 43 to 45
Anti-corruption and anti-bribery	<ul style="list-style-type: none"> → Anti-Bribery & Corruption Policy → Fraud Policy → Conflict of Interests Policy → Gifts and Hospitality Policy → Financial Crime Policy → Policy on Interaction with Healthcare Professionals → Policy on Interaction with Politically Exposed People → Export Controls & Sanctions Policy → Competition & Anti-Trust Policy → Code of Conduct* 	→ Ethics and regulatory compliance	→ Sustainability report – Our Code of Conduct, page 36
Description of the business model		→ All key risks link to our business model	→ Business model, pages 8 and 9
Non-financial key performance indicators			→ Non-financial key performance indicators, page 17

* These policies are published on www.victrexplc.com, along with being available to employees via the Group intranet. All other policies listed are available to employees via the Group intranet.

** Policies to be launched in FY 2020.



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. PEEK and PAEK polymers also have recyclability properties which means they can be re-ground and re-used in certain applications, supporting our sustainability credentials.

Automotive industry – reductions in CO₂ footprint remain a priority

According to the European Environment Agency ('EEA'), passenger cars account for approximately 60% of CO₂ transport emissions, followed by heavy duty trucks at 26%, water navigation at 13.6% and civil aviation at 13.4%.¹ Consequently, cutting the CO₂ emissions of vehicles – whether in production, use or disposal – continues to be a very important objective for the automotive industry despite the slowdown in global demand during 2019.

One way to reduce the carbon footprint is by further improving the energy efficiency of automobiles. High precision PEEK thermoplastic gears can contribute to that. Compared to traditional metal-based gears, Victrex's gear solutions offer decisive benefits, including, in addition to enhanced efficiency, system cost reduction and improved NVH (noise, vibration, harshness) performance. A number of applications can also be satisfied, not just traditional gear systems – pumps, valves and actuator gears are areas that Victrex is focusing on.

A sustainable offering

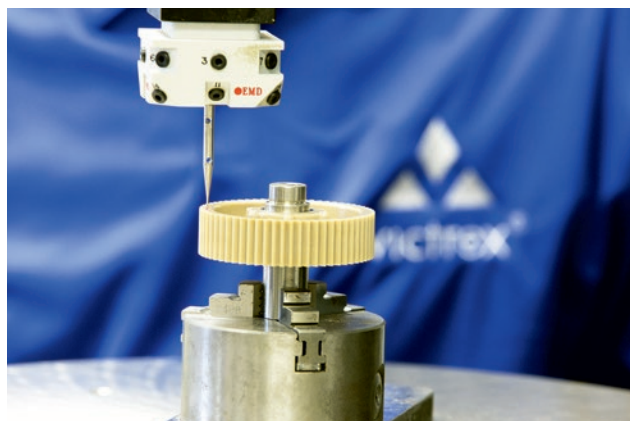
Following the extension of our material expertise to advanced capabilities in the design, development and manufacture of gears, Victrex offers a fully integrated and highly innovative approach to PEEK Gear solutions, based on VICTREX™ HPG polymers for both internal combustion engines ('ICE') and electric vehicle powertrain platforms.

Recent milestones in automotive include:

- Several global manufacturers, including one major car manufacturer in Europe, have already taken advantage of Victrex's ability to look at the whole system, not just the gear. Consequently, the first PEEK Gears are now on the road with over ten other development programmes now in place.
- Our gear design and manufacturing facility in Grantsburg, USA (formerly Kleiss Gears), was awarded the very important automotive quality standard IATF 16949, proving that the systems and capabilities required by Tier1/OEM manufacturers are in place. This is expected to help them meet emission targets with cost-effective powertrain solutions that do not compromise on durability and time to market.²

The fast-accelerating rise of auto-electronics and electric vehicle applications

With more and more auto-electronics being applied in vehicles generally, for example, in actuators and pumps, engineering requirements are increasingly demanding – and versatile high performance PEEK based thermoplastics can provide a perfect answer.



Looking further ahead, climate change, rapid urbanisation, official policies and disruptive technologies will continue to affect the automotive industry as it makes the challenging transition from combustion engine to electric powertrain. After all, electric mobility is expanding with a car fleet that exceeded 5.1 million in 2018, i.e. an increase of over 2 million, or 63% over the previous year.³ This opens up additional mid- to long-term opportunities for the PEEK family of high performance polymers, potentially resulting in up to 100g of PEEK in an EV in the future, an opportunity that Victrex is currently exploring for other applications.

Sources

- 1 <http://www.europarl.europa.eu/news/en/headlines/society/20190313STO31218/co2-emissions-from-cars-facts-and-figures-infographics> viewed 2019-08-13.
- 2 STK Automotive Mission statement.
- 3 <https://www.iea.org/gevo2019/> and 'Global EV Outlook 2019' on <https://www.iea.org/publications/reports/globalevoutlook2019/> released 27 May 2019 both viewed 2019-08-13.



RESOURCE EFFICIENCY

Our performance in how we are managing and measuring our resource efficiency is shown in our 2023 Vision on page 33.

Resource efficiency

With lighter materials which can support CO₂ savings, we have clear sustainable benefits to society, but also 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.

Examples during the year include the commissioning of a new £3.5m Aptiv™ film reclaim plant. This replaces a less efficient process, enabling more material to be processed faster using less energy. Around 40% of polymer processed through the film line is recovered and recycled.

At our Rotherham plant, optimised process solvent use and plant infrastructure improvements have achieved a reduction of over 250 tonnes waste for disposal in the year. Whilst we continue to project further reductions in the years ahead, we are mindful that the practicality of our overall waste targets will need re-evaluating.

Separately, optimised raw material changes to the process have reduced aqueous effluent by over 150 tonnes per year, demonstrating our continued improvement.

Principal environmental impacts

The Group's main environmental impacts are set out in the charts on page 40 and are different from the Group's overall greenhouse gas ('GHG') emissions (on pages 41 and 42). These show energy use, water use and waste from our main UK polymer production sites. These production sites have the biggest environmental impact (97%); the impact from our US Gears facility, UK Fibres plant and our overseas technical and office facilities is not material at this stage and is not included.

We have reported data per unit of revenue to best align our indicators with our Polymer & Parts strategy as we move downstream into more specialised manufacturing with a varied product mix, along with absolute data to demonstrate our total impact. Encouragingly, targeted improvement projects resulted in lower energy and water efficiencies per unit of plant output. Environmental indicators were impacted by lower sales volumes.

Our GHG report (updated in line with the new UK government's policy on Streamlined Energy and Carbon Reporting ('SECR')) includes 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; total energy used; 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.

Our participation in the Carbon Disclosure Project ('CDP'), which benchmarks global companies, has seen further improvement and is a recognition of our efforts in this area. CDP measures companies in their efforts to reduce carbon, and during the year we were pleased to increase our score to a B- grade, higher than the chemical sector average and a continuous improvement since our E grade in 2013.

Compliance

Proactively staying well ahead of environmental standards is part of Victrex's philosophy across our operations. When we design and build new plant we work closely with global regulatory authorities to make sure that the best available techniques to protect the environment are adopted. Our UK chemical production plants are regulated under Environmental Permitting Regulations and, as such, are subject to close regulatory review by the UK Environment Agency. We carry out extensive routine monitoring, with over 2,000 tests per year, to proactively make sure our plants are well controlled. During the year there was one environmental notifiable event. At our Hillhouse manufacturing plant in the UK, during routine monitoring we detected an instance when suspended solids in a waste stream were elevated above agreed levels but with no potential to cause significant environmental impact.

Victrex has an effective system for reporting and investigating incidents and near misses. In the period there was one reportable incident at our Rotherham site. This occurred during routine chemical manufacture and related to a limited release of gas. There was no harm to people or the environment although we did receive a HSE improvement notice. A detailed investigation has been carried out and, as appropriate, enhancements to existing processes and procedures have been put in place to minimise re-occurrence.

We have well established systems and procedures in place to manage environmental performance and to achieve continuous improvement. During the year we successfully maintained ISO 14001:2015 accreditation for the environmental management system on our compounded pellets production plant, validating our high level commitment to environmental improvement.

Although PEEK is a high performance thermoplastic and has good recyclability potential in applications – with thermoplastics representing less than 0.2% of total plastics – and not high volume, bulk commodity plastics, Victrex signed the Operation Clean Sweep ('OCS') pledge to demonstrate our commitment to eliminate industry plastic pellet loss to the environment. To support the pledge during the year we have delivered extra awareness training for employees.



RESOURCE EFFICIENCY CONTINUED

Energy use (UK operations)

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

Energy data is based on meter readings and/or invoices.

Pleasingly absolute energy used decreased. Energy per unit of revenue has slightly increased due to impact of lower sales volumes.

Primary energy Thousands GJ

2019	794
2018	847
2017	764
2016	735
2015	731

Primary energy per unit revenue Thousands GJ/£m

2019	2.7
2018	2.6
2017	2.6
2016	2.9
2015	2.8

Water (UK operations)

Water use is reported for our UK production operations (North of England). Our overseas water usage is not material. Water usage is based on site meter readings. A notable reduction in total water usage and usage per unit of revenue was achieved due to plant operation efficiencies and infrastructure improvements. This was reflected in a lower water per unit revenue despite lower sales volumes.

Water usage Thousands m³

2019	499
2018	605
2017	566
2016	532
2015	602

Water usage per unit revenue Thousands m³/£m

2019	1.7
2018	1.9
2017	2.0
2016	2.1
2015	2.3

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. Waste generation is based on consignment note records.

This year hazardous waste metrics have been updated to show waste that requires transport to off-site waste disposal contractors; waste treated at site locations has not been included. Prior year numbers have been restated on a consistent basis accordingly.

Total hazardous waste generated decreased this year driven by lower volumes manufactured and waste per unit revenue also improved.

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

2019	30,311
2018	33,910
2017	33,416
2016	33,330
2015	41,820

Hazardous waste produced per unit revenue Tonnes/£m

2019	103
2018	104
2017	115
2016	132
2015	159

Hazardous waste disposed to landfill (after treatment) Tonnes

2019	15
2018	7
2017	19
2016	1
2015	12

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

2019	0.05
2018	0.02
2017	0.07
2016	0.00
2015	0.05

Greenhouse gas ('GHG') emissions

Our GHG report has been updated in line with the UK government regulations on streamlined energy and carbon reporting introduced in 2019.

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 plants in the UK. We continue to improve our proportion of renewable energy, with over 85% of our global electricity needs now from renewable

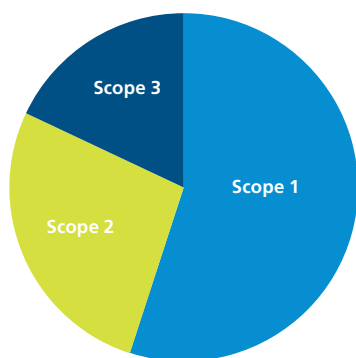
sources. Emissions from our Gears facility in the US and Fibres facility in the UK are relatively immaterial. Additionally, emissions from our overseas technical facilities and offices are small compared to production activities, which explains our focus on production site environmental reporting metrics.

Encouragingly direct emissions from gas combustion (Scope 1) reduced during the year despite increased production output primarily driven by targeted continuous improvement projects. Indirect emissions from electricity purchased (Scope 2) decreased for the same reason in addition to a favourable reduction in the UK grid electricity CO₂e conversion factor – benefiting the Victrex UK manufacturing base. The combined Scope 1 and 2 intensity measurement per unit revenue increased due to lower sales volumes.

Other indicative indirect emissions (Scope 3) from transport of goods and employees have decreased markedly. The decrease is primarily due to global freighting strategy improvements.

Victrex GHG emissions 2019

Tonnes of CO₂ equivalent 2019 from PEEK manufacture and downstream products.



SCOPE 1

Direct emissions resulting from combustion of fuels Tonnes CO₂e

2019	23,568
2018	25,231
2017	22,478
2016	22,048
2015	21,203

SCOPE 2

Indirect emissions resulting from electricity and steam purchased (location-based method) Tonnes CO₂e

2019	11,024
2018	12,689
2017	13,667
2016	16,206
2015	17,932

SCOPE 3

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

2019	2,536
2018	8,197
2017	8,136
2016	4,583
2015	3,839

INTENSITY MEASUREMENT (SCOPE 1 AND 2)

Tonnes CO₂e/£m revenue

2019	118
2018	116
2017	126
2016	152
2015	149

In order to drive improvement a range of energy efficiency projects have been implemented during the year.

For example, at our main Hillhouse (UK) manufacturing site projects have been completed to upgrade the steam distribution system, to optimise boiler controls and to improve heat recovery from a plant drier that are expected to result in a saving of over 500 tonnes CO₂e per year.

Building on our progress in 2018, we also extended the purchase of zero carbon tariff electricity to our main Hillhouse (UK) manufacturing site during the year. The site is the largest electricity consumer in the Group. This resulted in a significant drop in Scope 2 emissions calculated based on our supply-specific emission conversion factors (the market method) with emissions of 7,100 tonnes CO₂e compared with 12,898 tonnes CO₂e in 2018. Reduction improvements are expected in future years.



RESOURCE EFFICIENCY CONTINUED

Greenhouse gas ('GHG') emissions continued

Global GHG emissions and energy use data

	2018	2019
Scope 1/tCO₂e		
Global	25,231	23,568
UK	25,173	23,505
Global (excluding UK)	58	63
Scope 2 (location based)/tCO₂e		
Global	12,689	11,024
UK	11,721	10,026
Global (excluding UK)	968	998
Scope 2 (market based)/tCO₂e		
Global	12,898	7,100
UK	11,999	6,016
Global (excluding UK)	899	1,084
Gross Scope 1 and Scope 2 (location based)/tCO₂e		
Global	37,920	34,592
UK	36,894	33,530
Global (excluding UK)	1,026	1,062
Energy consumption/MWh		
Global	176,352	164,814
UK	173,665	161,954
Global (excluding UK)	2,687	2,860
Intensity ratio/tCO₂e		
Gross Scope 1 and Scope 2/£m revenue		
Global	116	118
Methodology		
Based on GHG Protocol Corporate Standard		

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 closely monitoring any potential amendments to regulations such as REACH or other EU-led legislation and have presented our case – along with other UK-based chemical companies – to government and other key opinion leaders.

Safety, health & environment ('SHE')

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 over many years.

During 2019, improvements have included hazard awareness thinking workshops for leaders; development of safety auditing and inspection schedules and checklists; enhanced SHE promotion; establishing a new corporate online COSHH risk assessment management system; emergency preparedness refresher training; and plant process safety hazard review.

During the year, 900,000 employee hours were worked with no reportable injuries. Whilst this was lower than FY 2018, principally due to a slightly increased frequency of reportable injuries through the year, we have commenced several key improvements as part of our focus to improve overall SHE performance over the next three years.

Beyond our own employees, the occupational health and safety of contractors working on our sites is of equal importance. This year over 100,000 hours have been worked on our UK manufacturing sites with no contractor reportable injuries or incidents. 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 remains key.



Employee hours worked with no reportable injuries

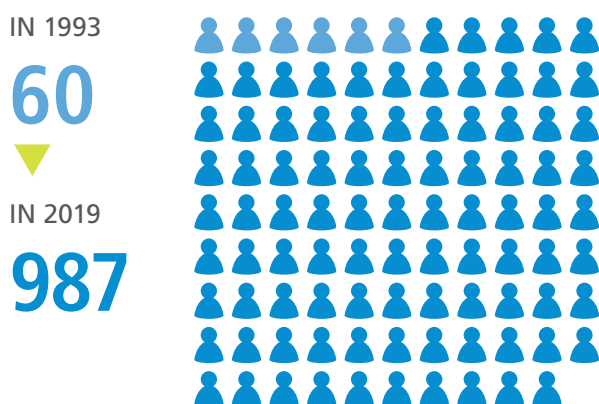
900,000



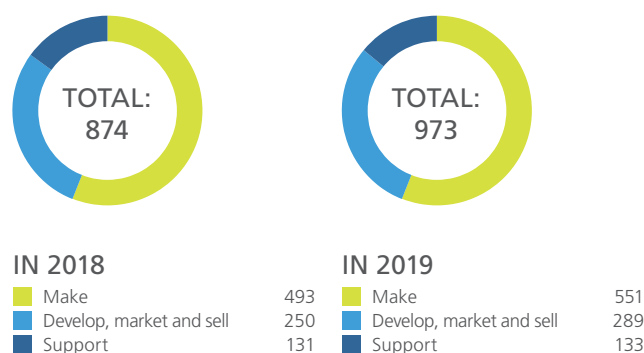
SOCIAL RESPONSIBILITY

Our social responsibility area focuses on 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.

Employees (as at year end)



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



Gender pay

Following the introduction of the new gender pay regulations in 2017, Victrex publishes information about its 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 at 5 April 2019.

Gender pay headlines

- There were 682 relevant people employed on full pay.
- 82% were male and 18% female.
- 73% worked within STEM (science, technology, engineering, maths) functions, and 88% of this group were male.
- 100% of our executive team members were male.
- The proportion of male vs female employees in each of our pay bands was split as follows:
 - Lower quartile – 66.47% male vs 33.53% female
 - Lower middle quartile – 90.06% male vs 9.94% female
 - Upper middle quartile – 87.13% male vs 12.87% female
 - Upper quartile – 82.35% male vs 17.65% female.
- The mean hourly rate of pay for males was 13.02% higher than females.
- The median hourly rate of pay for males was 8.62% higher than females.
- 94.06% of males were paid a bonus, compared with 85.71% of females.

- The mean bonus payment for males was 27.33% higher than females.
- The median bonus payment for males was 12.55% higher than females.
- 39% of our employees were paid a shift premium and 98% of them were male.

Analysis and action

Most of the statistics were broadly the same as FY 2018. There were some differences in hourly rates and bonus payments, which were directly affected by a small number of well-paid male and female leaders leaving or joining the business. This included Louisa Burdett, who was replaced as Chief Financial Officer by Richard Armitage.

Our pay and bonus plans are inclusive, competitive and seek to bring equitable pay, ensuring there is no bias regardless of gender, in line with our commitment to inclusion and diversity. We are also currently developing a renewed approach to flexible working. Over time, we believe this will have a significant impact on attracting more females to Victrex, as will our ongoing commitments to inclusion and diversity. Our ongoing work with schools and communities to attract more female employees into our industry and business is progressing well. We also work with our recruitment partners to ensure both male and female representation in all our candidate pools.

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

Sustainability report continued



SOCIAL RESPONSIBILITY CONTINUED

Inclusion and diversity

As an inclusive employer our goal is to be fully supportive in how we engage with our current and prospective employees, regardless of gender, age, disability, ethnicity, etc. Our goal at recruitment is to find the right person for the right job and as such are fully supportive of applications from all. Our Group Diversity & Equal Opportunities Policy highlights the need to specifically support diverse groups and highlights our approach to people with existing disabilities, and those who become disabled, offering support through wide-ranging, global employee support. Adjustments are made within the workplace, where possible, following guidance from medical professionals, to support employees with disabilities. Training, career development and promotion opportunities are open to all employees.

Our active support for inclusion and diversity ('I&D') has continued to build throughout FY 2019 with the enhancement of our flexible working approach and the formal development of a policy which is due to roll out in 2020. This is designed to recognise and encourage diversity in our global workforce, including support for:

- working parents;
- dual careers;
- those with young or elderly dependants; and
- people dealing with physical and mental disabilities, either personally or within their families.

We have also introduced a review of policies, from an I&D perspective, to ensure they meet our commitments, have broad appeal and increase awareness of I&D.

With several new people development programmes introduced, inclusion remains a key theme for Victrex and we recently launched our 'working together' core behaviour, which has I&D at its heart.

At the end of FY 2019, 70% of our Board were male and 30% were female. 100% of our senior managers were female. Of the rest of our employees 78% were male and 22% were female.

As at 30 September 2019:

	Male	Female	Total
Board of Directors	7	3	10
Senior managers	—	2	2
Rest of employees	764	211	975
All employees	771	216	987

Development

Support for the ongoing development of our employees, at all stages of their careers, is integral to Victrex's recognition of employees as a vital asset to help us grow. We remain proud of our apprenticeship programme, which was 31 strong at the end of September 2019. These included both new starters and employees undertaking apprenticeships as part of their development. As part of our support for career starters, we also provide a five-day personal development programme to support their technical studies. Support for professional development also continues to be a key driver to help us deliver our strategy and retain our employees.

Wellbeing

Occupational health and private medical services are available for all employees in all locations. Our focus on wellbeing services includes, for example:

- on-site medical checks;
- provision of financial education sessions; and
- driver safety for company car owners and frequent travellers.

Our employees also have free and confidential access to a 24-hour employee assistance programme, where they can talk to trained experts and counsellors if they need help with anything – from work, to personal life, to financial matters. We are also supporting employees to be more sustainable in their lives. Twelve electric car charging points were installed at our Hillhouse site in the UK this year, for the benefit of both employees and visitors.

Recognition

Our recognition programmes have continued to evolve in recent years, from 'instant' and 'functional' awards, to our annual 'CEO Awards' which recognise the global talent across Victrex. This year was also the second year of the 'Professional Development Awards' which celebrates employees completing further education to gain a qualification.



In FY 2019, there were 274 Above & Beyond Awards, 49 Functional Awards, 31 CEO Awards and 38 Professional Development Awards.

Involvement

Our communication channels, both formal and informal, keep employees informed on business news and facilitate two-way discussion. Quarterly global staff briefings involve all employees globally and we also host country-based employee forums alongside union and works council meetings. Greater use of video and enhanced digital communication channels – for example executive team videos – have further progressed our employee engagement.

Employee share ownership remains high in Victrex, a sign of support for our strategy. We offer the opportunity to participate in a variety of share plans and as at 30 September 2019, approximately 93% (FY 2018: 95%) of employees worldwide were participants in employee share plans, principally as option holders under the Company's employee share option plans, a helpful retention tool. 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.

Community volunteering

Alignment with Victrex's innovation and science-based heritage sees us support the next generation of employees through working with schools and colleges on science, technology, engineering and maths ('STEM') subjects. Our aim is to inspire young people to seek out future careers in these subjects, bringing talent into both Victrex and the wider industry.

In FY 2019 we invested a significant amount of time, 328 hours, in these activities interacting with over 1,900 young people aged between the ages of 6 and 21. With the addition of our global community work this brings us to a total of 1,021 hours throughout the year for our involvement in the community. As a result, cumulatively we have now committed 4,482 hours to the community since 2015, taking us ever closer to our strategic target of 10,000 hours.



Examples of the people we work with in the community include:

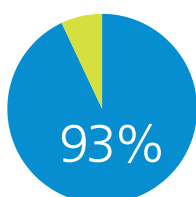
- partnering with Catalyst Discovery Centre in the UK, which teaches school-age children about chemistry and how polymers are made in an interactive way;
- active involvement in the Science Industry Partnership ('SIP'), recognising the importance of working with other manufacturers in the UK to shape the skills agenda;
- supporting local schools in the UK with STEM activities;
- we remain members of Business in the Community ('BITC'), with a number of outreach activities in progress; and
- in FY 2019 we joined the Pride of Place initiative which seeks to make the Blackpool, UK, area a place where organisations and people of all ages choose to live, work and play, by creating a vibrant economy and supporting opportunity for all.

We feel proud of the desire and commitment of employees to get involved with their local communities. One of our sales colleagues in Italy was inspired to introduce a month of 'giving something back' globally and motivated over 70 employees to support their local community in a range of volunteering tasks. This led to a total of approximately 700 hours spent working with communities worldwide.

Charitable giving

Our employee-led Community Investment team encourages employees to suggest activities to support local communities and charities, and manages all associated donations. Whilst our approach in the US is firmly established, we continue to work with the rest of our colleagues across Europe to create a more targeted process. Charitable donations totalling £80,704 (FY 2018: £167,211) were made during the year.

Participation in employee share schemes



2019	2018	2017	2016	2015
93%	95%	88%	91%	87%

Note: Excludes employees with a tenure less than a 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.

5%

Voluntary employee turnover

2019	2018	2017	2016	2015
5%	5%	3%	7%	7%

CORPORATE GOVERNANCE

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INTRODUCTION FROM THE CHAIRMAN

FY 2019 highlights

- Further implementation of strategy
- Succession planning
- Site visits to our downstream manufacturing facilities in the US

FY 2020 priorities

- Search for a new non-executive Director to be our Senior Independent Director
- Corporate culture
- Keeping under review developments in corporate governance and evolving investor expectations, actioning changes where appropriate

Dear shareholders,

On behalf of the Board, I am pleased to present my Corporate governance report as Chairman of Victrex. This section of the Annual Report describes our corporate governance structures and processes, their effectiveness and how, during the year ended 30 September 2019, the Board has operated.

Our purpose, strategy and governance framework

Our role as the Board is to set the purpose and strategy for the Group, implement a robust governance framework with effective controls and risk management, and ensure management operates the business accordingly. This is critical to driving the long-term sustainable success of our business, generating value for our shareholders and contributing to wider society. You can read more about our strategy and purpose in the Strategic report which starts on page 1 and a description of our risk management and internal controls from page 25. A description of our governance framework, including a diagram showing the interrelationships of the Board, the various Board Committees and individual roles, can be found from page 51.

Our effectiveness

As Chairman, my role is to ensure the Board works effectively under my leadership and I am pleased to report, following an external evaluation of the effectiveness of the Board, it was found to be performing well. Further detail about our Board effectiveness can be found on pages 55 to 58.

Our people

We have experienced significant change at Board level over the last two years. Changes at Board level present opportunities to refresh the Board's leadership and enable us to put into action our succession plans. After seven years on the Board pioneering new markets and driving forward our commercial activities, Tim Cooper resigned as a Director on 30 September 2019 and I would like to thank him for his contribution. Due to the size, experience and skillset of the current Board, it was determined not to replace Tim, with his business

responsibilities being assumed by existing executive Directors and resulting in Martin Court becoming Chief Commercial Officer and Richard Armitage becoming Chief Financial Officer. These changes will support our strategy, build on our Company priorities and, importantly, unleash and further develop the talent we have across Victrex.

Looking forward, following Pamela Kirby's decision not to seek re-election and to retire at the 2020 AGM, we will be searching for a new Senior Independent Director. Pamela has served the Board of Victrex since 2011 and as Senior Independent Director since 2014 and I would like to thank her for her significant contribution in that time, diligently providing insight from both her executive career and non-executive roles on other boards. Once appointed and fully embedded, it is intended that the new Senior Independent Director will be responsible for appointing my successor in due course.

Throughout financial year 2019, three out of ten Directors on the Board were women. With regards to diversity more generally, I am satisfied that we have an appropriately diverse Board in terms of nationality, experience, skills and personal attributes. During the year, we have updated our Board diversity policy (see page 65 of the Nominations Committee report). For the purposes of section 414C(8) of the Companies Act, as at 30 September 2019, we had two senior managers on our Leadership team who were not Board Directors; these are both female. For further information about the gender composition of our workforce, see page 44.

Our approach to talent management continues to serve us well, which is particularly evident with the recent senior management reorganisation taking effect from 1 October 2019, where all roles have been internally filled. As a result we will focus one step deeper in our talent management process to grow the next generation of experts and managers. The Victrex Management Team was established for FY 2020 and we will report in more detail next year about its members and how it operates. Alongside this it is also pleasing to see our apprentice programme developing our next generation of qualified talent, with 31 apprentices currently on the programme.

Our gender pay data can be found in the Strategic report (on page 43). Historically, our industry has been male dominated, but we have activities in place to increase diversity in broad terms, including gender among our employees. We have decided to publish our CEO pay ratio in the Directors' remuneration report earlier than required (on page 91).

Our engagement with investors

We are in regular contact with our investors and prospective investors through a regular scheduled programme of meetings, conferences, roadshows and site visits attended by our CEO and/or CFO, together with our Director of Investor Relations & Corporate Communications. This programme, which is increasingly global to reflect our diverse shareholder base in the UK, US, Europe and rest of the world, is organised by our Director of Investor Relations & Corporate Communications, who is also available to address queries raised by investors, prospective investors or analysts. Feedback is regularly shared with Board colleagues.

We are renewing our Directors' remuneration policy at the 2020 AGM. Ensuring that the remuneration of Directors is aligned with the long-term interests of the Company and its shareholders is important to us. The Directors' remuneration policy was put to the shareholder vote at the AGM in 2017, when 96.2% of the vote was cast in favour of the policy. Further information and the proposed new policy can be found in the Directors' remuneration report from page 72.

As always, any feedback you may have on this Annual Report is welcome – please email any comments you may have to ir@victrex.com.

Larry Pentz
Chairman

5 December 2019

Board of Directors

Non-executive

1. LARRY PENTZ

Chairman

**Qualifications:** BS ChE MBA **Nationality:** US citizen**Tenure:** Chairman for five years (appointed 1 October 2014). On the Board for eleven years (appointed 28 July 2008).**Career:** Over 30 years at Johnson Matthey Plc in a variety of senior roles. He was instrumental in the acquisition and integration of multiple catalyst and chemical companies and was an executive director responsible for the Emission Control Technologies business 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 chemical divisions, as well as group-level responsibilities for operational excellence and environmental, health and safety.**Relevant 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.**External appointments:** Larry is non-executive chairman of Scapa Group plc.**Independence:** Larry met the 2016 UK Corporate Governance Code's independence criteria on his initial appointment as Chairman.**2. PAMELA KIRBY**

Non-executive Director

**Qualifications:** BSc PhD **Nationality:** British**Tenure:** Joined the Board in February 2011 and appointed Senior Independent Director in 2014.**Career:** Pamela has 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. Pamela was formerly CEO of Quintiles Transnational Corp.**Relevant skills and experience:** Pamela has extensive knowledge of the international healthcare sector. She is an experienced company board director having previously served as chairman of Scynexis Inc and Oxford Immunotec Limited. She was SID at Informa plc and a non-executive director of several boards including Smith & Nephew plc and Novo-Nordisk A/S.**External appointments:** Pamela is a non-executive director of DCC plc, Hikma Pharmaceuticals plc and Reckitt Benckiser Group plc, serves on the supervisory board of Akzo Nobel and is also an advisor to Kings Health Partnership.**Independence:** Pamela met the 2016 UK Corporate Governance Code's independence criteria.**3. JANE TOOGOOD**

Non-executive Director

**Qualifications:** MA Hons **Nationality:** British**Tenure:** Appointed to the Board September 2015.**Career:** Borealis, ICI and Uniqema, and also held a non-executive director role with NHS Harrogate and District Foundation Trust.**Relevant 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 and 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.**Independence:** Jane met the 2016 UK Corporate Governance Code's independence criteria.**4. JANET ASHDOWN**

Non-executive Director

**Qualifications:** BSc **Nationality:** British**Tenure:** Appointed to the Board February 2018.**Career:** Janet has a distinguished career working for BP plc for over 30 years, holding a number of international positions most recently as director, BP Oil UK Limited and also head of UK retail and commercial fuels and non-executive of SIG Plc.**Relevant skills and experience:** Janet has over 30 years' experience of the international energy sector in a variety of senior executive roles.**External appointments:** Janet is currently non-executive director and senior independent director of Marshalls plc and is chair of its remuneration committee. She is also an independent non-executive director of RHI Magnesita N.V.**Independence:** Janet met the 2016 UK Corporate Governance Code's independence criteria.**5. DAVID THOMAS**

Non-executive Director

**Qualifications:** MA FCA **Nationality:** British**Tenure:** Appointed to the Board May 2018.**Career:** David was chief financial officer at Invensys plc from 2011 until his retirement in 2014, having held senior roles across the business since 2002.**Relevant skills and experience:** Prior to joining Invensys, he was a senior partner in Ernst & Young ('EY'), 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.**Independence:** David met the 2016 UK Corporate Governance Code's independence criteria.**6. BRENDAN CONNOLLY**

Non-executive Director

**Qualifications:** BSc **Nationality:** British**Tenure:** Appointed to the Board February 2018.**Career:** 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.**Relevant skills and experience:** Brendan has over 35 years' experience in the international oil and gas industry serving in a number of senior executive roles.**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 member of its audit and nomination committees. Brendan is also on two private equity boards, one of which he chairs.**Independence:** Brendan met the 2016 UK Corporate Governance Code's independence criteria.

Executive

7. JAKOB SIGURDSSON

Chief Executive Officer

Qualifications: BSc MBA **Nationality:** Icelandic

Tenure: Appointed to the Board October 2017.

Career: 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. Between September 2016 and June 2017, Jakob was chief executive officer of VIS, the largest Icelandic insurance and re-insurance company.

Relevant skills and experience: Jakob holds a BSc in chemistry from the University of Iceland and an MBA from Northwestern University in the US. His executive responsibilities have spanned marketing, supply chain, business development, strategy and M&A, with particular emphasis on growth in new or developing markets.

8. MARTIN COURT

Executive Director – Chief Commercial Officer

Qualifications: BSc (Eng) PhD **Nationality:** British

Tenure: Appointed to the Board April 2015.

Career: Martin joined Victrex in February 2013 as Managing Director of Invibio, Victrex's medical business. Martin is now the Company's Chief Commercial Officer. 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.

Relevant skills and experience: Martin 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.

External appointments: Martin is an executive director on the board of Magma Global Limited and Surface Generation Limited.

9. RICHARD ARMITAGE

Executive Director – Chief Financial Officer

Qualifications: FCMA **Nationality:** British

Tenure: Appointed to the Board May 2018.

Career: Group finance director of Samworth Brothers, a UK-based branded and own-label food manufacturer, which he joined in 2014. Prior to Samworth Brothers Richard 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.

Relevant skills and experience: Richard trained through the Courtaulds and ICI management development programmes.

TIM COOPER

Executive Director (retired 30 September 2019)

Qualifications: BA **Nationality:** British

Tenure: On the Board seven years (appointed October 2012).

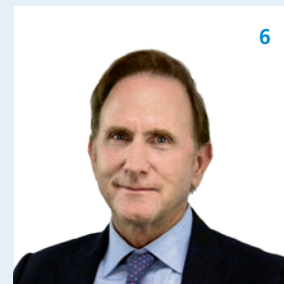
Career: Tim joined Victrex in January 2010 as Managing Director of Victrex Polymer Solutions. Prior to joining the Victrex business, Tim was with Umeco Plc, initially as managing director of Aerovac Systems Ltd, but later becoming group managing director of Umeco Composites Process Materials. He has been managing director of Tellermate Plc and of Avery Berkel Ltd, having developed his international career with GEC, BP and Land Rover.

Relevant skills and experience: Tim has over 30 years of international business management and commercial experience, having held senior leadership positions in a number of industries.

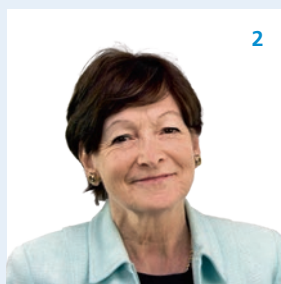
External appointments: Tim is a non-executive director of Renold plc.



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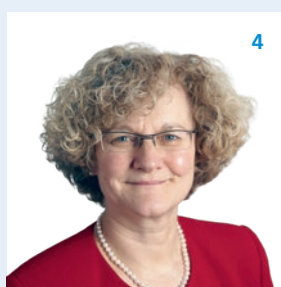
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Key to Committees

-  Audit Committee
-  Nominations Committee
-  Remuneration Committee
-  Committee Chair

LOUISE WALDEK

Company Secretary

Statement of corporate governance

This Corporate governance report (including the Audit Committee report on pages 66 to 71, the Nominations Committee report on pages 62 to 65, and the Directors' remuneration report on pages 72 to 92) has been prepared in accordance with the principles of the UK Corporate Governance Code dated April 2016 (Code or 2016 Code). It is structured to report against the principles of the Code, describing how we have complied with the relevant provisions and applied the main principles during the year. Following a review of how the 2016 Code principles have been applied, the Board considers that the Company has complied with the relevant provisions of the 2016 Code throughout the year in all material respects. The Company has also made good progress towards implementing the provisions of the UK Corporate Governance Code dated July 2018 (2018 Code) which applies to the Company from its financial year ending 30 September 2020. The Company is supportive of the changes that will result from the application of the 2018 Code.

A copy of the 2016 Code and the 2018 Code can be found at www.frc.org.uk.

The different elements that make up this Corporate governance report are detailed below, together with page numbers.

LEADERSHIP	EFFECTIVENESS	REMUNERATION	ACCOUNTABILITY	RELATIONS WITH SHAREHOLDERS
Company purpose – see page 52	Board composition – see page 55	See page 58	Fair, balanced and understandable reporting – see page 58	Dialogue with shareholders – see page 61
Governance framework – see page 52	Independence of non-executive Directors – see page 55		Risk management and internal control – see pages 58 and 59	Annual General Meetings – see page 61
Principal Board activities – see pages 53 to 55	Succession planning – see page 55		Review of effectiveness of the Group's risk management and internal control systems – see page 59	Outcome of February 2019 AGM – see page 61
Culture – see page 55	Induction and Board development – see page 56		The Audit Committee – see page 59	Share capital – see page 61
	Terms of appointment of the non-executive Directors – see page 56		Viability statement – see page 59	
	Diversity – see page 56		Stakeholders/section 172 statement – see pages 60 and 61	
	Time commitment of the Chairman and the non-executive Directors – see page 56			
	Director conflicts of interest – see page 57			
	Evaluation of the Board, Committees and Directors – see page 57			
	Review of the Chairman's performance – see page 58			
	Review of the executive Directors' performance – see page 58			
	Annual re-election of Directors – see page 58			
	Information, support and insurance – see page 58			

Leadership

Our Governance Framework

Chief Executive
Jakob Sigurdsson

Key responsibilities:

- Day-to-day running of the Group
 - Recommending to the Board and implementing agreed strategy
 - Executing Board decisions
- Matters not reserved for Board decision are delegated to the CEO

Chairman
Larry Pentz

Key responsibilities:

- Leading the Board
- Creating the right Board dynamic
- Ensuring Board effectiveness, including contribution and challenge from all Directors
- Ensuring effective engagement with shareholders

Board

1 Chairman (independent on appointment)
5 independent non-executive Directors
4 executive Directors

Key responsibilities:

- Providing entrepreneurial leadership
- Setting the Company's purpose and strategic aims
- Being collectively responsible and accountable to shareholders for the long-term sustainable success of the Group and for the responsible operation of the Group in delivering its strategic objectives
- Ensuring that the necessary financial and human resources are in place for the Company to meet its objectives
- Ensures that a framework of prudent and effective controls which enables risk to be assessed and managed is in place
- Reviewing management performance and the operating and financial performance of the Group
- Setting the Company's culture, values and behaviours
- Ensuring good corporate governance

How the Company generates value for shareholders and other stakeholders and contributes to wider society is set out on pages 14 and 15

Executive Directors

Jakob Sigurdsson, Richard Armitage, Martin Court, Tim Cooper

Independent non-executive Directors

Janet Ashdown, Brendan Connolly, Pamela Kirby, David Thomas, Jane Toogood

Key responsibilities:

- Performing designated executive responsibilities
- Discharging duties in respect of the Group as a whole

Key responsibilities:

- Exercising independent and objective judgement in decision making
- Helping to develop corporate strategy
- Scrutinising and constructively challenging senior management

Committees

Audit Committee members:

5 independent non-executive Directors

Nominations Committee members:

Company Chairman and 5 independent non-executive Directors

Role:

- Assisting the Board in its oversight of financial reporting, internal controls and risk management
- Managing the relationship with the Group's external auditors

See the Audit Committee report from page 66 for more information

Role:

- Reviewing Board structure, size, composition and succession planning
- Overseeing senior management succession

See the Nominations Committee report from page 62 for more information

Disclosure Committee members: Whole Board

Role:

- Ensuring timely and accurate disclosure of information to comply with applicable laws and regulations where it is impractical for the Board (or any other Board Committee with delegated responsibility)
- Making disclosures on behalf of the Board
- Taking advice from the Company's broker, external auditors and legal advisors, on the form and content of any disclosure under consideration

Chair: Larry Pentz, David Thomas, Jakob Sigurdsson or Richard Armitage (in that order)

Quorum: Two of Larry Pentz, David Thomas, Jakob Sigurdsson and Richard Armitage

Remuneration Committee members: 5 independent non-executive Directors

Role:

- Setting remuneration policy for executive Directors, senior management and the Chairman
- Determining the application of remuneration policy

See the Directors' remuneration report from page 72 for more information

Company Secretary
Louise Waldek

Key responsibilities:

- Acting as secretary to the Board and its Committees
- Keeping the Board up to date on all legislative, regulatory and governance matters
- Reviewing the efficacy of and compliance with Board procedures
- Facilitating information flows between management and the Board

Senior Independent Director
Pamela Kirby

Key responsibilities:

- Acting as a sounding board to the Chairman
- Serving as an intermediary for other Directors when necessary
- Being available to meet with shareholders should they have any concerns, where contact through the normal channels may be inappropriate
- Leading the review of the Chairman's performance

➤ [Audit Committee report](#)
Pages 66 to 71

➤ [Directors' remuneration report](#)
Pages 72 to 92

➤ [Nominations Committee report](#)
Pages 62 to 65

Statement of corporate governance continued

Company purpose

Victrex’s vision is to bring transformational solutions that address world material challenges every day. Victrex uses its position as an innovative world leader in high performance polymer solutions to focus on its key strategic markets of Automotive, Aerospace, Energy and Other Industrial (including Manufacturing & Engineering), Electronics and Medical. The Board has set its strategy to drive core business and create and deliver future value through Polymer & Parts. This is with the aim of shaping future performance for our customers and creating long-term value for our shareholders, enabled by differentiation through innovation and underpinned by safety, sustainability and capability, in addition to the values and behaviours that shape culture and responsible business conduct.

Governance framework

The Group’s principal decision-making body is the Board, which is accountable to shareholders. Decisions which must be taken by the Board are set out in the Schedule of Matters Reserved for Board Decision (a copy is available on request).

The Board is supported by three principal Board Committees: the Audit Committee; the Nominations Committee; and the Remuneration Committee. We have updated our Terms of Reference for Board Committees which will take effect from 1 October 2019 to reflect the 2018 Code. We now operate Terms of Reference which apply to all Board Committees as well as Terms of Reference which relate specifically to each particular Board Committee – they are accessible on www.victrexplc.com. Committees report back to the Board on delegated items and in cases where overall responsibility resides with the Board, Board Committees will make recommendations to the Board. Chairs of each Board Committee report to the Board on their activities and minutes of the principal Board Committee meetings are available to all Directors who are not members of the Board Committees.

The reports of the Nominations, Audit and Remuneration Committees are set out on pages 62 to 92. The Disclosure Committee did not meet during 2018/19. The Board has provided its Committees with sufficient resources to undertake their duties, including access to the services of the General Counsel & Company Secretary and external advisors, where appropriate.

The Board retains the power to take decisions which affect the future developments and business prospects of the Group and the authority and responsibility for planning, directing and controlling the activities of the Group. Where the matter has not been reserved for Board decision, it is delegated to the CEO. The Group operates a Group Authorities Manual & Matrix ('GAM') which sets out the delegation of operational decision-making authorities for certain management roles operating at different levels of the organisation.

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 management-led Currency Committee. The Currency Committee is chaired by the Chief Financial Officer and meets on a monthly basis to manage the application of the policy. During 2019, the Currency Committee continued to monitor the Treasury Policy and in addition reviewed the Company’s cash deposit strategy. Further details on this policy and the activities of the Currency Committee are included in note 14 to the financial statements.

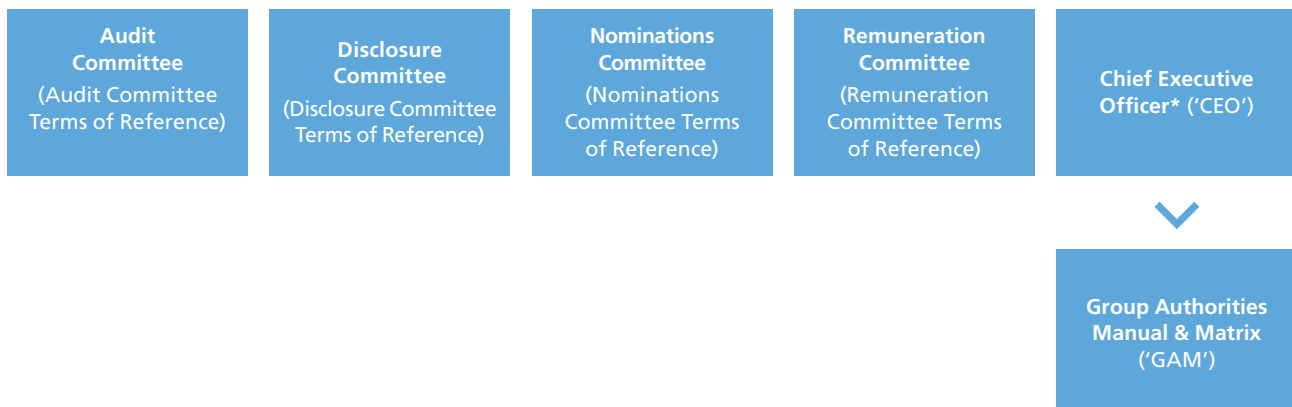
A description of how risk management is conducted by the Group can be found in the Strategic report starting on page 25.

The offices of the Chairman and CEO are separate and clearly distinct. The division of their responsibilities is set out in writing. The role and responsibilities of the Senior Independent Director ('SID') are also set out in writing and approved by the Board. These roles and responsibilities have been reviewed and updated by the Board most recently in September 2019 (to reflect the 2018 Code), and are available on www.victrexplc.com.

Victrex plc Board (Board) (Schedule of Matters Reserved for Board Decision)



(Terms of Reference which apply to all Board Committees)



* During the year, the CEO has been supported in his role by the other executive Directors, with the Group HR Director and the General Counsel & Company Secretary providing support and advice in respect of their own areas of expertise. There is no formal Executive Committee in operation. In addition to the executive Directors, the Group HR Director and the General Counsel & Company Secretary, who are both female, are treated as senior managers for purpose of section 414C(8) of the Companies Act 2006. Only the executive Directors are treated as key management personnel for the purposes of IAS 24.

Principal Board activities

FY 2019 Board highlights

- Reviewed Company strategy and enhanced reporting on progress against strategic priorities
- Reviewed principal risks and further developed approach to risk management

FY 2020 Board priorities

- Execution of strategic priorities
- Continued monitoring of financial performance
- Company culture
- Sustainability

Seven scheduled Board meetings were planned and held during the year. A number of other Board meetings and telephone conferences were also held during the year, as the need arose. The table below shows the actual number of scheduled meetings attended and the maximum number of scheduled meetings which the Directors could have attended. Only in exceptional circumstances would Directors not attend Board and Committee meetings. Similarly, every effort is made to attend ad-hoc meetings either in person or via the use of video or telephone conference facilities if needs be. No non-executive Director has raised concerns over the time commitment required of them to fulfil their duties.

In the months where there were no scheduled Board meetings, the Chief Executive Officer held telephone conferences with the Chairman and the non-executive Directors to keep them abreast of Group performance and key current activities. The entire Board and the General Counsel & Company Secretary regularly spend an evening before or after most Board meetings to build relationships on a personal level. This contributes to more effective working relationships and debate around the Board table.

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. Board and Committee papers are generally circulated a week in advance of the relevant meeting. 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.

Each year, the Board sets its annual programme of business by reference to its governance requirements and its strategy. It ensures there is sufficient time to discuss and develop strategic proposals and monitor performance. The Board holds a strategy day each year during which it reviews the Group's strategic plan, reviewing the strategy of our two divisions, including each end market opportunity and key functions. This allows the Board to examine the business model; review market trends, risks and opportunities; ensure appropriate human and financial resources are available and appropriately allocated to create and deliver value for our shareholders; and check that the strategy, purpose and values of the Group are aligned. At the strategy day in 2020, the Board will be considering in more detail how the Group's culture aligns to its strategy, purpose and values.

Attendance at meetings

	Note	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings		7	3	5	4
Chairman					
L C Pentz		7/7	—	—	4/4
Executive Directors					
J O Sigurdsson		7/7	—	—	—
R J Armitage		7/7	—	—	—
T J Cooper		7/7	—	—	—
M L Court		7/7	—	—	—
Non-executive Directors					
P J Kirby	1	7/7	2/3	4/5	3/4
J E Ashdown		7/7	3/3	5/5	4/4
B W D Connolly	2	7/7	3/3	4/5	3/4
D Thomas		7/7	3/3	5/5	4/4
J E Toogood		7/7	3/3	5/5	4/4





















































Notes

- 1 Pamela Kirby was unable to join a meeting of the Remuneration Committee and Nominations Committee held on the same day, due to a conflicting commitment. Due to unforeseen circumstances, she was also unable to join an Audit Committee meeting.
- 2 Due to a conflicting commitment, Brendan Connolly was unable to attend a meeting of the Remuneration Committee and Nominations Committee held on the same day.














Statement of corporate governance continued

Principal Board activities continued

Set out below is a summary of Board activity in 2018/19. Links to the Group's strategic themes and principal risks are also shown. For more detail, please see pages 12 and 13 and 16 and 17 for our strategy, pages 27 to 29 for risks and pages 14 and 15 for stakeholders. In undertaking these activities, the Board considers its legal duties and the interests of its key stakeholders.

SUMMARY OF BOARD ACTIVITY IN 2018/19	CROSS REFERENCE	STRATEGIC THEMES	PRINCIPAL RISKS
Strategy			
→ Reviewed and approved the Group's purpose and strategy	See pages 52 and 53	 	  
→ Reviewed and approved investments in Bond and Surface Generation	See pages 6 and 20	 	  
→ Received updates at each meeting of progress against strategic KPIs and approved strategic contracts	See pages 16 and 17		  
→ Reviewed the Group's innovation portfolio	See pages 20 and 21		
→ Conducted deep dives into strategic business unit and functional strategies			
→ Discussed the Group's preparations in relation to Brexit	See pages 19 and 31		
Financial, operations and risk			
→ Approved the strategy and budget	See page 58	 	  
→ Reviewed and approved the half and full year results and associated announcements	See page 58	 	  
→ Reviewed and approved the going concern and long-term viability statement	See page 59		  
→ Reviewed and approved the Group's 2019/20 UK tax strategy	See www.victrexplc.com		
→ Reviewed and approved the Company's treasury policies	See pages 52 and 59		
→ Reviewed and debated the risk profile of the Group, and in particular the principal risks and our risk appetite	See pages 25 to 29, 58 and 59		
→ Reviewed the effectiveness of the risk management and internal control systems	See pages 58 and 59		
→ Reviewed and discussed activities undertaken to enhance the effectiveness of the Group's IT security controls			
→ Reviewed annual insurance arrangements			
Shareholder relations			
→ Received regular updates and discussed feedback from roadshows, presentations and face to face meetings between the Chief Executive Officer, the Chief Financial Officer and/or the Director of Investor Relations & Corporate Communications and other engagement with large investors, prospective investors and analysts	See page 61	   	        
Leadership and employees			
→ Reviewed health and safety activities, considered health and safety incidents impacting employees and contractors and received an update on the progress of developing and implementing an enhanced health and safety culture	See pages 7, 42 and 53	   	     
→ Considered Board succession planning in light of the retirement of Tim Cooper and the tenures of Larry Pentz and Pamela Kirby	See Nominations Committee report		  
→ Reviewed and discussed executive team succession plans and monitored progress on key aspects of talent and development plans, identifying general management and functional leadership potential, developing our employee value proposition and aspiration for a diverse workforce	See Nominations Committee report		
→ Reviewed and updated the Board Diversity Policy	See Nominations Committee report		
→ Reviewed and endorsed workforce engagement mechanisms and the appointment of Brendan Connolly as the non-executive Director with designated responsibility for workforce engagement	Further details to be provided in 2020 Annual Report		
→ Reviewed dashboard of workforce composition and conditions	See Remuneration Committee report		
→ Scoped a dashboard of cultural indicators	See page 55		
→ Reviewed whistleblowing arrangements	See page 71		

Principal Board activities continued

SUMMARY OF BOARD ACTIVITY IN 2018/19	CROSS REFERENCE	STRATEGIC THEMES	PRINCIPAL RISKS
Governance			
→ Reviewed the Terms of Reference for each Board Committee and received post-meeting reports from the Chairs of each Committee summarising discussions, decisions and actions	See www.victrexplc.com	 	  
→ Reviewed six-monthly updates on changes and developments in corporate governance required particularly relating to the 2018 Code	See Nominations Committee report	 	  
→ Received refresher training in relation to section 172 of the Companies Act 2006	See Nominations Committee report		  
→ Reviewed and discussed the external evaluation of the Board and its Committees	See page 57		
→ Reviewed conflicts of interest of individual Directors	See page 57		
→ Reviewed the performance of the external auditors and recommendation for re-appointment	See Audit Committee report		
→ Reviewed the proposed new Directors' remuneration policy to be presented to shareholders for approval at the 2020 AGM	See Remuneration Committee report		
→ Reviewed the approach and progress of work to identify areas where there is any risk of modern slavery occurring in our supply chain and approval of the 2019/20 slavery and human trafficking statement	See Strategic report		

Culture

Throughout its annual programme of business and meeting with employees, the Board gains an insight into the culture of Victrex. During 2018/19, work began to define in more detail our culture and determine how best to monitor it. The Board agreed that the forthcoming all-employee engagement survey, due to be launched in January 2020, should play an important role in defining and measuring culture. In the meantime, the Board has focused on developing a dashboard of cultural indicators which can be reviewed to facilitate the Board's monitoring and assessment of culture. We will report on this in further detail in our 2020 Annual Report.

Effectiveness

Board composition

As at the date of this Annual Report, the Board comprised the Chairman, three executive Directors and five independent non-executive Directors.

Our Board continues to comprise a majority of independent non-executive Directors. 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, skillset, diversity and independence are amongst the criteria discussed. The Board believes that it and its Committees are appropriately structured and have the right balance of skills, experience, knowledge and independence to enable them to carry out their duties and responsibilities effectively to create long-term shareholder value.

The Board, supported by the Nominations Committee, follows a formal, rigorous and transparent process to select and appoint new Directors. 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.

Independence of non-executive Directors

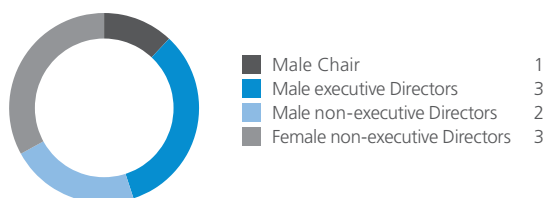
The independence of non-executive Directors is reviewed annually, with all relevant relationships and circumstances considered, including those that could affect or appear to affect their independent judgement, as set out in the Code. Each non-executive Director is determined by the Board to be independent. The Chairman was determined to be independent on appointment.

Succession planning

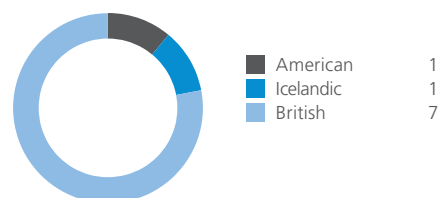
The Board recognises the importance of succession planning in achieving Board effectiveness and delivering our strategy. The Board, through the Nominations Committee, is actively engaged in succession planning to ensure that there are plans in place for the orderly and progressive refreshing of its membership and to develop a strong pipeline of talent. Succession plans are also prepared for senior management, which are reviewed by the Nominations Committee. Further details on succession planning can be found in the Nominations Committee report on page 65.

As at the date of this Annual Report

Roles and gender



Nationality



Statement of corporate governance continued

Effectiveness continued

Induction and Board development

Induction programmes are designed and arranged for any new Director. It would include individual meetings with the Chairman, each non-executive Director, the Chief Executive Officer, the Chief Financial Officer, the Chief Commercial Officer and the General Counsel & Company Secretary, as well as members of senior management. In addition, any new Director would also visit certain operational sites. The General Counsel & Company Secretary is updating the Company's base programme, amongst other things, to reflect the 2018 Code. This enhanced induction programme will be used as a starting point for the induction of any newly appointed Director and personalised accordingly to that individual's proposed role, skills and experience.

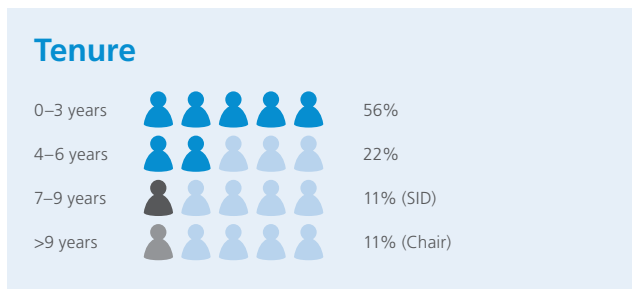
Board Directors regularly receive updates to improve their knowledge and understanding about the business and are encouraged to identify any knowledge or skills gaps they would like to address.

During the year, the Board has received briefings from Slaughter and May (section 172 refresher, legal and governance matters), Willis Towers Watson (remuneration) and PwC (governance changes relating to reporting requirements as part of their audit work).

The Board visited our downstream aerospace parts and gears manufacturing facilities in the US, received health and safety training and an update on Patent Box.

Terms of appointment of the non-executive Directors

Our non-executive Directors are subject to annual election by our shareholders. The table below shows tenure of our non-executive Directors.



Diversity

Our Board believes that diversity is important for Board effectiveness. The merits of gender diversity at Board level are recognised and female representation on the Board was 30% during FY 2019 and as at the date of this Annual Report is 33%. The Board also recognises the importance of gender diversity amongst the workforce and is committed to ensuring an appropriate level of gender diversity, in particular at senior management level. We will report on the gender balance of senior management in the 2020 Annual Report. Further details, including the updated Board Diversity Policy, can be found in the Nominations Committee report on page 65. Details of the Group's Diversity & Equal Opportunities Policy can be found on page 44.

Time commitments of the Chairman and the non-executive Directors

We acknowledge that the investor community is keen to ensure that Directors have sufficient time to devote to and fulfil their duties. Non-executive Directors are expected to devote the time needed to fulfil the role and manage their diaries accordingly although the Company's historical practice has been to specify an expected time commitment range in their letter of appointment. The Board is satisfied that none of its Directors are overcommitted and unable to fulfil their duties to Victrex. Each individual's circumstances are different, as is their ability to take on the responsibilities of a non-executive directorship role. Should a Director be unable to attend meetings on a regular basis, not be preparing appropriately or not contributing appropriately to Board discussions, the Chairman would be responsible for discussing the matter with them and agreeing a course of action. The Nominations Committee also reviewed the time required from each non-executive Director and any other significant commitments of the Chairman. The 2019 review found the non-executive Directors' time commitments to be sufficient to discharge their responsibilities effectively.

The names, biographical details and significant time commitments of the members of the Board are set out on pages 48 and 49. Prior to the Board approving a Board member taking on any new external appointment or significant commitment, he or she is required to confirm sufficient time remains available to discharge his or her responsibilities to Victrex.

During the year, the Board approved additional external appointments for Janet Ashdown and Tim Cooper. Following an assessment that each Director could continue to devote the required time commitment to Victrex and that there were no actual or potential conflicts of interest, the Board approved the appointment of Janet Ashdown as a non-executive director of RHI Magnesita NV and the appointment of Tim Cooper as a non-executive director of Renold plc.

Assessing time commitments

Before appointment, significant commitments are disclosed and confirmation is provided that time commitment to Victrex can be met



On appointment, time commitment assessed by Board and individual and letter of appointment outlines expected time commitment



Time commitments kept under review

Effectiveness continued

Director 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 Company's Articles of Association contain provisions which permit unconflicted Directors to authorise conflict situations. Each Director is required to notify the Chairman of any potential conflict or potential new appointment or directorship, and the Board reviews the position of each Director annually. 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 48 and 49, and has confirmed that no changes were recorded which would impact the independence of any of the Directors. All conflicts and potential conflicts will continue to be reviewed by the Board on an annual basis.

Evaluation of the Board, Committees and Directors

Our Board evaluation was conducted externally this year by Equity Communications, a firm which has no other connection with the Company or individual Directors. Each Board member and the General Counsel & Company Secretary were interviewed to assess the performance of the Board, its Committees and each Board member. These conversations were confidential, open and honest. The results were compiled on an unattributed basis and once reviewed by the General Counsel & Company Secretary, were discussed with the Chairman and the Chair of each relevant Committee, before being presented to the Board for discussion.

Overall, the Board is considered to be balanced, highly functional and therefore performing well. Board members have trust and confidence in one another, and feel supported, with recent improvements made to the Board pack welcomed. Board Committees were considered to be effective, with the Chairs performing effectively. Following the Board's discussion of the outcome of the 2018/19 external Board evaluation, an action plan was agreed. Actions are in the areas of:

- succession planning, particularly due to the tenure of the Chair and Senior Independent Director; and
- Board meetings and ensuring the best channels for providing information.

During the year, the Board and each Committee also reviewed progress against actions identified in the 2018 internal Board evaluation. To address areas for improvement following the Company's internal annual evaluation in 2017/18, a number of actions have been taken during 2018/19 which include the following:

- improvements have been made to enhance regular reporting on progress against strategic objectives;
- Board succession planning has continued to feature as a key matter for consideration by the Nominations Committee;
- developments were made to the Board pack to improve the quality of information presented to Board members; and
- the Group's diversity has been reviewed, enterprise-wide inclusion and diversity activities have been assessed and the Board's Diversity Policy has been updated.

Board evaluation process

During the year an external evaluation was conducted.

Step 1

April–May 2019

Chairman and General Counsel & Company Secretary considered providers

Step 2

May 2019

The Board and each Committee considered progress against the action points raised following the FY 2018 evaluation which was conducted internally

Step 3

June 2019

Equity Communications was engaged and scope of evaluation was agreed

Step 4

June–July 2019

Interviews held between Equity Communications and each Board member and General Counsel & Company Secretary

Step 5

September–October 2019

Conclusions tabled to the Board, with the Board and each Committee reviewing themes arising and discussing an action plan for FY 2020

Statement of corporate governance continued

Effectiveness continued**Review of the Chairman's performance**

The Chairman's performance is crucial. Taking into account feedback from the external Board evaluation, Pamela Kirby, as the Senior Independent Director and in discussion with the other non-executive Directors, led the review of the Chairman's performance. The outcome was subsequently reported to the Board that Larry Pentz's leadership of the Board was effective and encouraged open and constructive dialogue.

Review of the executive Directors' performance

The Remuneration Committee reviewed the performance of the executive Directors. Each of the Directors was found to be effective in discharging their responsibilities.

Annual re-election of Directors

In accordance with the Code, all Directors, other than Pamela Kirby, are subject to annual election at the AGM in February 2020. Following completion of the annual evaluation process, all the non-executive Directors were considered by the Board to be independent and making a valuable and effective contribution to the Board. As a result, the Board recommends that shareholders vote in favour of those standing for a further term at the forthcoming AGM, as they will be doing in respect of their individual shareholdings. The papers accompanying the resolutions to elect each Director contain the specific reasons why their contribution is, and continues to be, important to the Company's long-term sustainable success.

Information, support and insurance

There are robust processes in place to ensure the Board receives management information and reports on strategic and operational matters on a timely basis. There are also regular updates to 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 & Company Secretary.

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 96.

Remuneration

The Board has established a Remuneration Committee. See pages 72 to 92 for further information on its work and composition.

Accountability**Fair, balanced and understandable reporting**

During the year, the Board carried out assessment of the Group's position and prospects to ensure it was fair, balanced and understandable. This responsibility covers the Annual Report and Accounts and also extends to half-year reporting. As part of this, the Board took account of:

- management reporting at a divisional level on recent business performance and expectations for the future;
- the annual budget;
- reforecasts presented; and
- the Audit Committee's assurance over the completeness and accuracy of our reporting process.

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

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. The Board's view of the key strategic and operational risks and how we seek to manage those risks is set out on pages 27 to 29. Risk appetite captures the Board's desire to take and manage risk relative to the Company's obligations, stakeholder interests and the capacity and capability of our key resources. The Board is ultimately responsible for maintaining sound risk management systems (including financial reporting process, and appropriate financial and non-financial controls) and ensuring they receive an appropriate level of scrutiny and Board time. The Board is supported in assessing the effectiveness of the Company's 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 auditors.

Accountability continued

Risk management and internal control continued

During the year, the Board reviewed the effectiveness of the risk management systems and internal control systems. As part of this, the Board also took account of:

- the biannual review of principal risks;
- the work of the independent Risk and Compliance function which is responsible for a rolling programme of business assurance (including internal audit) carried out across the Group, co-ordinated by the Director of Risk & 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 Chairman of the Committee reports to the Board as part of finalising approval of the Annual Report;
- the review of the questions contained in Appendix C to the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council in September 2014; and
- oversight of treasury matters.

In addition to this review and taking into account the principal risks and uncertainties set out on pages 27 to 29, as well as the ongoing work of the Audit Committee in monitoring the risk management and internal control systems on behalf of the Board (and to whom the Committee provides regular updates – see the Audit Committee report), the Board:

- is satisfied 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;
- believes that the principal risks remain within its risk appetite; and
- has reviewed the framework of processes in place for identifying, evaluating, monitoring and managing the principal risks faced by the Company and no significant failings or weaknesses were identified.

Review of effectiveness of the Group's risk management and internal controls systems

The Board delegates responsibility to the Audit Committee to keep under review the effectiveness of the Group's risk management and internal controls systems. The role and work of the Audit Committee in performing this responsibility is described in the Audit Committee report on pages 70 and 71.

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 2016 Code. As a result of this process, the Board is satisfied that there have been no significant failings or weaknesses. The Board confirms that the Group has complied with the 2016 Code provisions on internal control by operating throughout the year ended 30 September 2019 (and up to the date of approval of this Annual Report) appropriate procedures in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council in September 2014.

Further details of the risk management framework operating at Victrex are given on pages 25 and 26.

To ensure the effective management of risk, the Board and the Audit Committee plan their programmes of business to schedule reviews of significant areas of risk and actual events, risk appetite and related internal control systems. Emerging risks are also considered.

The Group operates a Whistleblowing Policy, which allows any matter of concern to be raised by the workforce. This 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 2019. The Audit Committee oversees whistleblowing arrangements, by which staff may, in confidence, raise concerns about possible improprieties but under the 2018 Code, this responsibility will now move to the Board with effect from 1 October 2019. 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. These form an important element in our drive to set practices and standards which we recognise contribute to our reputation as a business and our standing with all stakeholder groups. For more information, see pages 34 to 36.

The Audit Committee

The Board has established an Audit Committee. See pages 66 to 71 for further information on its work and composition. The Board is satisfied that at least one member of the Audit Committee, David Thomas, has recent and relevant financial experience, including competence in accounting. The Board is also satisfied that the Audit Committee as a whole has competence relevant to the sector in which the Company operates.

Viability statement

The Directors' statement explains why they continue to adopt the going concern basis for preparing the financial statements in the Directors' report – Strategic report on page 30. In accordance with 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 30 and 31.

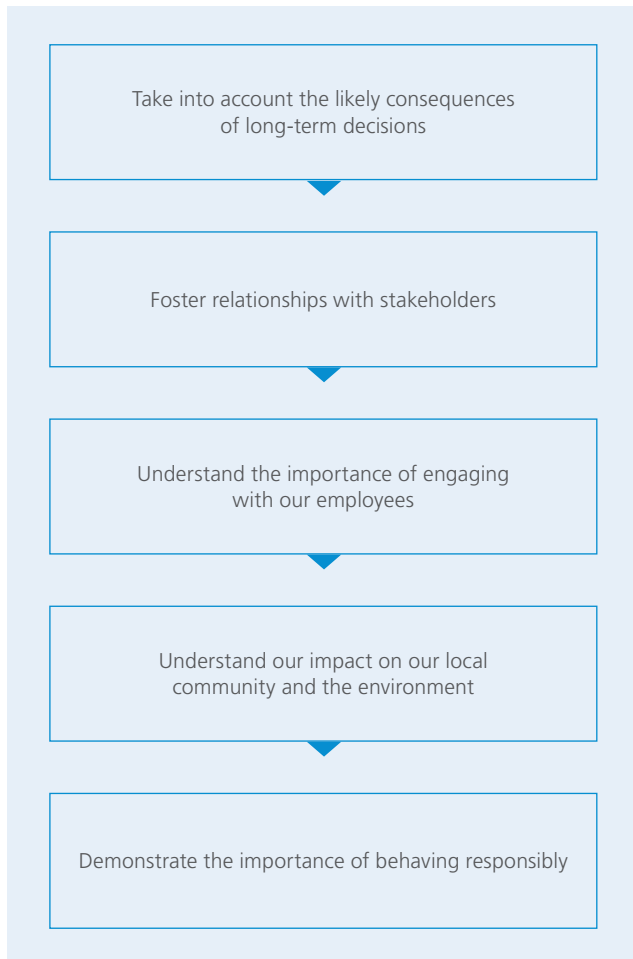
Statement of corporate governance continued

Accountability continued

Stakeholders

Effective engagement with stakeholders at Board level and throughout our business is crucial to fulfilling Victrex's purpose, to bring transformational solutions that address world material challenges every day. While the importance of giving due consideration to our stakeholders is not new, we are taking the opportunity this year to explain in more detail how the Board engages with our stakeholders. We keep in close contact with investors, employees, customers, suppliers and local communities so we are aware of their views. This ensures we can appropriately consider their interests in decision making. The Company's principal stakeholders, and a description of how we engage with them, are described on pages 14 and 15. We also engage with a number of different regulatory bodies in the course of our operations, such as the Health & Safety Executive and Environment Agency, in relation to our manufacturing operations, and the likes of the US Food and Drug Administration and the Chinese National Medical Products Administration (formerly the Chinese Food and Drug Administration) in relation to our Medical products.

Throughout this Annual Report, we provide examples of how we:



Section 172 statement

This section serves as our section 172 statement and should be read in conjunction with the Strategic report on pages 14 and 15. Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders in their decision making. The Directors continue to have regard to the interests of the Company's employees and other stakeholders, including the impact of its activities on the community, the environment and the Company's reputation, when making decisions. Acting in good faith and fairly between members, the Directors consider what is most likely to promote the success of the Company for its members in the long term. Whilst the importance of giving due consideration to our stakeholders is not new, we are explaining in more detail this year how the Board engages with our stakeholders, thus seeking to comply, a year early, with the requirement to include a statement setting out how our Directors have discharged this duty.

- The Directors are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006. To ensure the Company was operating in line with good corporate practice, all Directors received refresher training on the scope and application of section 172 from the Company's legal advisors, Slaughter and May, in July 2019. This focused activity allowed the Board to reflect on how the Company engages with its stakeholders and opportunities for enhancement in the future.
- The Board regularly reviews our principal stakeholders and how we engage with them. The stakeholder voice is brought into the boardroom throughout the annual cycle through information provided by management and also by direct engagement with stakeholders themselves. On pages 14 and 15 of our Strategic report, we set out our principal stakeholders, how and why we engage and detail engagement outcomes. The relevance of each stakeholder group may increase or decrease depending on the matter or issue in question, so the Board seeks to consider the needs and priorities of each stakeholder group during its discussions and as part of its decision making.
- Relations with shareholders are considered in more detail on pages 14 and 15.
- The Board continues to enhance its methods of engagement with the workforce. With effect from 1 October 2019, and following an assessment by the Board of the three formal options suggested for workforce engagement, it was concluded that the most effective method for engagement in the Company's particular circumstances would be the appointment of a non-executive Director with designated responsibility for workforce engagement. Brendan Connolly will take on this role and we will report in more detail in next year's Annual Report on the scope of that role and the activities undertaken.
- We aim to work responsibly with our suppliers. During the year, the Board reviewed our arrangements and approved Victrex's Modern Slavery and Human Trafficking Statement which sets out the steps taken to prevent modern slavery in our business and supply chains. For more information, refer to pages 35 and 36.

Accountability continued

Section 172 statement continued

- Following the retirement of Tim Cooper and a subsequent internal reorganisation of senior management, the Chief Executive Officer has established the Victrex Management Team ('VMT'), with effect from 1 October 2019, to support him in his duties and decision making. The VMT, designated as 'senior management' for the purpose of the 2018 Code but not for the purposes of section 414C(8) of the Companies Act 2006, comprises the senior functional management roles and together is comprised of those with responsibility for interacting with the Company's principal stakeholders. It is envisaged that this change in management structure will further enhance consideration of stakeholder interests in decision making at both Board and management level. We will report in more detail on how the VMT operates in our 2020 Annual Report.
- The Board has overseen the implementation of measures to ensure that stakeholder interests are always taken into account. The General Counsel & Company Secretary includes a written reminder of the section 172 duty on each Board agenda. Approval papers prepared by management for Board approval highlight relevant stakeholder considerations to be considered as part of the debate when making decisions. As required, the General Counsel & Company Secretary will provide support to the Board to help ensure that sufficient consideration is given to stakeholder issues.

Relations with shareholders

Dialogue with shareholders

The Board welcomes the opportunity to engage with our shareholders and with the capital markets more generally. Our Chairman takes overall responsibility for ensuring that the views of our shareholders are communicated to the Board and that our Directors are made aware of major shareholders' issues and concerns so these can be fully considered. The Board achieves this through:

- dialogue with shareholders, prospective shareholders and analysts, led by the Chief Executive Officer, Chief Financial Officer and Director of Investor Relations & Corporate Communications;
- the Chairman being available to meet institutional shareholders;
- the Senior Independent Director and other non-executive Directors attending meetings with major shareholders, if requested. Feedback from any such meetings would be shared with all Board members. The Chair of the Remuneration Committee has conducted extensive engagement with major shareholders in relation to the proposed new remuneration policy during the year. No meetings were requested with the Senior Independent Director and the Board considers that there are appropriate mechanisms in place to listen to the views of shareholders and communicate them to the Board without it being necessary for the Senior Independent Director to attend meetings with major shareholders. The Board believes that this approach is consistent with the 2016 Code on dialogue with shareholders and is in line with good corporate governance; and
- receiving reports from sector analysts to ensure that the Board maintains an understanding of investors' priorities.

Major investor relations engagement activities carried out during the year are set out below:

- >200 meetings or conference calls hosted with institutional investors or prospective investors;
- two major UK investor roadshows;

- two major US roadshows;
- one European roadshow;
- attendance at five UK investor conferences and one European investor conference; and
- three Group investor site visits to our UK facilities.

Investors, prospective investors and analysts can contact our Director of Investor Relations & Corporate Communications or access information on our corporate website.

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.

Annual General Meetings

The AGM is an important part of effective communication with shareholders. All shareholders will have the opportunity to ask questions at the forthcoming AGM, which is being held at 11am in London on 6 February 2020. The Chairs of the Audit, Nominations and Remuneration Committees will be available to answer questions at that meeting. Our Board welcomes the opportunity for face to face communication with our shareholders. Shareholders are encouraged to participate and all Directors are available to answer questions, formally through the Chairman during the meeting and informally afterwards.

The Notice, together with an explanation of the resolutions to be considered, is set out on pages 139 to 147 and sent out in a circular to shareholders. 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.

Outcome of the February 2019 AGM

At the 2019 AGM, votes were cast in relation to approximately 73% of the issued share capital. All 24 resolutions were passed by the required majority. In relation to the votes to re-appoint or elect Board Directors:

Votes were cast in favour of the re-appointment of the following Board Directors as follows:

- Larry Pentz: 96.99%
- Pamela Kirby: 92.37%
- Jane Toogood: 98.39%
- Janet Ashdown: 98.84%
- Brendan Connolly: 99.04%
- Jakob Sigurdsson: 99.03%
- Tim Cooper: 99.03%
- Martin Court: 99.03%

Votes were cast in favour of the election of the following Board Directors as follows:

- David Thomas: 98.67%
- Richard Armitage: 98.85%

Share capital

Details of the Company's share capital, including the rights and obligations attached to the shares are set out in the Directors' report on page 93.

Nominations Committee report

NOMINATIONS COMMITTEE REPORT

Larry Pentz

Chair of the Nominations Committee



FY 2019 highlights

- Succession planning including the development of a Board skills matrix and succession planning tool
- Review of the Group's diversity and inclusion activities and Board Diversity Policy updated
- External Board evaluation

FY 2020 priorities

- Succession planning
- Developing a diverse pipeline for appointments to the Board and senior management

Main responsibilities of Committee

- Leading the process for Board appointments
- Making recommendations to the Board about proposed appointments to the Board, including the Company Secretary
- Succession planning
- Evaluating the skills, experience and knowledge of the Board

Terms of Reference for all Board Committees (which apply from 1 October 2019) can be found on www.victrexplc.com

Terms of Reference for the Nominations Committee (which apply from 1 October 2019) can be found on www.victrexplc.com

Dear shareholders,

I am pleased to present the report of the Nominations Committee for the year ended 30 September 2019. This year, the focus for the Nominations Committee has been on succession planning, assessing the diversity of the Group and ensuring the effectiveness of the Board as a whole as we work with newer Board members in new roles.

Retirement and Board succession planning

Following seven successful years as a Director at Victrex pioneering new markets and driving forward our commercial activities, Tim Cooper signalled his intention to retire in 2020 and stepped down from the Board on 30 September 2019. The Committee considered his position on the Board and how his responsibilities could be best covered, recommending that no new Director be appointed in his place. Details of the remuneration arrangements relating to Tim's retirement are reported on pages 88 and 89.

Pamela Kirby has been a non-executive Director on the Board since 2011, and Senior Independent Director since 2014. Pam recently confirmed that she would not be standing for re-election at the 2020 Annual General Meeting. A search process is now underway for a new Senior Independent Director, who, once appointed and fully embedded, will be responsible for appointing my successor in due course.

Our succession plan aims to ensure that the Board and senior management have the appropriate balance of skills and experience to support the Group's strategic objectives. During the year, the Committee has refreshed our Board and senior management succession plans, planning for emergency situations as well as over the short, medium and long term. At Board level, our plans also take into account timescales for key Board positions based on tenure.

The Board has also reviewed the Group's people and organisational capability plan ensuring that our internal talent is identified and developed to support delivery of our strategy. In our succession planning, we aim to ensure both our Board Directors and other senior managers, who are potential successors to the Board, are well equipped with the right skills and experience to address the challenges of our business and, where necessary, address any developmental needs. To assist the Nominations Committee in its duties, a Board succession planning tool and a Board skills matrix have been developed.

Diversity

The Committee has reviewed the Group's diversity and inclusion activities, and has refreshed its Board Diversity Policy. Further details can be found on pages 64 and 65.

Board effectiveness

The Board conducted an external Board evaluation this year, which had been delayed by a year to allow newer members of the Board time to embed into their new roles. Details of the evaluation conducted are set out on pages 55 to 57.

I will be available at the Annual General Meeting on 6 February 2020 to answer any questions.

Larry Pentz

Chair of the Nominations Committee

5 December 2019

The Committee met four times during 2018/19 and has a programme of business reflecting its Terms of Reference.

Committee member	Meeting attendance
L C Pentz (Chair)	4/4
J E Ashdown	4/4
B W D Connolly	3/4
P J Kirby	3/4
D Thomas	4/4
J E Toogood	4/4

Secretary: Louise Waldek

Other attendees:

- The Chief Executive Officer is not a member of the Committee but is invited to attend.
- The Group HR Director regularly attends meetings.

All members of the Committee are independent, thus fulfilling the Code requirement that a 'majority of members of the nomination committee should be independent non-executive directors'.

The Chairman would not chair or otherwise participate in the Committee when it is dealing with the appointment of his successor.

No Director would participate in the Committee when it is dealing with the appointment of his or her successor.

The Chairman's other significant commitments are set out in his biography on page 48.

The Committee's agenda in 2018/19

Our principal activities during the year, and up to the date of approval of this Annual Report, were as follows:

- Chairman succession (led by the SID);
- non-executive Director succession;
- executive Director succession;
- Board composition;
- Board skills and experience matrix;
- senior management succession;
- talent management framework and pipeline development;
- internal management restructuring;
- approval of the Nominations Committee report in the 2017/18 Annual Report and Accounts;
- reviewing Victrex's diversity profile and enterprise-wide activities to promote diversity and inclusion; and
- reviewed and recommended the Board approve an updated Board Diversity Policy.

As part of the annual cycle and/or in readiness for the application of the 2018 Code with effect from 1 October 2019:

- reviewed and updated Committee Terms of Reference;
- reviewed and updated the Committee's annual programme of business;
- determined who will constitute 'senior management' for the purpose of the 2018 Code; and
- following debate, recommended to the Board the appointment of Brendan Connolly as non-executive Director with designated responsibility for workforce engagement.

Further details about the widening of the Committee's remit to cover senior management and the work of the non-executive Director with designated responsibility for workforce engagement will be set out in the 2020 Annual Report.

Nominations Committee report continued

Board appointments

The Committee considers Board composition, assessing the skills, experience, diversity, knowledge and independence on the Board to identify any gaps and consider the need for refreshment. If the Committee recommended the appointment of a new Director, the capabilities and characteristics required for the appointment would be determined and objective selection criteria established. Any proposed recruitment would be considered in the context of the Group's strategic priorities and objectives, as well as prevailing business environment and underlying business performance. The Board Diversity Policy set out on page 65 would be followed.

A detailed review of the skills and experience of current Board members was undertaken. This comprised a self-assessment from each Board member scoring their skills, areas of functional expertise and sectoral experience. The results were compiled by the General Counsel & Company Secretary and following a calibration exercise, would be used by the Committee in the discharge of its duties to consider any gaps, areas for future development and skills needed in future appointments to the Board, in order to support, challenge and develop the Group's strategy.

No new Board appointments were made during 2018/19. The Committee considered the size and composition of the Board following Tim Cooper's decision to retire. To address the large size of the Board and the experience and skills of the remaining Board members, the Committee recommended to the Board that Tim Cooper not be replaced.

The tenure of a non-executive Director at Victrex is influenced by the nine-year rule, and business and personal circumstances. The non-executive Director tenure profile as a whole remains a key focus of the Committee to ensure the refreshing of the Board occurs 'in a more gradual way'. Serving beyond a nine-year term is identified in the Code as being one of the reasons which could affect a non-executive director's independence, although the 2016 Code, under which we are reporting, excludes a board chairman from this nine-year rule.

The 2018 Code specifies that board chairmen should not remain in post beyond nine years from their first appointment to the Board. To facilitate effective succession planning and the development of a diverse Board, this period can be extended for a limited time, particularly in cases where the Chairman was an existing non-executive Director on appointment and where a clear rationale is provided. The Chairman was a non-executive Director of the Company from 2008, prior to his appointment as Chairman in 2014. The Board has experienced significant changes to its composition between FY 2017 and FY 2019. In FY 2018, two non-executive Directors stepped down and three new non-executive Directors were appointed, including new Chairs of the Audit and Remuneration Committees. Furthermore, a new Chief Executive Officer was appointed in FY 2017 and a new Group Finance Director was appointed in FY 2018. Tim Cooper stepped down from the Board on 30 September 2019 and Pamela Kirby

confirmed her intention not to stand for re-election at the 2020 Annual General Meeting, triggering a search process for a new Senior Independent Director. A detailed description of the search and appointment process will be provided in the 2020 Annual Report.

To provide ongoing stability and continuity as the Board enters a further period of change, it has been agreed that the Chairman will continue in role. The Committee continues to consider that the Chairman demonstrates objectivity and that he promotes constructive challenge amongst the other Board members. The new Senior Independent Director, once fully embedded in the role, will in due course turn to the search process for a new Chair. The Chairman will not be involved in the selection of his successor.

The table below sets out the dates of appointment of each Director and the approximate number of years they will have been on the Board at the 2020 Annual General Meeting.

Name	Date of appointment	Tenure
L C Pentz	28/07/2008 to the Board – Chairman from 01/10/2014	11.5 years
P J Kirby*	09/02/2011	9 years
M L Court	01/04/2015	4.5 years
J E Toogood	01/09/2015	4.5 years
J O Sigurdsson	01/10/2017	2.5 years
B W D Connolly	09/02/2018	2 years
J E Ashdown	09/02/2018	2 years
R J Armitage	01/05/2018	1.5 years
D Thomas	14/05/2018	1.5 years

* Pamela Kirby will not stand for re-election at the 2020 Annual General Meeting.

The tenure of a non-executive Director of Victrex has historically ranged from 3 years to 14 years, with the average being 7.5 years.

Board diversity

The Company is committed to diversity, inclusive practices and equality of opportunity amongst its employees and its Board members. Diversity encompasses differences in ethnicity, gender, language, age, sexual orientation, religion, socioeconomic status, physical and mental ability, thinking style, experience and education. The Company acknowledges the value of diversity in its widest sense and its contribution towards effective Board operations and decisions. At the same time, the Company recognises the challenges associated with achieving diversity on the Board due to social, sectoral and other factors, outside its control. The Group operates a Global Diversity & Equal Opportunities Policy which is reviewed each year and provides the framework for productive working relationships.

We have updated our Board Diversity Policy during the year (see overleaf). It is also contained on our corporate website – www.victrexplc.com.

Board diversity policy

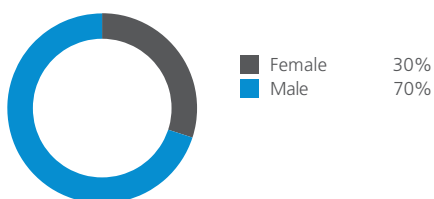
Taking account of its changing strategic needs, the Board will ensure:

1. it and its Committees have the appropriate balance, composition and mix of skills, experience, independence and knowledge to ensure their continued effectiveness, having regard to recommended diversity targets;
2. a pipeline is maintained promoting diversity for succession to the Board and senior management positions;
3. only executive search consultants who have signed up to the voluntary code of conduct for executive search firms on gender diversity on corporate boards are engaged when seeking appointments to the Board so that the selection processes provide access to a diverse range of candidates;
4. appointments to the Board are made on the basis of merit, with regard for suitability for the role, Board balance and composition and the required mix of skills, background and experience – diversity will be a consideration;
5. policies adopted by the Group promote diversity in the broadest sense;
6. adequate and appropriate disclosure of:
 - a. this Policy and diversity initiatives the Group has in place and the steps it is taking to promote diversity at Board level and across the Company including a description of progress made;
 - b. the composition and structure of the Board;
 - c. the gender balance of those in senior management and their direct reports; and
 - d. the process for appointments to the Board; and
7. this Policy is reviewed from time to time to monitor progress being made to assess its effectiveness.

In adopting its new Board Diversity Policy, the Board has not set express gender or other related diversity quotas or measurable objectives; however, the Board and the Committee seek to encourage applications from a diverse range of candidates, subject to the selection criteria being met.

The Board strives to broaden the diversity of the Board and senior management. As at the date of approval of this Annual Report, we had three women on our Board, representing 33% of our Board (30% during FY 2019). During the year the Board has continued to promote diversity at all levels of the organisation and in the boardroom, to promote an inclusive culture across Victrex. For further details on diversity and inclusion across Victrex, including our equal opportunities policy, see page 44. To comply with the 2018 Code, we will report on the gender balance of those in senior management and their direct reports in our 2020 Annual Report. To comply with section 414C(8) of the Companies Act 2006, we have disclosed the gender balance of the Board, senior managers and employees in the Strategic report on page 44.

Board diversity – gender (during FY 2019)



Succession planning and talent management

A key role of the Committee is to ensure that plans are in place for the orderly and progressive refreshment of the Board and to identify and develop individuals with potential for Board and senior management positions. The Committee has further developed Board succession plans during the year, taking into account more granularity around timescales for key Board positions and the likely evolution of the business. A succession planning tool for Board Directors has been compiled in order to support the planning process for Board appointments which reflects corporate governance requirements, diversity, tenure and a recently compiled skills matrix. In some cases, existing potential internal successors to a role have been identified, as well as those who could act as an interim should the need arise, covering a variety of scenarios. Succession plans were put into action with the reorganisation that has taken place following the retirement of Tim Cooper from the Board. This resulted in the establishment of

the Victrex Management Team ('VMT') with effect from 1 October 2019. We will provide more information about the VMT in our 2020 Annual Report.

The Committee has continued to focus on active talent management. Succession and development initiatives for senior management include mentoring, coaching and outplacements. During the year, Board Directors have a number of opportunities to meet with the senior management, both formally during Board and Committee meetings when senior managers present on matters related to their responsibilities and on more informal occasions. We continue to work towards improving our balance across our employee population as part of our ongoing diversity and inclusion activities.

The Committee recognises the importance of setting the tone and culture of the organisation from the top and the role of senior leaders in demonstrating and embedding the expected behaviours. The Committee will continue to monitor the cultural factors that impact talent strategies and influence a positive, inclusive and productive culture in the interests of attracting and retaining current and future talent.

The Committee was pleased to see that performance management has been enhanced for our Asian workforce through the introduction of a consistent framework of career paths and a new job level system, supported by a series of workshops, resulting in a positive impact.

Non-executive Director succession

We announced on 12 November 2019 that Pamela Kirby had confirmed she would not seek re-election at the 2020 Annual General Meeting in February 2020. Pamela has served the Board of Victrex since 2011 and as Senior Independent Director since 2014 and has diligently provided insight from both her executive career and non-executive roles on other boards. A search process for a new Senior Independent Director is underway to replace Pamela Kirby. A detailed description of the process undertaken will be provided in the 2020 Annual Report.

Committee effectiveness

The effectiveness of the Committee was considered as part of the external Board evaluation conducted during 2019. I am pleased to report that the Committee was found to be performing satisfactorily. Succession planning remained a key outcome arising from the evaluation given the tenure of the Chairman and the Senior Independent Director. This will be factored into the Committee's considerations during FY 2020. Further information about the external evaluation can be found on page 57.

AUDIT COMMITTEE REPORT

David Thomas

Chair of the Audit Committee



FY 2019 highlights

- Consideration of risk framework
- Engagement with Financial Reporting Council regarding FY 2018 Annual Report

FY 2020 priorities

- Quality of business disclosures
- Classification and disclosure of exceptional items

Main responsibilities of Committee

- Reviewing financial statements and announcements relating to the financial performance of the Company, including reporting to the Board on the significant issues considered by the Committee in relation to the financial statements and how these were addressed
- Reviewing the scope and results of the annual audit and reporting to the Board on the effectiveness of the audit process and how the independence and objectivity of the auditors have been safeguarded
- Reviewing the scope, remit and effectiveness of the internal audit function and the Group's internal control and risk management systems
- Reviewing significant legal and regulatory matters
- Reviewing matters associated with the appointment, terms, remuneration, independence, objectivity and effectiveness of the external audit process and reviewing the scope and results of the audit
- Reporting to the Board on how the Committee has discharged the aforementioned responsibilities

Terms of Reference for all Board Committees (which apply from 1 October 2019) can be found on www.victrexplc.com

Terms of Reference for the Audit Committee (which apply from 1 October 2019) can be found on www.victrexplc.com

Dear shareholders,

I am pleased to present the report of the Audit Committee for the year ended 30 September 2019. In my report this year, I have sought to provide investors and prospective investors with an understanding of the work we have done as the Audit Committee to provide assurance on the integrity of the 2018/19 Annual Report and financial statements. The Directors' responsibility statement in respect of the Annual Report and Accounts can be found on page 97.

The Committee has continued to play a key role within the Group's governance framework to support the Board in matters relating to financial reporting, internal control and risk management. It has worked closely with our external auditors, PricewaterhouseCoopers ('PwC'), over the last twelve months. It has focused on ensuring that the interests of shareholders are properly protected in relation to the Group's financial reporting and internal control arrangements and to provide challenge to the decisions and approach made by management relating to the content and disclosures within the Company's financial reports. Both the 2016 and 2018 Codes call for the Board to 'present a fair, balanced and understandable assessment of the Company's position and prospects'. The Board asks the Audit Committee to advise on whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee's role is to ensure that management's disclosures reflect the supporting information or challenge them to explain and justify their interpretation. The Committee is supported in this role by the external auditors, who, in the course of the statutory audit, reviews the accounting records kept by the Company to test whether information is being recorded in line with agreed accounting practices. The external auditors present their findings to the shareholders and their report is set out in the Independent auditors' report. The Committee reports its findings and makes recommendations to the Board accordingly.

During the year the Company received a 'request for information' from the Financial Reporting Council ('FRC') following a review of our 2018 Annual Report and Accounts. The information request principally related to explanations on aspects of our disclosures of estimation uncertainty, pensions and investments. The Company seeks to continuously improve its Annual Report and Accounts and welcomed the opportunity to provide information to the FRC, providing responses to all questions, resulting in the review being satisfactorily closed within a short space of time with no significant additional disclosures being required. The Audit Committee has taken the opportunity to review the process for ensuring completeness of disclosure, particularly when it comes to items

which are not material but would be of benefit to the users of the Annual Report and Accounts. As a result of this review some minor amendments have been made to the process, including the level at which discussion on disclosures is elevated to the Audit Committee. The scope and limitations of the FRC review are acknowledged by the Audit Committee and the users of Annual Report and Accounts should understand that the FRC review of the FY 2018 Annual Report and Accounts does not provide assurance that those Accounts are correct in all material respects; the role of the FRC is not to verify the information provided but to consider compliance with reporting requirements.

The Committee is responsible for ensuring that the relationship between the Committee, the external auditors and management is appropriate. The external auditors must be independent of the Company. Information on how the Committee assesses the independence of the external auditors is set out in the Audit Committee report.

Following the publication of the FRC's Audit Quality Inspection Reports of the big four firms, PwC presented their programme to enhance audit quality and initiatives being applied to their plans and strategy for our 2018/19 audit. The Committee welcomes this commitment and reviewed the evidence of the enhancements to the processes as part of the overall assessment of auditor effectiveness.

This is the last year when the Audit Committee report contains an overview of the Group's whistleblowing arrangements as this responsibility is now a direct responsibility of the Board with effect from 1 October 2019. The Committee will review the effectiveness of such arrangements and will act on any relevant findings impacting its areas of responsibility as appropriate.

We continue to be committed to providing meaningful disclosure of the Committee's activities. As Chair, I am intent on ensuring that the Committee's agenda is kept under review and aware of relevant developments. Details of the annual evaluation process of the Committee's performance can be found in the Corporate governance report.

The following Audit Committee report was approved by the Committee at its meeting held on 3 December 2019.

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

I will be available at the AGM on 6 February 2020 to answer any questions in relation to this Audit Committee report.

David Thomas
Chair of the Audit Committee
5 December 2019

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.

The Committee met three times during 2018/19 and has a programme of business reflecting the Committee's Terms of Reference.

Committee member	Meeting attendance
D Thomas (Chair)	3/3
J E Ashdown	3/3
B W D Connolly	3/3
P J Kirby	2/3
J E Toogood	3/3

Secretary: Louise Waldek

The following other attendees regularly attend meetings:

- The Chairman and executive Directors.
- The Director of Risk & Compliance.
- The Group Financial Controller.
- Representatives from the external auditors, PwC.

Other members of the management team may also be asked to attend meetings for discussion on specific issues. The Committee also meets with the external auditors twice each year without management being present.

The Chair meets with members of the executive and management teams and PwC outside of formal Committee meetings to discuss matters which fall within the Committee's Terms of Reference.

These have included a meeting with the Group Financial Controller and the Group's Director of Risk & Compliance in addition to meetings with the General Counsel & Company Secretary as part of reviewing relevant matters and forward planning on the business of the Committee.

The Committee is authorised to seek outside legal or other independent professional advice as it sees fit, but has not done so during the year.

The qualifications of Committee members are outlined in the Directors' biographies on pages 48 and 49. The members of the Committee are all independent non-executive Directors. The Board is satisfied that the Committee as a whole has competence relevant to the sectors in which the Group operates and its members have an appropriate level of experience in corporate and financial matters and are financially literate. 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 summer of 2019 and subsequently reported to the Board. The Chair is a member of the Institute of Chartered Accountants of England and Wales. He previously served as Chief Financial Officer of Invensys plc. Prior to this, he was a Senior Partner at Ernst & Young and is a former member of the Auditing Practices Board. The Board is satisfied that he has recent and relevant financial experience as required by the Code.

Audit Committee report continued

The Committee's agenda in 2018/19

- Negotiated and agreed PwC's engagement letter and the statutory audit fee for the year ended 30 September 2019.
- Reviewed the results of the Committee's assessment of the effectiveness of the 2017/18 external audit along with receiving a presentation from PwC on the proposals for their programme to enhance audit quality.
- Reviewed PwC's proposed audit strategy and plan for the 2018/19 statutory audit, including the level of materiality applied by PwC, the final audit report from PwC on the financial statements and the areas of particular focus for the 2018/19 audit.
- Confirmed the independence of the external auditors and recommended to the Board the re-appointment of PwC as the external auditors at the upcoming AGM.
- Reviewed the basis of preparation of the financial statements as a going concern (prior to making a recommendation to the Board) as set out in the accounting policies.
- Reviewed and discussed reports on the financial statements, considered management's significant accounting judgements and the policies being applied, and how the statutory audit contributed to the integrity of the financial reporting.
- Reviewed the Company's approach to the adoption of IFRS 9 – Financial Instruments, IFRS 15 – Revenue from Contracts with Customers and IFRS 16 – Leases.
- Reviewed the long-term viability statement, prior to making a recommendation to the Board.
- Reviewed the 2018/19 Annual Report and Accounts and recommended to the Board that they complied with the Code principle to be 'fair, balanced and understandable'.
- Approved the strategic internal audit planning approach and reviewed reports on the work of the internal audit function from the Director of Risk & Compliance.
- Considered the findings brought to the Committee's attention by internal audit and satisfied itself that management has resolved or is in the process of resolving any outstanding issues or concerns.
- Reviewed and approved the approach and internal audit plan for 2019/20.
- Reviewed the effectiveness of the risk management and internal control systems prior to making a recommendation to the Board.
- Reviewed the Group's whistleblowing arrangements.
- Reviewed the conclusions of the Committee's annual evaluation. The externally facilitated evaluation was part of the overall Board evaluation. It was concluded that the Committee continued to be effective.

As part of the annual cycle and/or in readiness for the application of the 2018 Code with effect from 1 October 2019 the Committee:

- Reviewed and updated the Committee's Terms of Reference.
- Reviewed and updated the Committee's annual programme of business.

How did the Committee assess whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position on performance, business model and strategy?

The Committee made this assessment by:

- reviewing key messages proposed for the Annual Report and Accounts;
- reviewing copies of the Annual Report and Accounts at various stages during the drafting process to ensure the key messages were being followed and were aligned with the Company's position, performance and strategy being pursued and that the narrative sections of the Annual Report were consistent with the financial statements;
- ensuring that all key events and issues which had been reported to the Board in the executive Board reports during the year had been appropriately referenced or reflected within the Annual Report; and
- reviewing how alternative performance measures were used in the Annual Report and Accounts, ensuring completeness and accuracy of definitions, consistency of use, relevance to users of the Annual Report and Accounts and balance with statutory metrics.

How did we assess auditor independence?

- Written assurances were received from external auditors that all partners and staff involved with the audit are independent of any links to Victrex.
- PwC confirmed all partners and staff complied with their ethics and independence policies and procedures which are fully consistent with the FRC's Ethical Standard.

→ PwC are required to disclose at the planning stage of the audit any significant relationships and matters that may reasonably be thought to have an impact on their objectivity and independence and that of the lead partner and audit team – no such matters were disclosed.

- PwC operate a policy requiring the change in lead audit partner every five years, with other senior audit staff rotating at regular intervals.
- The Committee is responsible for developing policy on non-audit services and associated fees that are paid to PwC.

To further safeguard the independence and objectivity of the external auditors, non-audit services provided by the external auditors 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 investor website – www.victrexplc.com. This policy limits the amount and type of services undertaken by our auditors. Non-audit fees for the year ended 30 September 2019 were £21,620 representing 11% of the audit fee (FY 2018: PwC – £26,000 representing 16% of the audit fee). The non-audit fees related to the interim review performed at the half year (£16,120) and personal tax compliance services in respect of the US-based Chairman (£5,500). Alternative providers were considered but not deemed practical in the specific circumstances although 2019 is the last year the Company will pay for personal tax services in respect of the Chairman. 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 limit on non-audit fees of 70% of the audit fee based on a rolling three-year average.

Taking into account our findings in relation to the effectiveness of the audit process and in relation to the independence of PwC, the Committee is satisfied that PwC continue to be independent and free from conflicting interests with the Group.

External auditor re-appointment

We last undertook a formal tender process in compliance with the CMA Order 2014 for statutory audit services in 2017. PwC commenced their appointment as auditors and presented their first report to shareholders for the year ended 30 September 2018. Ian Morrison has completed his second year as the lead audit partner. The Committee recommended to the Board that PwC be proposed for re-appointment at the forthcoming AGM in February 2020. There are no contractual obligations that restrict the Committee's choice of external auditors; the recommendation is free from third-party influence and no auditor liability agreement, in accordance with sections 534–538 of the Companies Act 2006, has been entered into.

Financial reporting

The primary role of the Committee in relation to financial reporting is to review with both management and the external auditors, and report to the Board the appropriateness of, the annual and half-year financial statements, considering amongst other matters:

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 auditors

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 58

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 2018/2019 financial year was prepared on a consistent basis with that

reported in previous years and is on pages 30 and 31. The Committee also supported the Board in its consideration of the potential impact of Brexit along with the associated disclosures in this Annual Report.

Significant issues considered by the Committee in relation to the financial statements and how these were addressed

In the preparation and final approval of the financial statements, the Committee discussed with management the key sources of estimation and critical accounting judgements outlined in note 1. The significant areas of focus considered and assessed by the Committee in relation to the 2019 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 Annual Report and Accounts, the matters raised by PwC in their 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 Accounts. In particular, the Committee considered the following recurring matters:

- **Valuation 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, including in respect of material usage and purchase price, 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 for aged, obsolete and non-conforming product 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, including in respect of the impact of Guaranteed Minimum Pension equalisation following the High Court ruling on 26 October 2018, 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.

To aid the conduct of reviews, the Committee considers reports from the Chief Financial Officer and the Group Financial Controller and also reports from the external auditors on the outcomes of their half-year review and annual audit.

Audit Committee report continued

Significant issues considered by the Committee in relation to the financial statements and how these were addressed continued

The main features of the Group's internal controls and risk management systems are summarised below:

Risk management systems and internal controls

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 25 and 26 and pages 58 and 59. The Committee receives updates and reports from the Director of Risk & Compliance on key activities relating to the Group's risk management systems and processes at every meeting. These are

then reported to the Board, as appropriate. The Group designs its risk management activities in order to eliminate risk wherever possible, mitigating residual risk where practicable to within tolerance, to achieve its strategic objectives.

The Chief Financial Officer has executive responsibility for risk management and is supported in this role by the Director of Risk & Compliance and his team. The Director of Risk & Compliance manages a series of risk management committees across the business which feed into the Executive Risk Management Committee formed by the executive Directors, the Group HR Director, the General Counsel & Company Secretary and the Director of Risk & Compliance. They meet biannually and review the principal risks of the Company, emerging risks, the governance processes and their effectiveness. This review then feeds into the

How did the Committee assess the effectiveness of the external audit?

The Committee actively considers the effectiveness of the external audit process on an ongoing basis.

Following the process outlined below, the Committee assessed the effectiveness of the external audit. In summary, the Committee concluded that the external audit process and services provided by PwC were satisfactory and effective.

PwC present key findings from the FRC's Audit Quality Inspection Report for PwC and planned action

PwC present the results of their annual firm-wide Audit Quality Review Team Report and any remediation implemented

Committee discusses and agrees at the planning stage the draft list of specific risks to audit effectiveness and quality (specific audit quality risks)

Committee assesses audit planning work in respect of specific audit quality risks

PwC report against audit scope and subsequent meetings providing the Committee with an opportunity to monitor progress and raise questions

PwC report on specific audit quality risks applicable to Victrex and how these have been addressed at the planning and final stages of the audit

Private meetings are held at most Committee meetings between the Audit Committee and representatives from the external auditors without management being present in order to encourage open and transparent feedback by both parties

Committee assesses final audit work and overall conclusion reached regarding specific audit quality risks

All Committee members, key members of management, and those who regularly provide input into the Audit Committee or have regular feedback with the external auditors complete a feedback questionnaire on how well PwC performed the year-end audit

Feedback and conclusions from the questionnaire are discussed, along with the conclusion regarding specific audit risks, with an overall conclusion on audit effectiveness reached. Any opportunities for improvement brought to the attention of the external auditors

The FRC's Audit Quality Inspection Report for PwC for engagements with year ends 30 June 2017 to 31 March 2018 highlighted areas requiring attention in PwC's audit execution. The most specific findings pertain to aspects not relevant to our accounts and the Committee noted PwC's actions to improve audit quality. The Committee does seek full explanation of work undertaken in the more judgemental aspects of the accounts.

Significant issues considered by the Committee in relation to the financial statements and how these were addressed continued

Risk management systems and internal controls continued information and assurance processes of the Audit Committee and into the Board's assessment of risk exposures and the strategies to manage these risks.

The Committee also reviews the Group's internal control systems, their effectiveness, and receives updates on the findings of the internal audit's investigations at every meeting, prior to reporting any significant matters to the Board. Internal control systems are part of our business as usual activities and are documented in the Group Authorities Manual/Matrix, which covers financial, operational and compliance controls and processes. Internal control systems are the responsibility of the Chief Financial Officer.

Confirmation that the controls and processes are being adhered to throughout the business is the responsibility of managers, but is continually tested by the work of the internal audit team as part of its annual plan of work which the Committee approves each year as well as aspects being tested by other internal assurance providers.

Whistleblowing, anti-fraud and anti-bribery

For the year ended 30 September 2019, the Audit Committee was responsible for reviewing the Group's arrangements for individuals to raise concerns and the arrangements for investigation of such matters. The Global Whistleblowing Policy supports the culture within the Group where genuine concerns may be reported and investigated without reprisals for whistleblowers. From 1 October 2019, the Committee no longer has the responsibility for overseeing the Group's whistleblowing arrangements and the Board has assumed this responsibility, reflecting the 2018 Code.

The Group operates an independently provided confidential reporting telephone helpline for employees to raise any matters of concern. Alternatively, such matters can be raised with the line manager, HR business partner or as detailed in the Global Whistleblowing Policy, the Director of Risk & Compliance, the Group HR Director or the Chair of the Audit Committee. Employees can remain anonymous if they wish. All concerns are investigated fully, regardless of how they are raised.

During the year, the Audit Committee was kept fully apprised of the number of cases. The Committee would also be informed about how cases were being investigated and remedial actions taken. A number of employees have been selected and received specialist training in order to conduct investigations of cases of whistleblowing.

The Group operates an Anti-bribery & Corruption Policy to prevent bribery being committed on its behalf. All employees must follow it and there are processes in place to monitor compliance. As part of the programme, employees are required to comply with the Group's gifts and hospitality policy. This permits employees to give and accept proportionate and reasonable hospitality for legitimate business purposes only. Our suppliers must comply with our Supplier Code of Conduct which explains we will not tolerate corruption, bribery or anti-competitive actions and expect suppliers to comply with applicable laws.

Copies of the Group's Anti-bribery & Corruption Policy and the Supplier Code of Conduct are available on request.

The internal audit function

The internal audit function is a key element of the Group's corporate governance framework. Its role is to provide independent and objective assurance, advice and insight on governance, risk management and internal control to the Audit Committee, the Board and management. It supports the organisation's vision and activities by evaluating and assessing the effectiveness of risk management systems, business policies and processes, systems

and key internal controls. In addition to reviewing the effectiveness of these areas and reporting on aspects of the Group's compliance with them, internal audit makes recommendations to address any key issues and improve processes and, as such, provides an indication of the behaviours being exhibited by employees in the areas under review. Once any recommendations are agreed with management, the internal audit team monitors their implementation and reports to the Committee on progress at every meeting.

A three-year strategic audit planning approach is applied. This facilitates an efficient deployment of internal audit resource in providing assurance coverage over time across the whole business, as well as greater variation in the nature, depth and breadth of audit activities. This strategic approach supports the annual audit plan, which is then endorsed by management, and which the Committee also approves. The plan focuses the team's work on those areas of greatest risk to the business. Building on the strategic planning approach, the development of the plan considers risk assessments, issues raised by management, areas of the business, prior audit findings and the cyclical review programme. The purpose, scope and authority of internal audit are defined within its charter which is approved annually by the Audit Committee.

The in-house team is supplemented by additional resource and skills sourced from external providers, based on specialism or workload. The Committee keeps the relationship with external providers under review to ensure the independence of the internal audit function is maintained.

Assessing the effectiveness of the internal audit function

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 Director of Risk & 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 & Compliance has met with the Chair of the Audit Committee 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 effectiveness of the internal audit function's work is continually monitored:

- Ongoing audit reports received.
- Committee interaction with Director of Risk & Compliance.
- Internal audit, led by the Director of Risk & Compliance, reports functionally to the Chief Financial Officer. The Director of Risk & Compliance attends all scheduled meetings of the Audit Committee and has the opportunity to raise any matters with the members of the Committee at these meetings without the presence of management. He is also in regular contact with the Chair of the Committee outside of the Committee meetings.
- Progress against the internal audit plan is reviewed at each meeting.

DIRECTORS' REMUNERATION REPORT

Janet Ashdown

Chair of the Remuneration Committee



FY 2019 highlights

- Review of Directors' remuneration policy in preparation for its renewal at the 2020 AGM
- Extensive engagement with our shareholders and investor advisory bodies on the new policy proposals
- Review the annual programme of business to take account of the remuneration related provisions of the 2018 UK Corporate Governance Code including the extension of responsibility to senior management remuneration
- Review formulaic incentive outcomes and consider whether they were aligned to Company performance over the short and long term
- Oversee preparation of the CEO pay ratio in advance of its publication in this report for the first time

FY 2020 priorities

- Oversee the implementation of our new policy and provide formal oversight for executive Director and senior management remuneration
- Ensure compliance with the remuneration related provisions of the 2018 UK Corporate Governance Code
- Review performance against incentive targets to ensure we maintain a strong pay for performance relationship and where necessary consider exercise of discretion
- Continue to monitor governance, regulatory and investor developments on executive compensation matters including best practices
- Maintain channels of engagement with our shareholders
- Review executive pension provision taking into account the recent views of investors and their advisory bodies

Main responsibilities of Committee

- Designing and determining the remuneration for the Company Chairman, executive Directors and senior management
- Reviewing workforce remuneration and related policies
- Exercising judgement when determining remuneration awards

Terms of Reference for all Board Committees (which apply from 1 October 2019) can be found on our investor website – www.victrexplc.com

Terms of Reference for the Remuneration Committee (which apply from 1 October 2019) can be found on our investor website – www.victrexplc.com

Dear shareholders,

On behalf of the Remuneration Committee (the 'Committee') I am pleased to introduce the Directors' remuneration report for the year ended 30 September 2019 which includes our new Directors' remuneration policy to be presented for shareholder approval at the AGM in February 2020. This report is divided into three sections: my statement, the new Directors' remuneration policy and our annual report on remuneration for the year ended 30 September 2019.

Committee undertakings in 2019

Remuneration policy review

The current Directors' remuneration policy expires at the AGM in February 2020 and during the year the Committee undertook a thorough and detailed review of policy. The review principally focused on how Victrex and the environment in which it operates has evolved since policy was last approved along with developments in corporate governance and best practice. Although the Committee concluded that the main construct of current policy remains fit for purpose, it also observed certain features as being out of step with best practice and the need for new policy to include new features to comply with the 2018 UK Corporate Governance Code. Also, not having been reviewed for some time, the Committee noted that incentive opportunity had fallen significantly behind peers.

The Committee met five times during 2018/19 and has a programme of business reflecting the Committee's Terms of Reference.

Committee member	Meeting attendance
J E Ashdown (Chair)	5/5
B W D Connolly	4/5
P J Kirby	4/5
D Thomas	5/5
J E Toogood	5/5

Secretary: Louise Waldek

Other attendees:

- The Company Chairman and the CEO are not members of the Committee but are invited to attend.
 - The Group HR Director regularly attends meetings.
 - Representatives from the Committee's remuneration advisors, Willis Towers Watson, regularly attend meetings.
- No attendee would participate in the Committee when it is dealing with his or her remuneration.
- The Chair satisfies the 2018 Code requirement of having served at least twelve months on a remuneration committee.

The Committee's agenda in 2018/19

Our principal activities during the year, and up to the date of approval of this Annual Report, were as follows:

- Reviewed and updated executive remuneration policy
 - Set the remuneration for the Company Chairman, executive Directors, Company Secretary and senior management*
 - Assessed bonus eligibility for the executive Directors, Company Secretary and senior management*
 - Oversight of the operation of the Company's LTIP
 - Reviewed performance of the executive Directors with the Company's Shareholding Guidelines
 - Reviewed workforce remuneration and related policies
 - Approved the Company's gender pay gap statement
 - Approved the Company's CEO pay ratio disclosures
 - Assessed market trends, investor expectations and evolving practice
- Approved the Directors' remuneration report in the 2017/18 Annual Report and Accounts
- * Senior management for the purposes of the 2018 Code are determined to be members of the Victrex Management Team ('VMT'), which takes effect from 1 October 2019. We will report in more detail on how the VMT operates in our 2020 Annual Report.
- As part of the annual cycle and/or in readiness for the application of the 2018 Code with effect from 1 October 2019:
- Reviewed and updated Committee's Terms of Reference
 - Reviewed and updated the Committee's annual programme of business
 - Determined who will constitute 'senior management' for the purpose of the 2018 Code
 - Reviewed and updated the Company's documentation to ensure the Committee has the ability to exercise discretion to override formulaic outcomes

Committee undertakings in 2019 continued

Remuneration policy review continued

Having duly considered all feedback received from our investors, the Committee revised its original proposals to include a smaller increase in the maximum Long Term Incentive Plan ('LTIP') opportunity and to stagger implementation of the increase. The policy changes being introduced are set out in the table below:

Policy item	Current policy	New policy
Annual bonus maximum opportunity	→ Chief Executive Officer ('CEO') – 125%	→ CEO – 150%
	→ Other Directors – 100%	→ Other Directors – 125%
LTIP maximum opportunity	→ CEO – 125%	→ CEO – 175%
	→ Other Directors – 100%	→ Other Directors – 150%

} (subject to a staggered implementation as described below)

Bonus deferral	→ 25% of bonus earned	→ 50% of bonus earned
Maximum Company pension contribution for new hires	→ 25% of base salary	→ Rate available to wider workforce (currently 14% of base salary)
Shareholding requirement	→ 100% of base salary	→ 200% of base salary
Post-employment shareholding requirement	→ No current policy	→ Lower of 200% of base salary or shareholding on cessation
		→ Shareholding requirement will apply for two years post-cessation with Committee discretion to release half of the shares after one year

Directors' remuneration report continued

Committee undertakings in 2019 continued

Remuneration policy review continued

Central to the review process were the views of our shareholders and I had the opportunity to speak with many of them, along with their proxy representatives, as part of policy consultation. During these conversations I heard many different views, but the Committee noted several consistent views including:

- strong support for increasing the level of annual bonus deferral and shareholding requirement;
- a recognition that incentive opportunity had not increased for some time, but a preference for a smaller increase in the maximum LTIP award level than that being proposed and for a staggered approach to any increase;
- a clear expectation to introduce a post-employment shareholding requirement and to align pension rates for new hires with those available to the wider workforce; and
- a desire amongst some shareholders that the Committee considers introducing a sustainability metric to LTIP awards at an appropriate point.

The Committee recognises the sensitivities associated with any increase in executive compensation and in determining the level of increase the Committee took into account that neither the annual bonus or LTIP opportunity has increased since the requirement to put a Directors' remuneration policy to shareholder vote was introduced in 2012 and the additional responsibilities that will be assumed by the remaining executive Directors' as a consequence of Tim Cooper's retirement. Although the Committee was provided independent benchmarking against a range of reference points including sector, size and complexity, this was not the sole point of reference for decision making. The Committee determined the increase based on Company policy for the wider workforce, the need to remain globally competitive for executive talent and what it considers fair to all stakeholders without committing to pay more than it considers necessary. The Committee also reduced the level of LTIP opportunity from that originally proposed in direct response to shareholder feedback. Executives will of course only enjoy the associated increase in incentive opportunity if they achieve demanding performance targets that have a clear and direct link with shareholder value creation. They will also receive a greater proportion of their remuneration in shares which will extend beyond employment.

The increase in the level of LTIP award will be staggered such that the 2020 LTIP award will be made at the outgoing policy level of 125% for the CEO and 100% for the other executive Directors with an additional 25% (rather than 50%) awarded post approval of new policy at the February 2020 AGM. It is the Committee's intention that the 2021 LTIP award will be made at 175% for the CEO and 150% for the other executive Directors.

The new policy will also allow the Committee to consider the future introduction of a sustainability metric in line with the UN Sustainable Development Goals and Victrex's sustainability targets. Appropriate metrics and targets will be duly considered by the Committee once the review of our sustainability strategy and targets is completed during FY 2020.

The Committee is cognisant of current investor sentiment regarding executive pensions and this was a feature of conversation during consultation. The wider workforce level of pension contribution is 14% of base salary and new policy limits pension contributions for any new executive Director to this level. Pension arrangements for the current executive Directors are a mixture of contributions to the Company pension scheme up to HMRC limits and cash supplements. Alongside the views shared by our shareholders during consultation,

the Committee also notes new guidance issued after the Company's financial year end by the major investor bodies which include expectations for incumbent executive Director pension levels. In addition to the reduction for new hire executive Directors being introduced as part of the new policy, the Committee intends to review incumbent executive Director pension arrangements during 2020.

The Directors' remuneration policy is included in full on pages 76 to 82.

Board changes

As announced on 24 June 2019, Tim Cooper stepped down as an executive Director on 30 September 2019 but remains with the Company until the end of his twelve-month notice period to ensure an orderly handover of his responsibilities. The Committee duly considered and approved the remuneration arrangements relating to the retirement of Tim Cooper, which were agreed in accordance with Victrex's shareholder approved remuneration policy and are reported on pages 88 and 89.

As Tim's role is not being replaced, effective 1 October 2019 the remaining executives have each taken on additional responsibilities. Martin Court is now Chief Commercial Officer ('CCO') with responsibility for overseeing the Group's market-based activities across both its Industrial and Medical divisions and Richard Armitage, Chief Financial Officer ('CFO'), has taken on responsibility for procurement and corporate development.

2019 remuneration outcomes

Victrex's performance in FY 2019 was impacted by the global weakness and cyclicity in our Automotive, Electronics and Value Added Resellers end markets, which offset growth in Aerospace, Energy and Medical.

Our performance saw:

- Revenues decline by 10% to £294.0m
- Underlying profit before tax decline 17% to £106.2m
- Earnings per share decline 17% to 107.2p

Despite these cyclical impacts, particularly after two years of healthy growth in our core business, the progress in executing our Polymer & Parts strategy under the leadership of CEO Jakob Sigurdsson continues to bear fruit, with good progress in the majority of our mega-programmes that support our long-term growth prospects.

Annual bonus

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 considering the need to balance performance and the associated behaviours over both the near and longer term. Our financial performance in FY 2019 has been impacted by the weakness in automotive and electronics end markets and consequently the budgeted level of Group profit before tax required to trigger annual bonus payments was not met. Despite the executives achieving most of their strategic and individual targets no bonus is payable to executive Directors for 2019.

LTIP

The nil bonus outcome reflected performance during 2019, whereas the 2016 LTIP award was subject to performance targets over three financial years ending 30 September 2019. The targets required growth in EPS and total shareholder returns to exceed FTSE 250 peers. The formulaic vesting outcome was 98.3% of the total award. The Committee duly considered whether to exercise discretion and override the formulaic outcome.

Committee undertakings in 2019 continued

2019 remuneration outcomes continued

LTIP continued

However, it was satisfied that policy had operated as intended during the year and that the 2016 LTIP outcome was a fair reflection of performance over the three-year period. Neither the CEO or CFO received a 2016 award as they were appointed after the awards were made. The 2016 LTIP award vests in December 2019 but any shares vested will be subject to a two-year holding period.

Other considerations during the year

Victrex has long been committed to rewarding its workforce fairly and in making decisions on executive pay, the Committee considers wider workforce remuneration and related policies. The Committee and Board therefore welcome the new provisions introduced by the 2018 UK Corporate Governance Code. The Committee has updated its Terms of Reference to extend its responsibilities to senior management and its programme of business now includes a formal update on workforce remuneration alongside the Committee's existing practice of reviewing and approving for reporting purposes information about our gender pay gap and, this year, our CEO to employee pay ratio. Our gender pay statistics can be found on page 43 and ahead of the mandatory reporting requirement, we are voluntarily disclosing our CEO to employee pay ratio which can be found on page 91.

The effectiveness of the Committee was considered as part of the external Board evaluation conducted during 2019. I am pleased to report that the Committee was found to be performing satisfactorily. Further information about the external evaluation can be found on page 57.

Implementation of policy in 2020

As reported at the time of his appointment, our CEO, Jakob Sigurdsson, was appointed on a base salary that reflected his experience with the intention of making phased increases over the first few years of his appointment. Although the Board, and the Committee, are pleased with how the CEO continues to develop in the role, they decided to limit the increase in base salary for 2020 to that of the wider workforce, being 2.3%. Our CFO, Richard Armitage, and our CCO, Martin Court, have each taken on additional responsibilities because of Tim Cooper's retirement and his role not being replaced. The Committee therefore approved an increase of 5% for each which includes the increase applied to the wider workforce.

Subject to shareholder approval of our new policy the CEO will be eligible for a maximum annual bonus of 150% and the CFO and CCO 125%. Considering the enhanced opportunity, the Committee has set targets that require the executive Directors to significantly outperform budgeted profit before tax to achieve maximum payout with payment of any bonus for strategic and personal performance remaining subject to a threshold level of financial performance. Any annual bonus paid will also be subject to a higher 50% level of deferral into shares for three years.

As I have already noted, the increase in the level of LTIP award will be staggered with vesting remaining contingent on achievement of stretching EPS and TSR targets. Further details on the targets set can be found on page 92.

I hope it is clear from our final policy proposals that the feedback of our shareholders during consultation has been taken into account and that we will receive your support for the resolutions relating to remuneration at the upcoming AGM. I will be available at the AGM on 6 February 2020 to answer any questions.

Janet Ashdown

Chair of the Remuneration Committee

5 December 2019

Directors' remuneration report continued

Directors' remuneration policy

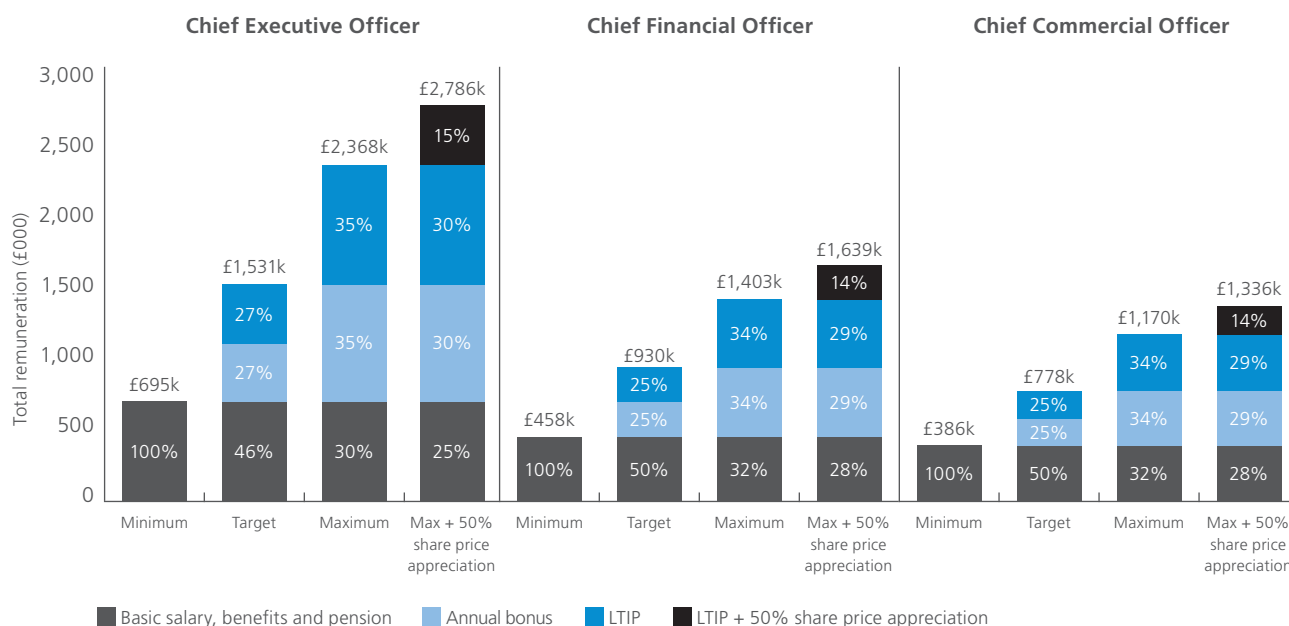
This part of the Directors' remuneration report sets out the remuneration policy for the Company and has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013. The policy in this report will be put to a binding shareholder vote at the 2020 AGM on 6 February 2020. It will take effect from that date subject to shareholder approval. It is intended that the policy will formally apply for three years beginning on the date of approval.

Overview of remuneration policy

The Company's remuneration arrangements are designed to be transparent, simple and aligned to our culture, values and strategy which promote the long-term success of the Group. The Remuneration Committee (the 'Committee') does not believe in paying executive Directors' more than is necessary for this purpose or rewarding failure. In determining remuneration policy and its ongoing implementation the Committee takes into account a number of internal and external measures including where appropriate pay ratios and pay gaps. The Committee monitors the remuneration arrangements to ensure that there is an appropriate balance between risk and reward and that the long-term performance of the business is not compromised by the pursuit of short-term value. There is a strong direct link between incentives and the Company's strategy and if the strategy is delivered within an acceptable level of risk, executive Directors will be rewarded through the annual bonus and long-term incentives. If it is not delivered, then a significant part of their potential remuneration will not be paid. Policy also allows the Committee to recover amounts paid in certain circumstances and the Committee expects executives to build a material shareholding in Company shares which must also be held for a period post-employment.

The Committee also understands that listening to the views of the Company's key stakeholders plays a vital role in formulating and implementing a successful remuneration policy over the long term. The Committee actively seeks the views of shareholders and other key stakeholders on a regular basis and to inform the development and implementation of remuneration policy. The feedback from our shareholders during consultation ultimately influenced the final decisions taken by the Committee and the final Directors' remuneration policy as set out herein. Alongside shareholders, the Committee also seeks the input of other relevant stakeholders including the Company Chairman, executive Directors, the HR Director, the General Counsel & Company Secretary and the independent remuneration advisor on both policy and its implementation. The Committee, made up of entirely independent non-executive Directors, is alive to the potential conflicts of interest of other stakeholders but retains unfettered responsibility for all policy and implementation decisions taken.

Illustrations of the application of remuneration policy



Notes on the scenario methodology:

The above charts give an illustrative value of the remuneration package each of the executive Directors would receive in the first year of implementation of 2019 Policy as follows:

- Minimum is the base salary for 2020 plus the value of pension contributions and benefits as disclosed in the 2019 single figure table.
- On target is the aforementioned minimum plus an assumed 50% payout of the 2019 Policy maximum annual bonus and 50% vesting of LTIP awards made in 2020.
- Maximum is the aforementioned minimum with an assumed 100% payout of the 2019 maximum annual bonus and full vesting of LTIP awards made in 2020.
- Maximum + share price assumption shows maximum plus a 50% share price appreciation on the shares subject to a vested LTIP award made in 2020.

Directors' remuneration policy continued

Future policy table for Directors

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance target
Base salary	<p>To provide competitive and fixed remuneration.</p> <p>To attract and retain executives of the calibre required to deliver the Company's strategy and enhance earnings over the long term.</p>	<p>The basic salary for each executive Director is normally reviewed annually (effective 1 October) taking into account individual performance and the Group's financial circumstances, as well as pay for all employees in the Group and the external market.</p> <p>Increases in salary above those of the general workforce should only take place infrequently, for example, where there has been a material increase in role responsibility, size of the Company or movement in the external market.</p> <p>On recruitment or promotion to executive Director, the Committee will take into account previous remuneration and pay levels for comparable companies which may lead to salary being set at a higher or lower level than for the previous incumbent.</p>	<p>Executive Directors will normally receive a salary increase in line with the increase awarded to the general workforce. There is no prescribed maximum.</p> <p>Where the Committee has set the salary of a new executive Director at a discount to the market level initially, a series of planned increases may be implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance.</p> <p>Current salary levels are shown in the annual report on remuneration on page 91.</p>	None.
Benefits	<p>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. This is consistent with a culture of safety, sustainability and capability.</p> <p>Car allowances to facilitate effective travel.</p>	<p>Current benefit provision includes:</p> <ul style="list-style-type: none"> → health benefits; → car allowance; → relocation assistance; → life assurance; → group income protection; → all-employee share schemes (e.g. opportunity to join the SIP or SAYE); → travel; → communication costs; and → any reasonable business related expenses can be reimbursed (and any tax thereon met if determined to be a taxable benefit). <p>Executive Directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms and additional benefits might be provided from time to time if the Committee decides payment of such benefits is appropriate and in line with market practice.</p>	<p>There is no defined maximum as the costs of benefits can vary year on year.</p>	Not applicable.
Pension	<p>To attract and retain high calibre executive Directors.</p> <p>To provide a level of benefits that allow for personal retirement planning.</p>	<p>Executive Directors are offered the choice of:</p> <ul style="list-style-type: none"> → a Company contribution into a defined contribution pension scheme; → a cash allowance in lieu of pension; or → a combination of a Company contribution into a defined contribution pension scheme and a cash allowance. 	<p>The maximum Company pension contribution for an executive Director appointed after the date this policy is approved by shareholders will be limited to that available to the wider workforce which is currently 14% of base salary.</p>	Not applicable.

Directors' remuneration report continued

Directors' remuneration policy continued

Future policy table for Directors continued

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance target
Bonus	<p>To incentivise performance against personal objectives and selected financial and operational KPIs which are directly linked to business strategy.</p> <p>Deferral of part of bonus into shares aligns the interests of executive Directors and shareholders.</p>	<p>A maximum of 50% of bonus paid in cash with 50% of the bonus deferred into Company shares under the Deferred Bonus Scheme ('DBS') for a period of at least three years.</p> <p>DBS shares accrue dividend equivalents.</p> <p>Not pensionable.</p> <p>Bonus and DBS awards are subject to 'malus' provisions (and for up to a year following (i) in the case of a cash bonus, payment or (ii) in the case of a DBS award, the end of the relevant deferral period, clawback) in exceptional circumstances, including material misstatement of the Company's audited financial results; an error in the relevant financial information that led to the bonus or DBS award being greater than it otherwise would have been; personal misconduct; serious reputational damage; or a failure of risk management.</p>	<p>Maximum award of up to 150% of salary for the CEO and 125% for other executive Directors.</p>	<p>Payments predominantly based on financial and operational performance, with a minority based on achievement of personal objectives.</p> <p>Targets and weightings are set by reference to the Company's financial and operating plans and the current targets and weightings are shown on page 85.</p> <p>Bonus outcomes are subject to the Committee being satisfied that the Company's performance on the measures is consistent with underlying business performance and individual contribution. The Committee will exercise discretion on bonus outcomes if it deems necessary.</p> <p>100% of maximum bonus opportunity for stretch performance with no more than 50% of maximum for target performance.</p>
Victrex Long Term Incentive Plan 2019 ('LTIP')	<p>Designed to align the strategic objective of delivering sustainable earnings growth over the longer term with the interests of shareholders.</p>	<p>Awards under the LTIP are rights to receive Company shares, subject to certain performance conditions.</p> <p>Each award is measured over at least a three-year performance period.</p> <p>An additional holding period applies after the end of the three-year performance period so that the total vesting and holding period is at least five years.</p> <p>Shares subject to awards may accrue dividend equivalents.</p> <p>LTIP awards are subject to 'malus' provisions (and for up to a year following the end of the relevant holding period, clawback) in exceptional circumstances including material misstatement of the Company's audited financial results; an error in the relevant financial information that led to the award being greater than it otherwise would have been; personal misconduct; serious reputational damage; or a failure of risk management.</p>	<p>The normal maximum award level will be up to 175% of salary per annum in respect of the CEO and 150% for other executive Directors.</p> <p>The overall policy limit is 200% of salary. It is not anticipated that awards above the normal level will be made to current executive Directors and any such increase on an ongoing basis will be subject to prior consultation with major shareholders.</p>	<p>The two performance conditions are TSR and EPS. The weighting for each of these two components is currently 25% TSR and 75% EPS.</p> <p>Targets based on one or more other financial measures linked to the long-term strategy of the business may also be applied, as deemed appropriate by the Committee.</p> <p>The Committee retains discretion to introduce a new performance condition and/or alter the weightings of the measures over the course of the Policy, including to zero.</p> <p>20% of the EPS element and 25% of the TSR element of an award vest at threshold performance (0% vest below this), increasing pro rata to 100% vesting for maximum performance.</p> <p>Any vesting is also subject to the Committee being satisfied that the Company's performance on the measures is consistent with underlying business performance and individual contribution. The Committee will exercise discretion on LTIP outcomes if it deems necessary.</p>

Directors' remuneration policy continued

Future policy table for Directors continued

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance target
<p>Share ownership guidelines</p> <p>(Not part of the approved policy)</p>	To increase alignment between executive Directors and shareholders including for a period post-employment.	<p>Awards made under the DBS on a net of tax basis shall count towards the share ownership guideline and executive Directors are required to retain 50% of the net of tax vested LTIP shares until the guideline is met.</p> <p>The requirement to hold shares for a period post-employment shall be implemented by contractual means.</p>	<p>Minimum of 200% of salary.</p> <p>Executive Directors will also be required to retain shares equivalent to the lower of 200% of salary or their actual shareholding at the time employment ceases. The shares must be held for two years with the Committee having discretion to allow half of the shares to be released after one year.</p>	Not applicable.
<p>Non-executive Directors' fees and benefits</p> <p>(Determined by the Board)</p>	<p>To attract non-executive Directors with a broad range of experience and skills to oversee the development and implementation of our strategy.</p> <p>Reflects anticipated time commitments and responsibilities of each role.</p> <p>Reflects fees paid and benefits provided by comparator companies.</p>	<p>The remuneration policy for the non-executive Directors (with the exception of the Chairman) is set by a separate Committee of the Board. The policy for the Chairman is determined by the Committee (of which the Chairman is not a member).</p> <p>Fees are paid in cash and are reviewed annually considering the salary increase for the general workforce and the level of fees paid by companies of a similar size and complexity. Any changes are normally effective from 1 October.</p> <p>Additional fees are paid in relation to extra responsibilities undertaken, such as chairing certain Board sub-committees, to the Senior Independent non-executive Director and the non-executive Director with designated responsibility for workforce engagement.</p> <p>Non-executive Directors may be eligible for such cash and non-cash benefits as the Company deems appropriate from time to time.</p> <p>In exceptional circumstances, if there is a temporary yet material increase in the time commitments for non-executive Directors, the Board may pay extra fees on a pro-rata basis to recognise the additional workload.</p> <p>No eligibility for bonuses, long-term incentive plans, pension schemes, healthcare arrangements or employee share schemes.</p> <p>The Company pays any reasonable expenses that a non-executive Director incurs in carrying out their duties as a Director, including travel, hospitality related and other modest benefits and any tax liabilities thereon, and the provision of advice relating to any such tax liabilities, if appropriate.</p>	<p>There is no prescribed maximum other than the Company's articles of association containing a limit on the fees that can be paid to non-executive Directors.</p> <p>The Board is guided by the general increase in the market for non-executive Director 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.</p> <p>Current fee levels are set out on page 92.</p>	<p>Not applicable.</p> <p>Non-executive Directors do not participate in variable pay arrangements and do not receive retirement benefits.</p>

Directors' remuneration report continued

Directors' remuneration policy continued

Additional notes to the policy table

Annual bonus and long-term incentives

The Committee will operate the Company's incentive plans according to their respective rules as approved by shareholders and consistent with normal market practice, the Listing Rules and HMRC rules where relevant. These include making awards and setting performance criteria each year, dealing with leavers and adjustments to awards and performance criteria following acquisitions, disposals, changes in share capital and to take account of the impact of other merger and acquisition activity.

The Committee also retains discretion within policy to set different performance criteria and/or alter weightings for the annual bonus plan and long-term incentives, pay dividend equivalents on vested shares under the long-term incentives up to the date those shares can first reasonably be exercised and, in exceptional circumstances, under the rules of the long-term incentive plans to adjust performance conditions to ensure that the awards fulfil their original purposes (for example, if a measure is no longer available). All assessments of performance are ultimately subject to the Committee's judgement. Any discretion exercised, and the rationale, will be disclosed in the annual remuneration report.

Legacy scheme and awards

All historical awards that were granted under any current or previous share schemes operated by the Company and remain outstanding remain eligible to vest based on their original award terms.

Recovery provisions and discretion

As outlined in the policy table the Committee has the power to operate 'malus' and/or clawback provisions in exceptional circumstances, including material misstatement of the Company's audited financial results; an error in the relevant financial information that led to a bonus, DBS or LTIP award being greater than it otherwise would have been; personal misconduct; serious reputational damage; or a failure of risk management. These provisions enable the Committee to reduce future bonus payments, reduce the number of shares under share awards, and/or require an individual to make a payment to the Company.

Statement of consideration of employment conditions elsewhere in the Company

The remuneration approach is consistently applied at levels below the executive Directors. Key features include:

- All employees are eligible for an annual bonus based on Group profit growth.
- Base salary, incentives and benefits are regularly benchmarked for employees.
- All UK roles are eligible for employer pension contributions of up to 14%.
- Employee benefits include 29 days' paid holiday, private medical insurance, income protection, car allowance (where appropriate) and the opportunity to participate in our share plans.
- All new joiners receive share options after successful probation.
- Roles considered critical to the business are eligible for a long-term incentive award.

At senior levels, remuneration is increasingly long term and 'at risk' with an increased emphasis on performance related pay and share-based remuneration.

Although employees are not consulted directly on executive remuneration policy, employee engagement surveys are carried out annually and regular discussion takes place with union representatives on matters of pay and remuneration for employees covered by collective bargaining or consultation arrangements. The Committee takes into account the general base salary increase and remuneration arrangements, including pension provision, for the wider employee population when determining remuneration policy for the executive Directors. Processes are in place for the Committee to review and consider any remuneration related matters that may arise from the activities undertaken by the Board to take account of the 'employee voice', including the non-executive Director with designated responsibility for workforce engagement reporting to the Committee any employee feedback on matters relating to pay and conditions.

Statement of consideration of shareholder views

The Committee has a standard annual agenda item whereby the feedback from shareholders and investor advisory bodies is presented and discussed following the AGM. The Committee Chair is also available for questions at the AGM. This feedback is sought and collated by our Director of Investor Relations & Corporate Communications. The feedback that the Committee receives then informs discussions for the formulation of future policy and subsequent remuneration decisions. The Committee is also regularly updated on the collective views of shareholders and investor advisory bodies by its independent advisor.

As part of the policy renewal process the Committee Chair consulted with major shareholders, as well as proxy voting bodies and shareholder advisory groups. Following high levels of engagement and feedback from major shareholders the final policy proposals included a smaller increase in the maximum LTIP opportunity and the Committee intends to stagger implementation of the increase.

External directorships

The Company accepts that its executive Directors may be invited to become non-executive Directors of other companies outside the Company and exposure to such non-executive duties can broaden experience and knowledge, which would be of benefit to the Company. Any external appointments are subject to Board approval (which would not be given if the proposed appointment was with a competing company, would lead to a material conflict of interest or could have a detrimental effect on a Director's performance). Whether any related fees are retained by the individual or are remitted to the Company will be considered on a case-by-case basis.

Directors' remuneration policy continued

Service contracts and letters of appointment

Each of the executive Directors' service contracts are terminable by either the employing company or the Director on twelve months' notice.

The Chairman and other non-executive Directors have letters of appointment rather than service contracts. Their appointments may be terminated without compensation at any time, subject to a three-month notice period, with the exception of Jane Toogood whose appointment is subject to a one-month notice period. All non-executive Directors are subject to re-election at each AGM.

Copies of executive Directors' service contracts and non-executive Directors' letters of appointment are available for inspection at the Company's registered office during normal hours of business and will be available at the Company's AGM.

Policy on payment for loss of office

The circumstances of termination, the relevant individual's performance and an individual's duty and opportunity to mitigate losses are considered in every case. Our policy is to stop or reduce compensatory payments to former executive Directors to the extent that they receive remuneration from other employment during the compensation period. A robust line on reducing compensation is applied and payments to departing employees may be phased to mitigate loss. Our policy is shown in the table below:

Provision	Summary terms
Compensation for loss of office	<ul style="list-style-type: none"> → An executive Director's service contract may be terminated without notice and without any further payment or compensation, except for sums earned up to the date of termination, on the occurrence of certain contractually specified events such as gross misconduct. → No termination payment if full notice is worked. → Otherwise, a payment in respect of the period of notice not worked of basic salary, plus pension and car allowance for that period. → The termination payment will be paid in monthly instalments over what would have been the period of notice not worked. This will be reduced by the value of any salary, pension contribution and car allowance earned in new paid employment in that period.
Treatment of annual bonus on termination	<ul style="list-style-type: none"> → A time pro-rated bonus may be payable for the period of active service; however, there is no automatic entitlement to payments under the bonus scheme. Any payment is at the discretion of the Committee and is subject to recovery and withholding provisions as detailed in the policy table. → Performance targets would apply in all circumstances.
Treatment of deferred bonus on termination	<ul style="list-style-type: none"> → Determined based on the DBS rules. Full details are available on request. → Deferred bonuses are subject to recovery and withholding provisions as detailed in the policy table. → The default treatment is that any unvested awards will vest with no time pro-rating applying. Awards will normally vest at the time of cessation unless the Committee decides they will vest on a later date.
Treatment of unvested long-term incentives on termination	<ul style="list-style-type: none"> → Determined based on the relevant plan rules. Full details are available on request. → Normally, any unvested awards will lapse on date of cessation of employment (if that occurs during the performance period) unless, in certain prescribed circumstances such as death, disability, mutually agreed retirement or other circumstances at the discretion of the Committee, 'good leaver' status is applied. In these circumstances, awards vest on a time pro-rated basis subject to the satisfaction of relevant performance criteria, with the balance of awards lapsing. The Committee retains the discretion not to time pro-rate if it is inappropriate to do so in particular circumstances. The Committee will consider the individual's performance and the reasons for their departure when determining whether 'good leaver' status can be applied. Awards will normally vest at the time of cessation unless the Committee decides they will vest on a later date.

Directors' remuneration report continued

Directors' remuneration policy continued

Approach to recruitment remuneration

The remuneration package for a new executive Director will be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment and the Committee shall seek to recruit within the parameters of approved policy and on the principle that recruitment remuneration shall be no more than is necessary to secure the services of a preferred candidate.

Base salary

Base salary levels for new executive Directors will be set in accordance with the policy, considering the experience of the individual recruited. Where appropriate, the Committee has the flexibility to set the salary of a new appointee at a discount to the market level initially, with a series of planned increases implemented over the following years to bring the salary to the appropriate market position, subject to individual performance in the role.

Maximum level of variable pay

The maximum level of variable pay which may be awarded to a new executive Director will be 350% of salary (i.e. 150% annual bonus plus 200% LTIP award). These limits will be separate to the value of any buy out arrangement which may be necessary to secure the services of a preferred candidate.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other previously awarded entitlements would continue, and be disclosed in the next annual report on remuneration.

Annual bonus performance conditions

Where a new Director is appointed part way through a financial year, the Committee may set different annual bonus measures and targets for the new executive Director from those used for other executive Directors (for the initial part year only).

Buy out awards

The Committee may offer additional cash and/or share-based elements (on a one-time basis or ongoing) when it considers these to be in the best interests of the Company (and therefore shareholders). Any such payments would be limited to a reasonable estimate of value of remuneration lost when leaving the former employer and would reflect the delivery mechanism (i.e. cash and/or share based), time horizons and whether performance requirements are attached to that remuneration.

Relocation and incidental expenses

The Committee may agree that the Company will meet certain relocation and/or incidental expenses as may be necessary to recruit a preferred candidate and as deemed appropriate by the Committee.

Appointment of non-executive Directors

For the appointment of a new Chairman or non-executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time. Non-executive Directors' fees are set by a separate Committee of the Board; the Chairman's fees are set by the Committee.

Outplacement services, reimbursement of legal costs and any other incidental expenses may be provided where appropriate. Any statutory entitlements or compromise claims in connection with a termination of employment would be paid as necessary. Outstanding savings/shares under all-employee share plans would be transferred in accordance with the terms of the plans as approved by HMRC.

Change of control

On a change of control, executive Directors' incentive awards will be treated in accordance with the rules of the relevant plans. In summary:

- Bonus payments will consider the extent to which the performance measures have been satisfied between the start of the performance period and the date of the change of control, and the value will be pro-rated to reflect the same period.
- Deferred bonuses will generally vest on the date of a change of control, unless the Committee permits (or requires) awards to roll over into equivalent shares in the acquirer.
- LTIP awards will generally vest on the date of a change of control taking into account the extent to which any performance condition has been satisfied at that point. Time pro-rating will normally apply unless the Committee determines otherwise.

Annual report on remuneration

The Remuneration Committee (the 'Committee') presents the Directors' remuneration report, which will be put to shareholders for an advisory (non-binding) vote at the Annual General Meeting to be held on 6 February 2020. The report includes details of the Committee and the pay received during the year in accordance with our current remuneration policy as it was approved at the Annual General Meeting in February 2017 which is available in the Company's 2016 Annual Report.

Members of the Committee during the year

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:

- Janet Ashdown (Remuneration Committee Chair)
- Pamela Kirby
- Jane Toogood
- Brendan Connolly
- David Thomas

Biographical information on the Committee members and details of attendance at the Committee's meetings during the year are set out on pages 48, 49 and 73.

During the year the Committee continued to receive independent advice on Directors' remuneration from Willis Towers Watson who was previously appointed by the Committee following a competitive tender process. Willis Towers Watson is a founding member of the Remuneration Consultants Group and adheres to its Code of Conduct which requires its advice to be objective and impartial.

During the year Willis Towers Watson also supported management with undertakings such as producing the Directors' remuneration report and CEO pay ratio to the extent this did not impact the independence of its advice. Willis Towers Watson does not provide any other services to the Company or individual Directors. The fees paid to Willis Towers Watson for providing advice to the Committee in relation to Directors' remuneration was £50,663 which included fixed fees for planned undertakings and ad-hoc support on a time and expense basis. The Committee is satisfied that the advice it received was objective and independent.

Annual General Meeting voting outcomes

The following table summarises the details of votes cast for and against the 2017 Directors' remuneration policy and the 2018 Directors' remuneration report along with the number of votes withheld. The Committee will continue to consider the views of, and feedback from, shareholders when determining and reporting on remuneration arrangements.

Voting outcome	Votes for	Votes against	Votes withheld
Directors' remuneration policy 2017	63,964,084 (96.22%)	2,511,229 (3.78%)	4,260
Directors' remuneration report 2018	60,767,597 (97.10%)	1,814,434 (2.90%)	423,439

Directors' remuneration report continued

Annual report on remuneration continued

Implementation of the Directors' remuneration policy for the year ended 30 September 2019

A summary of how the Directors' remuneration policy was applied for the year ended 30 September 2019 is set out below.

Remuneration received by Directors for the year ended 30 September 2019 (audited)

	Salary and fees ¹ £	Taxable benefits ² £	Pension ³ £	Annual bonus ⁴ £	Long-term incentives ⁵ £	Total £
J O Sigurdsson						
2019	545,000	103,677	114,995	—	—	763,672
2018	500,000	60,996	104,105	406,250	—	1,071,351
R J Armitage						
2019	360,000	16,328	68,745	—	—	445,073
2018	172,154	7,765	33,043	117,000	—	329,962
T J Cooper						
2019	303,850	15,855	54,708	—	355,515	729,928
2018	295,000	15,823	53,275	177,000	385,701	926,799
M L Court						
2019	298,700	16,328	53,420	—	342,181	710,629
2018	290,000	16,274	52,025	188,500	371,231	918,030
L C Pentz						
2019	196,100	5,500	—	—	—	201,600
2018	189,600	4,380	—	—	—	193,980
J E Ashdown						
2019	58,000	—	—	—	—	58,000
2018	36,956	—	—	—	—	36,956
B W D Connolly						
2019	48,000	—	—	—	—	48,000
2018	30,585	—	—	—	—	30,585
P J Kirby						
2019	55,500	—	—	—	—	55,500
2018	55,500	—	—	—	—	55,500
D Thomas						
2019	58,000	—	—	—	—	58,000
2018	22,456	—	—	—	—	22,456
J E Toogood						
2019	48,000	—	—	—	—	48,000
2018	48,000	—	—	—	—	48,000

The remuneration for executive and non-executive Directors comprising salary (or fees), taxable benefits and bonus was £2.1m (FY 2018: £3.1m including remuneration for D R Hummel, L S Burdett, A J H Dougal and P J M De Smedt).

Notes and additional information**1. Salary and fees**

Note that as a consequence of the Company being near to its Articles' limit on payments it may make to Directors the Chairman, Larry Pentz, agreed to a £400 underpayment of his £190,000 fee in 2018. Following shareholder approval of an increase in the Articles' limit this was subsequently paid in 2019 and added to his £195,700 fee.

Annual report on remuneration continued

Implementation of the Directors' remuneration policy for the year ended 30 September 2019 continued

Notes and additional information continued

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 Jakob Sigurdsson is also included in total taxable benefits.

In addition, Jakob Sigurdsson and Larry 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.

Martin Court and Richard Armitage have opted out of the pension scheme and receive a cash supplement of 12%. Tim Cooper and Jakob 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 (FY 2018: two). None of the Directors are accruing pension benefits under defined benefit schemes (FY 2018: none).

4. Annual bonus payments

The annual bonus was operated on the same basis as last year with 50% subject to a stretching Group profit before tax ('PBT') target and performance against shared strategic (30% weighting) and individual personal performance objectives (20% weighting). No payment is made on any element of bonus (including strategic and personal) if the PBT threshold is not met.

Group financial targets	Maximum (% of salary)	PBT required for threshold bonus £m	PBT required for maximum bonus £m	Actual PBT £m	Actual (% of salary)
J O Sigurdsson	125%	£123.5	£138.6	£104.7	0%
R J Armitage	100%	£123.5	£138.6	£104.7	0%
T J Cooper	100%	£123.5	£138.6	£104.7	0%
M L Court	100%	£123.5	£138.6	£104.7	0%

In addition to financial performance, executive Directors were set a number of stretching strategic and personal performance objectives for 2019, 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 strategic objectives for the executive Directors collectively and of the personal objectives along with key performance highlights is shown below.

Strategic objectives	Key performance highlights
Deliver new product growth	<ul style="list-style-type: none"> → Several new product launches during the year → New revenue generation from the sale of new products
Maximise contributions from existing and incremental products	<ul style="list-style-type: none"> → Polymer roadmap defined; validated initial lab work underway → Increased operational efficiency and effectiveness
People and organisation positioning	<ul style="list-style-type: none"> → Excellent progress against polymer to parts project milestones → Detailed development plans for high potentials
Focus areas for personal objectives	Key performance highlights
Business growth and innovation	<ul style="list-style-type: none"> → Strong progress made following review of global footprint → Continued progress for Brexit readiness
People and organisation	<ul style="list-style-type: none"> → Accidents and incidents tracking below reduction target → Launch of first ever European employee forum
Continuous improvement and cost base	<ul style="list-style-type: none"> → Targeted achievement of cost saving milestones → Opportunities for simplified processes identified
Investor impact and shareholder base	<ul style="list-style-type: none"> → Further build and maintain an effective profile with investors → Progress against strategy for broadening the investor base

Although the Committee determined that strategic and personal objective outcomes for each of the executive Directors ranged between 60% and 80% because the threshold PBT target was not achieved no bonus is payable to executive Directors for the year ended 30 September 2019.

Directors' remuneration report continued

Annual report on remuneration continued

Implementation of the Directors' remuneration policy for the year ended 30 September 2019 continued

Notes and additional information continued

5. Vesting of LTIP awards

The LTIP awards granted on 14 December 2016 were based on performance to the year ended 30 September 2019. 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%	Cumulative EPS to exceed 330p over the three-year period to vest in full. Vesting is reduced to 20% on a pro-rata basis if cumulative EPS is 302p over the three-year period and is reduced to nil if fails to reach 302p.	302.0p	330.0p	352.4p	100.0%
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.	19.8%	54.2%	52.6%	93.2%
Total	100%				Total vesting	98.3%

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 ² £
T J Cooper	8 Dec 2016	8 Dec 2019	15,379	15,117	262	47,165	355,515
M L Court	8 Dec 2016	8 Dec 2019	14,802	14,550	252	45,396	342,181

1 The stated dividend equivalent reflects the notional value, assuming the number of shares to vest are released on 8 December 2019.

2 The estimated value is calculated applying a share price based on an average over the three-month period ended September 2019 (£20.40).

Long-term incentives granted during the year (audited)

On 10 December 2018, the following LTIP awards were granted to executive Directors:

Executive	Type of award	Basis of award	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 ²
J O Sigurdsson	Nil-cost option	125% of salary	£23.026	29,586	£681,247	21.25%	Three financial years to 30 September 2021
R J Armitage	Nil-cost option	100% of salary	£23.026	15,634	£359,988	21.25%	
T J Cooper	Nil-cost option	100% of salary	£23.026	13,195	£303,828	21.25%	
M L Court	Nil-cost option	100% of salary	£23.026	12,972	£298,693	21.25%	

1 The share price at date of grant is the mid-market price quoted over a three-day average on 5, 6 and 7 December 2018 in accordance with the Plan rules.

2 The 2018 LTIP awards were subject to stretching EPS and TSR targets. The EPS element (75% weighting) will vest in full if cumulative EPS exceeds 469.0p over the three-year period. This element of the award is reduced to 20% on a pro-rata basis if cumulative EPS is 418.1p. If cumulative EPS is below 418.1p, then this element of the award will not vest. The TSR element (25% weighting) will vest in full if the Victrex 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. 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.

3 An additional two-year holding period applies after the end of the three-year performance period.

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 financial year 2019 is shown in bold.

Plan	Grant date	Exercise price	No. of share awards at 1 October 2018	Granted during the year	Vested/ exercised during the year	Lapsed during the year	No. of share awards at 30 September 2019	End of performance period	Date from which exercisable	Expiry date
T J Cooper										
LTIP	15/12/2014	nil	2,024	—	1,012	—	1,012	30/09/2017	15/12/2017	15/12/2024
	14/12/2015	nil	15,327	—	3,830	3,838	7,659	30/09/2018	14/12/2018	14/12/2025
	08/12/2016	nil	15,379	—	—	—	15,379	30/09/2019	08/12/2021	08/12/2026
	08/12/2017	nil	11,678	—	—	—	11,678	30/09/2020	08/12/2022	08/12/2027
	10/12/2018	nil	—	13,195	—	—	13,195	30/09/2021	10/12/2023	10/12/2028
SAYE	01/04/2016	£12.66	710	—	710	—	—	n/a	01/04/2019	30/09/2019
	01/04/2018	£21.64	415	—	—	415	—	n/a	01/04/2021	30/09/2021
	01/04/2019	£19.20	—	937	—	—	937	n/a	01/04/2022	30/09/2022
Deferred shares	05/12/2017	nil	2,315	—	—	—	2,315	n/a	05/12/2020	n/a
	10/12/2018	nil	—	1,921	—	—	1,921	n/a	10/12/2021	n/a
M L Court										
LTIP	15/12/2014	nil	1,868	—	934	—	934	30/09/2017	15/12/2017	15/12/2024
	14/12/2015	nil	14,752	—	3,686	3,694	7,372	30/09/2018	14/12/2018	14/12/2025
	08/12/2016	nil	14,802	—	—	—	14,802	30/09/2019	08/12/2021	08/12/2026
	08/12/2017	nil	11,480	—	—	—	11,480	30/09/2020	08/12/2022	08/12/2027
	10/12/2018	nil	—	12,972	—	—	12,972	30/09/2021	10/12/2023	10/12/2028
SAYE	01/04/2016	£12.66	710	—	710	—	—	n/a	01/04/2019	30/09/2019
	01/04/2018	£21.64	415	—	—	—	415	n/a	01/04/2021	30/09/2021
Deferred shares	05/12/2017	nil	2,228	—	—	—	2,228	n/a	05/12/2020	n/a
	10/12/2018	nil	—	2,046	—	—	2,046	n/a	10/12/2021	n/a
J O Sigurdsson										
LTIP	08/12/2017	nil	24,742	—	—	—	24,742	30/09/2020	08/12/2022	08/12/2027
	10/12/2018	nil	—	29,586	—	—	29,586	30/09/2021	10/12/2023	10/12/2028
SAYE	01/04/2018	£21.64	831	—	—	831	—	n/a	01/04/2021	30/09/2021
	01/04/2019	£19.20	—	937	—	—	937	n/a	01/04/2022	30/09/2022
Deferred shares	10/12/2018	nil	—	4,410	—	—	4,410	n/a	10/12/2021	n/a
R J Armitage										
LTIP	16/05/2018	nil	13,574	—	—	—	13,574	30/09/2020	16/05/2023	16/05/2028
	10/12/2018	nil	—	15,634	—	—	15,634	30/09/2021	10/12/2023	10/12/2028
SAYE	01/04/2019	£19.20	—	1,562	—	—	1,562	n/a	01/04/2024	30/09/2024
Deferred shares	10/12/2018	nil	—	1,270	—	—	1,270	n/a	10/12/2021	n/a

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

During the year ended 30 September 2019, 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 £205,745. The gain made by the highest paid Director in 2019 was £106,969 (FY 2018: £1,181,354).

Directors' remuneration report continued

Annual report on remuneration continued

Outstanding share awards continued

Executive	Scheme	Description of options	Number exercised	Gain
T J Cooper	Dec 2014/Dec 2015	LTIP 2009	4,842	106,969
M L Court	Dec 2014/Dec 2015	LTIP 2009	4,620	98,776

Payments to past Directors (audited)

As disclosed at the time of her departure, the 2014 LTIP award that vested following achievement of the relevant performance conditions shortly before Louisa Burdett, our previous Finance Director, ceased employment was subject to a holding period. The second tranche of the shares subject to a holding period was released during the year with a value when released of £27,744.

In addition, Louisa Burdett received a base pay payment of £18,264 in October 2018 in respect of her outstanding notice period.

There were no other payments to past Directors during the year.

Payments for loss of office (audited)

As announced on 24 June 2019, Tim Cooper retired from his executive role and from the Board on 30 September 2019. He will remain employed until the end of his twelve-month notice period on 20 June 2020 (the 'Termination Date') in the capacity of advisor to the CEO and to ensure an appropriate handover and transition throughout this period. The table below sets out details of Tim Cooper's entitlements following his stepping down from the Board. These arrangements comply with the Company's Directors' remuneration policy, which was approved by shareholders at the 2017 AGM.

Element	Value	Note
Base salary	£303,850	Tim Cooper will continue to receive salary at his current rate until the Termination Date payable monthly in arrears. He was not eligible for an increase in respect of 2019/20.
Taxable benefits	£15,855	Tim Cooper's existing benefits, comprising company car, private medical scheme and life assurance, will continue until the Termination Date. The value is that recorded in the single figure table for 30 September 2019. The final value will be determined in accordance with the prevailing tax rules but is not expected to be materially different.
Pension	£54,708	Tim Cooper will continue to 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. The value is that recorded in the single figure table for 30 September 2019. The final value will be determined in accordance with the prevailing HMRC rules but is not expected to be materially different.
Bonus	£nil	Tim Cooper was eligible for a bonus for the year ended 30 September 2019, subject to the satisfaction of applicable performance conditions. No bonus was paid to executive Directors. Tim Cooper will not be eligible for a bonus in respect of the year ending 30 September 2020.
LTIP options	Up to a maximum of 48,923 shares ¹	On his retirement, Tim Cooper will be treated as a good leaver in relation to his outstanding LTIP options. These will become exercisable on the normal vesting dates, subject (in the case of awards granted in 2016, 2017 and 2018) to the achievement of performance conditions and to pro-rating for the elapsed time since the date of grant. ²
Deferred Bonus Plan options	4,236 shares ¹	Tim Cooper will be treated as a good leaver in relation to his outstanding Deferred Bonus Plan options. These will become exercisable on the normal vesting dates.
Sharesave and Share Incentive Plan	Sharesave option over 937 shares 736 shares held in the Share Incentive Plan	Tim Cooper's awards under the Sharesave Plan and Share Incentive Plan will be treated in accordance with the terms of the respective plan rules.

1 On exercise of his LTIP and Deferred Bonus Plan options, Tim Cooper will also be entitled to additional shares of a value determined by reference to the dividends that would have been paid on his vested shares in respect of dividend record dates occurring between the grant date and date of vesting.

Annual report on remuneration continued

Payments for loss of office (audited) continued

2 LTIP awards made in 2014 and 2015 were granted with vesting schedules under which they would vest, subject to the achievement of performance conditions, in three equal tranches on the third, fourth and fifth anniversaries of the date of grant. In accordance with both the Directors' remuneration policy and the rules governing those awards, the Committee assessed the extent to which performance conditions for the 2014 and 2015 LTIP awards were satisfied following the end of the applicable performance period. Based on those assessments, the Committee approved vesting of 22.1% of the 2014 LTIP award and 74.96% of the 2015 LTIP award.

In relation to the 2014 LTIP award, Tim Cooper has exercised the first two tranches and the third tranche (of 1,012) shares will vest on 15 December 2019. In relation to the 2015 LTIP award, he has exercised the first tranche, and the second tranche (of 3,830 shares) will vest on 14 December 2019 and the third tranche (of 3,829) shares will vest on 14 December 2020. The unvested tranches are included in the table above.

Statement of Directors' shareholdings and share interests (audited)

Director	Beneficially owned at 1 October 2018	Beneficially owned at 30 September 2019 ¹	Outstanding LTIP awards at 30 September 2019	Outstanding deferred share awards	Outstanding share awards under all-employee share plans	Shareholding as a % of salary at 30 September 2019
J O Sigurdsson	3,250	11,200	54,328	4,410	937	44
R J Armitage	—	2,000	29,208	1,270	1,562	12
T J Cooper	8,294	11,148	48,923	4,236	937	85
M L Court	1,452	5,604	47,560	4,274	415	40
L C Pentz	4,000	4,000	—	—	—	n/a
P J Kirby	3,000	3,000	—	—	—	n/a
B W D Connolly	—	350	—	—	—	n/a
J E Ashdown	—	—	—	—	—	n/a
D Thomas	—	—	—	—	—	n/a
J E Toogood	—	500	—	—	—	n/a

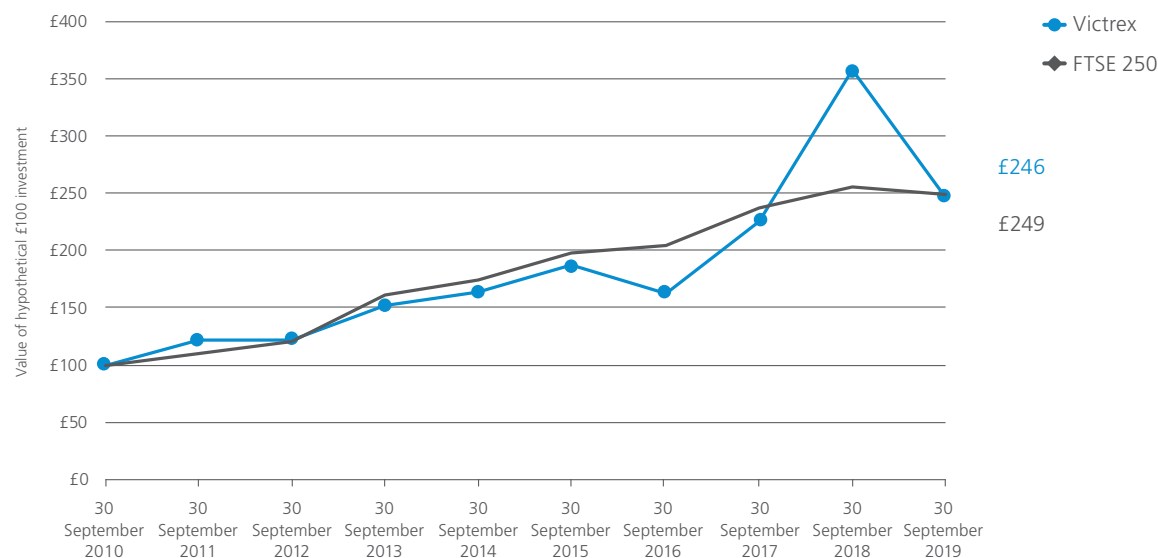
1 The table above includes the holdings of persons connected with each of the Directors. The holdings stated represent shares beneficially held and excludes share options held with the Company.

Martin Court acquired an additional twelve shares during the period from 1 October 2019 to the date of this report through his 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 2019 of £21.58.

Total shareholder return graph

The following graph shows the cumulative total shareholder return of the Company over the last ten 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.

Directors' remuneration report continued

Annual report on remuneration continued

CEO total remuneration

The total remuneration figures for the Chief Executive during each of the last ten 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	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total remuneration	£763,672	£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)	0%	81.25%	97%	—	22.5%	53.1%	— ¹	17.3%	71.5%	81.3%
LTIP vesting (% of maximum)	n/a²	n/a ²	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 Jakob 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 Chief Executive's remuneration

The table below shows the percentage change in the Chief Executive's salary, benefits and annual bonus between the financial years ended 30 September 2018 and 30 September 2019, compared to that of the total amounts for all UK employees of the Group for each of these elements of pay.

	2019	2018	% change
Salary			
Chief Executive	545,000	500,000	9%
UK employee average	45,004	44,034	2%
Benefits			
Chief Executive	103,677	60,996	70%
UK employee average	4,980	4,817	3%
Annual bonus			
Chief Executive	—	406,250	(100%)
UK employee average	—	8,748	(100%)
Average number of UK employees	669	625	

In 2019 to align with new CEO pay ratio reporting, shift disturbance allowance has been included in benefits rather than salary. The 2018 comparatives have been restated on a consistent basis.

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:

	2019 £m	2018 £m	% change
Staff costs	63.9	72.4	-12
Dividends ¹	51.4	51.2	—
Tax	12.3	16.9	-27
Profit for the year attributable to owners of the Parent	92.4	110.6	-16

1 2019 includes a proposed final dividend of 46.14p.

£2.8m (FY 2018: £5.0m) of the staff costs figures relate to pay for the Directors (excluding pension contributions), of which £0.6m relates to the highest paid Director (FY 2018: £1.0m). Total pension contributions were £0.3m (FY 2018: £0.3m) and for the highest paid Director were £0.1m (FY 2018: £0.1m).

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

Annual report on remuneration continued

CEO pay ratio

Ahead of the mandatory reporting requirements we have voluntarily disclosed our UK CEO pay ratio comparing the CEO single total figure of remuneration to the equivalent pay for the lower quartile, median and upper quartile UK employees (calculated on a full-time equivalent basis). The ratios have been calculated in accordance with the Companies (Miscellaneous Reporting) Regulations 2018 which will first formally apply to Victrex from the financial year beginning 1 October 2019.

Financial year	Calculation methodology	CEO pay ratio		
		25th percentile pay ratio	50th percentile (median) pay ratio	75th percentile pay ratio
2019	Option A	17.82	15.91	12.56

Flexibility is provided to adopt one of three methods for calculating the ratios. We have chosen Option A which is a calculation based on the pay of all UK employees on a full-time equivalent basis as this option is considered to be more statistically robust. The ratios are based on total pay and benefits and short-term and long-term incentives applicable for the financial year 1 October 2018 to 30 September 2019. The reference employees at the 25th, 50th and 75th percentile have been determined by reference to the last day of the financial year, 30 September 2019. The estimated value is calculated using a share price based on an average over the three-month period ended September 2019 (£20.40). All items of remuneration for employees have been calculated on the same basis as the single figure.

The regulations require the total pay and benefits and the salary component of total pay and benefits to be set out as follows:

	Base salary	Total pay and benefits
CEO remuneration	£545,000	£763,672
25th percentile employee	£29,779	£42,864
50th percentile employee	£41,000	£48,002
75th percentile employee	£44,703	£60,799

Our principles for pay setting and progression in our wider workforce are the same as for our executives – total reward being sufficiently competitive to attract and retain high calibre individuals without over-paying and providing the opportunity for individual development and career progression. The pay ratios reflect how remuneration arrangements differ as accountability increases for more senior roles within the organisation and in particular the ratios reflect the weighting towards long-term value creation and alignment with shareholder interests for the CEO.

We are satisfied that the median pay ratio voluntarily reported this year is consistent with our wider pay, reward and progression policies for employees. The median reference employee has the opportunity for annual pay increases, annual performance payments and career progression and development opportunities.

Implementation of policy in 2019/20

Salaries and fees

Executive Directors

As reported previously, our CEO, Jakob Sigurdsson, was appointed on a base salary that reflected his experience on appointment with the intention of making phased increases over the first few years of his appointment. Although the Board, and Committee, is pleased with how the CEO continues to develop in the role, it decided to limit the increase in base salary for 2019/20 to that of the UK workforce average, being 2.3%. Our CFO, Richard Armitage, and our CCO, Martin Court, have each taken on additional responsibilities because of Tim Cooper's retirement and his role not being replaced. The Committee therefore approved an increase of 5% for each which includes the increase applied to the wider workforce.

	2020	2019	% increase
J O Sigurdsson	£557,535	£545,000	2.3%
R J Armitage	£378,000	£360,000	5.0%
M L Court	£313,635	£298,700	5.0%

Directors' remuneration report continued

Annual report on remuneration continued

Implementation of policy in 2019/20 continued

Salaries and fees continued

Non-executive Directors

The Company's approach to non-executive Directors' remuneration is set by the Board, with account taken of the time and responsibility involved in each role, including, where applicable, the chairmanship of Board Committees. The Committee approved an increase in the Chairman's fee of 2.5% which is aligned with the average for the global workforce. The Board, considering that non-executive Director fees did not increase last year, approved an increase to the base fee and that for the Senior Independent Director. In addition, recognising the extra time commitment associated with the role of non-executive Director, with designated responsibility for workforce engagement, the Board introduced an additional fee for this role.

Position	2020	2019	% increase
Chairman	£200,593	£195,700	2.5%
Base fee	£50,000	£48,000	4%
Senior Independent Director	£8,500	£7,500	13%
Workforce Engagement Director	£8,000	—	n/a
Audit Committee Chair	£10,000	£10,000	0%
Remuneration Committee Chair	£10,000	£10,000	0%

Annual bonus

Subject to shareholder approval of our new Directors' remuneration policy at the February 2020 AGM, the maximum annual bonus will be 150% of salary for the Chief Executive and 125% of basic salary for the other executive Directors. 50% of any bonus earned will be deferred into shares for three years.

Targets will be a combination of adjusted underlying PBT (weighted at 50%), strategic objectives (weighted at 30%) and an executive's personal performance (weighted at 20%). Profit targets for 2019/20 will be based on adjusted underlying PBT, rather than reported numbers (as in previous years) to ensure performance outcomes are a fair reflection of underlying business performance. Considering the increase in bonus opportunity the Committee has set targets for 2019/20 that require the executive Directors to significantly outperform budgeted adjusted underlying PBT to achieve maximum payout. Furthermore, 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.

The Company believes that this combination of financial, strategic and personal performance objectives reflects the strategic focus on adjusted underlying PBT 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.

Long-term incentives

The Committee will make LTIP awards at the outgoing policy level of 125% for the CEO and 100% for the CFO and CCO in December 2019. Shareholder feedback during consultation on new policy was for a staggered implementation of the increase in LTIP award and subject to shareholder approval at the February 2020 AGM the Committee intends to make a further award of 25% to each of the executive Directors. The extent to which the LTIP awards will vest will continue to 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').

The Committee has set targets based on adjusted EPS based on underlying PBT to provide a more appropriate measure of the underlying performance of the business. However, it retains discretion to adjust the reported number for items it considers fair and reasonable to both executives and shareholders and will provide a full disclosure of any adjustments made and the impact on vesting outcomes when performance is assessed.

The EPS element of an award will require adjusted EPS based on underlying PBT to exceed 395.8 pence over the three-year performance period for full vesting. Awards will vest at 20% for 352.9 pence with no awards vesting if EPS is below this level. In determining the EPS target the Committee considered a range of influencing factors including the strategic plan, the annual budget, analysts' forecasts, economic conditions and the impact the downturn in the Automotive market and headwinds in Consumer Electronics would have on future profitability. Although the targets are lower than prior year due to the ongoing challenges in the end markets of Automotive and Electronics within our Industrial business the Committee believes they are appropriately stretching and require the business to significantly outperform the plan to achieve maximum.

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.

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

Approved by the Board on 5 December 2019

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 2019.

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 45. 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.
Employee engagement	Details of the Company's arrangements for engaging with employees and providing them with information on matters of concern to them are contained on pages 14, 15, 35 and 44 of the Strategic report and in the Section 172 statement on pages 60 and 61, both of which are deemed to form part of this report.
Results and dividends	<p>Group profit before tax for the year was £104.7m (FY 2018: £127.5m).</p> <p>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 2020, will be paid on 21 February 2020 to all shareholders on the register of members as at 6.30pm on 31 January 2020. Together with the interim dividend paid in July 2019, this makes a total regular dividend of 59.56p per ordinary share for the year (FY 2018: 59.56p per ordinary share).</p> <p>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.</p>
Post balance sheet events	There have been no post balance sheet events that either require adjustment to the financial statements or are important in the understanding of the Company's current position, financial performance or results.
Related party transactions	<p>During the year ended 30 September 2019, 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.</p> <p>Details of related party transactions are given in note 20 to the financial statements.</p>
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 304,292 shares were issued in respect of options exercised under employee share schemes. Details of these schemes are summarised in note 18 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	<p>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.</p> <p>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.</p> <p>Shares acquired by employees under employee share schemes rank equally with the other shares in issue and have no special rights.</p>

Directors' report – other statutory information continued

Own shares held	<p>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 19 of the Notice of Annual General Meeting ('AGM') and which can be found on page 141.</p> <p>No market purchases of the Company's own shares were made during the year.</p> <p>A total of 160,037 ordinary shares are held by the EBTs in order to satisfy the exercise of options by Directors under the Company's 2009 and 2019 Long Term Incentive Plan ('LTIP'). No shares were purchased by the EBTs in the financial year to 30 September 2019. The Directors are beneficiaries of the EBTs.</p>																																							
AGM	The Notice of the 2020 AGM of the Company and explanatory notes are given on pages 139 to 147.																																							
Major interests in shares	<p>The following information has been disclosed to the Company on request, in respect of interests in the Company's issued share capital as at 15 November 2019:</p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;">Number of ordinary shares held</th> <th style="text-align: right;">Percentage</th> </tr> </thead> <tbody> <tr> <td>M&G Investment Management Ltd (UK)</td> <td style="text-align: right;">5,143,245</td> <td style="text-align: right;">5.95</td> </tr> <tr> <td>BlackRock Inc</td> <td style="text-align: right;">4,600,815</td> <td style="text-align: right;">5.32</td> </tr> <tr> <td>FMR LLC</td> <td style="text-align: right;">3,849,476</td> <td style="text-align: right;">4.45</td> </tr> <tr> <td>T. Rowe Price Group</td> <td style="text-align: right;">3,838,668</td> <td style="text-align: right;">4.44</td> </tr> <tr> <td>Baillie Gifford & Co Ltd (SC)</td> <td style="text-align: right;">3,508,069</td> <td style="text-align: right;">4.06</td> </tr> <tr> <td>Troy Asset Management (UK)</td> <td style="text-align: right;">3,332,841</td> <td style="text-align: right;">3.85</td> </tr> <tr> <td>Royal London Asset Management Ltd (UK)</td> <td style="text-align: right;">3,288,411</td> <td style="text-align: right;">3.80</td> </tr> <tr> <td>Mondrian Investment Partners Ltd (UK)</td> <td style="text-align: right;">3,275,758</td> <td style="text-align: right;">3.79</td> </tr> <tr> <td>Ameriprise Financial Inc</td> <td style="text-align: right;">3,214,810</td> <td style="text-align: right;">3.72</td> </tr> <tr> <td>The Vanguard Group Inc</td> <td style="text-align: right;">3,145,520</td> <td style="text-align: right;">3.64</td> </tr> <tr> <td>Evenlode Investment Management Ltd (UK)</td> <td style="text-align: right;">3,025,772</td> <td style="text-align: right;">3.50</td> </tr> <tr> <td>Schroders Plc</td> <td style="text-align: right;">2,697,587</td> <td style="text-align: right;">3.12</td> </tr> </tbody> </table> <p>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 15 November 2019.</p>		Number of ordinary shares held	Percentage	M&G Investment Management Ltd (UK)	5,143,245	5.95	BlackRock Inc	4,600,815	5.32	FMR LLC	3,849,476	4.45	T. Rowe Price Group	3,838,668	4.44	Baillie Gifford & Co Ltd (SC)	3,508,069	4.06	Troy Asset Management (UK)	3,332,841	3.85	Royal London Asset Management Ltd (UK)	3,288,411	3.80	Mondrian Investment Partners Ltd (UK)	3,275,758	3.79	Ameriprise Financial Inc	3,214,810	3.72	The Vanguard Group Inc	3,145,520	3.64	Evenlode Investment Management Ltd (UK)	3,025,772	3.50	Schroders Plc	2,697,587	3.12
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Directors	<p>The following served as Directors during the financial year:</p> <ul style="list-style-type: none"> → Larry Pentz → Jakob Sigurdsson → Richard Armitage → Tim Cooper → Martin Court → Pamela Kirby → Jane Toogood → Janet Ashdown → Brendan Connolly → David Thomas <p>Details of the Directors of the Company are given on pages 48 and 49. Details of Directors' interests in shares are provided in the Directors' remuneration report on page 89. Details of Directors are also provided on the Company website, www.victrexplc.com.</p>																																							

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 2019 to allot shares in the Company or to grant rights to subscribe for or to convert any securities into shares in the Company (a) up to a maximum aggregate nominal amount of £287,207 (being approximately one third of the issued share capital prior to that AGM) in any circumstance and (b) a further maximum aggregate nominal amount of £287,207 (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 2020 AGM. At the 2020 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 16 on page 139 of the Notice of Annual General Meeting.

The Directors were empowered at the 2019 AGM to make non-pre-emptive issues for cash up to a maximum aggregate nominal amount of £43,081 (being approximately 5% of the issued share capital prior to that AGM). This power is also due to lapse at the 2020 AGM and shareholders will be asked to grant a similar power (Resolution 17 of the Notice of Annual General Meeting on page 140).

Resolution 18 is in addition to Resolution 17. As supported by the Pre-Emption Group's Statement of Principles, as updated in March 2015, Resolution 18 will enable the Directors to allot shares for cash or sell shares out of treasury up to a further nominal amount of £43,232, representing approximately 5% of the issued ordinary share capital as at 29 November 2019 (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 18, 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 16 to 18 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 2019 AGM under a Special Resolution to make market purchases of the Company's own ordinary shares up to a maximum aggregate number of 8,616,205 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 2020 AGM when it is proposed that shareholders grant a similar authority.

The authority contained in Resolution 19 will expire at the earlier of 31 March 2021 or the conclusion of the 2021 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 19, 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 2019 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 20 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' report – other statutory information continued

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 £600,000.
Conflict of interest duties	Procedures are in place to ensure compliance with the Directors' conflict of interest duties set out in the Companies Act 2006. The Company has complied with these procedures during the year and the Board believes that these procedures operate effectively. During the year, details of any new conflicts or potential conflict matters were submitted to the Board for consideration and, where appropriate, these were approved. Authorised conflict or potential conflict matters will continue to be reviewed by the Board on an annual basis.
Environmental matters	Information on our greenhouse gas emissions required to be disclosed by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 is set out in the Sustainability report on pages 32 to 45. 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 2019 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	There are no significant agreements that take effect, alter or terminate on change of control of the Company following a takeover. 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 page 44. 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 50 to 61. 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	Victrex Manufacturing Limited is a subsidiary of the Company and has branches in Hong Kong and Korea.
Donations	The Group made no political donations in the UK or European Union ('EU') during the year ended 30 September 2019 (FY 2018: £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 93 to 96 and pages 1 to 45 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 93 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 2020 AGM to re-appoint PricewaterhouseCoopers LLP as external auditor for the 2020 financial year.

By order of the Board

Richard Armitage
Chief Financial Officer
5 December 2019

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
Chief Financial Officer
5 December 2019

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 2019 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 2019; the Consolidated income statement, the Consolidated statement of comprehensive income, the Cash flow statements, the Consolidated statement of changes in equity, and the Company statement of changes in equity for the year then ended; 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

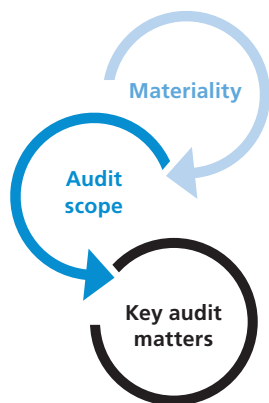
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 the Directors' report, we have provided no non-audit services to the Group or the Company in the period from 1 October 2018 to 30 September 2019.

Our audit approach

Overview



- Overall Group materiality: £5.2 million (2018: £6.4 million), based on 5% of profit before tax and exceptional items.
- Overall Company materiality: £1.8 million (2018: £1.9 million), based on 1% of total assets.
- Of the Group's 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, Victrex Europa GmbH, Victrex USA Inc, Victrex Plc and the consolidation journals, with specified procedures over Invibio Inc.
- The components within the scope of our work accounted for 85% of Group revenue and 84% of Group profit before tax.
- Valuation of the UK defined benefit pension scheme – Refer to page 69 (Audit Committee report), pages 127 to 129 (accounting policy and financial disclosures).
- Valuation of inventories – Refer to page 69 (Audit Committee report), page 122 (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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the Environmental Permitting Regulations that govern chemical manufacturing facilities (see page 39 of the Annual Report), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- reading any key correspondence with regulatory authorities that has taken place in the year;

Report on the audit of the financial statements continued

Our audit approach continued

Capability of the audit in detecting irregularities, including fraud continued

- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations that overstate revenue or understate expenses or are potential fraudulent extractions of cash from the Group; and
- challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the valuation of inventory and the defined benefit pension obligation (see related key audit matters below).

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. Also, 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.

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 69 of the Audit Committee report and pages 127 to 129 of the notes to the financial statements.</p> <p>Significant assumptions are made in valuing the UK's defined benefit pension obligation including in particular the discount rate, inflation rates and the average life expectancy of members. Small changes in the assumptions used could have a significant effect on the financial position of the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> → challenging, with the support of our own actuarial experts, the key assumptions applied against externally derived data and internally developed benchmarks; → considering the adequacy of the Group's disclosures in respect of the sensitivity of the surplus to changes in these assumptions; → assessing the appropriateness of the recognition of the surplus in line with accounting standards; and → testing the validity of pension scheme member data used by the Group's actuary. <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 69 of the Audit Committee report and page 122 of the notes to the financial statements.</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. This process includes assessments of the extent to which actual production levels are within a normal range and the level of variations between actual and standard costs capitalised into inventory at each period end.</p> <p>In addition, inventory provisions are recorded based on specific policies, taking into account batch ageing and quality. 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 the provision percentage to apply to these identified items such that inventory is carried at the lower of cost and net realisable value.</p>	<p>To assess the appropriateness of the valuation of stock we have performed the following:</p> <ul style="list-style-type: none"> → 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 four years; → we have understood and tested the application of Group's policy for capitalisation of manufacturing variances in relation to production output; → we have compared inventory levels to historical sales data to challenge whether slow moving and obsolete inventories have been appropriately identified; → we have tested post year-end sales in order to be comfortable that inventory items are held at the lower of cost and net realisable value; → 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; and → 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>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.

Independent auditors' report to the members of Victrex plc continued

Report on the audit of the financial statements continued

Our audit approach continued

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.

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	£5.2 million (2018: £6.4 million).	£1.8 million (2018: £1.9 million).
How we determined it	5% of profit before tax and exceptional items.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, profit before tax and exceptional items is the primary measure used by the Directors 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 Directors 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 £1.8 million and £5.0 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) (2018: £0.3 million) and £0.1 million (Company audit) (2018: £0.1 million) 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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
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 2019 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 30 and 31 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 30 and 31 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. (Listing Rules)

Other Code Provisions

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

- The statement given by the Directors, on page 97, 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 69 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, 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. The period of total uninterrupted engagement is two years, covering the years ended 30 September 2018 to 30 September 2019.

Ian Morrison (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Manchester

5 December 2019

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FINANCIAL STATEMENTS

Consolidated income statement

for the year ended 30 September

	Note	2019 £m	2018 £m
Revenue	2	294.0	326.0
Losses on foreign currency net hedging		(5.9)	—
Cost of sales	3	(111.8)	(118.0)
Gross profit		176.3	208.0
Sales, marketing and administrative expenses	3	(72.2)	(81.1)
Operating profit before exceptional items		105.6	126.9
Exceptional items		(1.5)	—
Operating profit	2	104.1	126.9
Financial income		0.7	0.6
Share of loss of associate		(0.1)	—
Profit before tax and exceptional items		106.2	127.5
Exceptional items	3	(1.5)	—
Profit before tax		104.7	127.5
Income tax expense	6	(12.3)	(16.9)
Profit for the year attributable to owners of the Parent		92.4	110.6
Earnings per share			
Basic	7	107.2p	128.8p
Diluted	7	106.9p	128.2p
Dividend per ordinary share			
Interim	19	13.42p	13.42p
Final	19	46.14p	46.14p
Special	19	—	82.68p
	19	59.56p	142.24p

A final dividend in respect of 2019 of 46.14p has been recommended by the Directors for approval at the Annual General Meeting in February 2020.

Consolidated statement of comprehensive income

for the year ended 30 September

	Note	2019 £m	2018 £m
Profit for the year		92.4	110.6
Items that will not be reclassified to profit or loss			
Defined benefit pension schemes' actuarial (losses)/gains	15	(5.9)	5.6
Income tax on items that will not be reclassified to profit or loss	6	1.0	(0.9)
		(4.9)	4.7
Items that may be reclassified subsequently to profit or loss			
Currency translation differences for foreign operations		2.7	1.1
Effective portion of changes in fair value of cash flow hedges		(7.5)	(4.6)
Net change in fair value of cash flow hedges transferred to profit or loss		5.9	(4.3)
Income tax on items that may be reclassified to profit or loss	6	0.3	2.0
		1.4	(5.8)
Total other comprehensive expense for the year		(3.5)	(1.1)
Total comprehensive income for the year attributable to owners of the Parent		88.9	109.5

Balance sheets

as at 30 September

	Note	Group		Company	
		2019 £m	2018 £m	2019 £m	Restated (note 23) 2018 £m
Assets					
Non-current assets					
Property, plant and equipment	8	260.8	253.4	—	—
Intangible assets	9	27.4	27.6	—	—
Investment in subsidiaries	10	—	—	131.9	131.9
Investment in associated undertakings	10	8.2	—	—	—
Financial assets held at fair value through profit and loss	10	8.0	4.5	—	—
Deferred tax assets	11	10.5	7.2	—	—
Retirement benefit asset	15	9.1	13.5	—	—
		324.0	306.2	131.9	131.9
Current assets					
Inventories	12	92.2	69.3	—	—
Current income tax assets		0.7	0.1	—	—
Trade and other receivables	13	45.0	42.7	39.0	53.2
Derivative financial instruments	14	1.5	1.1	—	—
Other financial assets	14	0.3	73.2	—	—
Cash and cash equivalents	14	72.5	71.2	—	—
		212.2	257.6	39.0	53.2
Total assets		536.2	563.8	170.9	185.1
Liabilities					
Non-current liabilities					
Deferred tax liabilities	11	(21.6)	(22.5)	—	—
		(21.6)	(22.5)	—	—
Current liabilities					
Derivative financial instruments	14	(12.6)	(9.3)	—	—
Current income tax liabilities		(10.3)	(5.3)	—	—
Trade and other payables	16	(30.1)	(36.8)	—	—
		(53.0)	(51.4)	—	—
Total liabilities		(74.6)	(73.9)	—	—
Net assets		461.6	489.9	170.9	185.1
Equity					
Share capital	19	0.9	0.9	0.9	0.9
Share premium	19	52.3	48.0	52.3	48.0
Translation reserve	19	6.5	3.8	—	—
Hedging reserve	19	(4.7)	(3.4)	—	—
Retained earnings ¹	19	406.6	440.6	117.7	136.2
Total equity attributable to owners of the Parent		461.6	489.9	170.9	185.1

1 The profit for the financial year dealt with in the financial statements of the Company is £101.8m, which includes dividends from subsidiaries of £103.5m (FY 2018: profit of £104.0m, which includes dividends from subsidiaries of £104.4m).

These financial statements of Victrex plc on pages 104 to 136, registered number 2793780, were approved by the Board of Directors on 5 December 2019 and were signed on its behalf by:

Jakob Sigurdsson
Chief Executive Officer

Richard Armitage
Chief Financial Officer

Cash flow statements

for the year ended 30 September

	Note	Group		Company	
		2019 £m	2018 £m	2019 £m	2018 £m
Profit after tax for the year		92.4	110.6	101.8	104.0
Income tax expense	6	12.3	16.9	—	—
Financial income		(0.7)	(0.6)	—	—
Share of loss of associate		0.1	—	—	—
Dividends received from subsidiaries		—	—	(103.5)	(104.4)
Operating profit/(loss)		104.1	126.9	(1.7)	(0.4)
Adjustments for:					
Depreciation	8	15.1	15.3	—	—
Amortisation	9	2.3	2.7	—	—
Loss on disposal of non-current assets	8	0.1	0.7	—	—
Increase in inventories		(21.0)	(7.1)	—	—
(Increase)/decrease in receivables		(2.6)	(5.6)	14.2	16.9
(Decrease)/increase in payables		(9.3)	1.9	—	—
Equity-settled share-based payment transactions	18	2.1	2.6	2.1	—
Losses on derivatives recognised in income statement that have not yet settled	14	1.0	2.6	—	—
Retirement benefit obligations charge less contributions		(1.5)	(4.2)	—	—
Cash generated from operations		90.3	135.8	14.6	16.5
Interest received		0.7	0.6	—	—
Tax paid		(10.9)	(7.4)	—	—
Net cash flow generated from operating activities		80.1	129.0	14.6	16.5
Cash flows from investing activities					
Acquisition of property, plant and equipment and intangible assets		(22.7)	(9.9)	—	—
Decrease/(increase) in other financial assets	14	72.9	(73.2)	—	—
Dividends received		—	—	103.5	104.4
Cash received from investments	10	—	5.5	—	—
Increase in investment in subsidiaries	10	—	—	—	(20.3)
Cash consideration of acquisitions of associated undertakings and unquoted investments		(11.8)	—	—	—
Net cash flow generated from/(used in) investing activities		38.4	(77.6)	103.5	84.1
Cash flows used in financing activities					
Proceeds from issue of ordinary shares exercised under option	19	4.3	5.0	4.3	5.0
Dividends paid	19	(122.4)	(105.6)	(122.4)	(105.6)
Net cash flow used in financing activities		(118.1)	(100.6)	(118.1)	(100.6)
Net increase/(decrease) in cash and cash equivalents		0.4	(49.2)	—	—
Effect of exchange rate fluctuations on cash held		0.9	0.3	—	—
Cash and cash equivalents at beginning of year		71.2	120.1	—	—
Cash and cash equivalents at end of year		72.5	71.2	—	—

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 2017		0.9	43.0	2.7	3.8	428.0	478.4
Total comprehensive income for the year							
Profit for the year		—	—	—	—	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)	6	—	—	—	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
Total comprehensive income for the year							
Profit for the year		—	—	—	—	92.4	92.4
Other comprehensive income/(expense)							
Currency translation differences for foreign operations		—	—	2.7	—	—	2.7
Effective portion of changes in fair value of cash flow hedges		—	—	—	(7.5)	—	(7.5)
Net change in fair value of cash flow hedges transferred to profit or loss		—	—	—	5.9	—	5.9
Defined benefit pension schemes' actuarial losses	15	—	—	—	—	(5.9)	(5.9)
Tax on other comprehensive income	6	—	—	—	0.3	1.0	1.3
Total other comprehensive income/(expense) for the year		—	—	2.7	(1.3)	(4.9)	(3.5)
Total comprehensive income/(expense) for the year		—	—	2.7	(1.3)	87.5	88.9
Contributions by and distributions to owners of the Company							
Share options exercised	19	—	4.3	—	—	—	4.3
Equity-settled share-based payment transactions	18	—	—	—	—	2.1	2.1
Tax on share-based payment transactions	6	—	—	—	—	(1.2)	(1.2)
Dividends to shareholders	19	—	—	—	—	(122.4)	(122.4)
Equity at 30 September 2019		0.9	52.3	6.5	(4.7)	406.6	461.6

Company statement of changes in equity

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total £m
Equity at 1 October 2017		0.9	43.0	135.2	179.1
Total comprehensive income for the year					
Profit for the year (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
Total comprehensive income for the year					
Profit for the year (includes dividends from subsidiaries of £103.5m)		—	—	101.8	101.8
Contributions by and distributions to owners of the Company					
Share options exercised	19	—	4.3	—	4.3
Equity-settled share-based payment transactions	18	—	—	2.1	2.1
Dividends to shareholders	19	—	—	(122.4)	(122.4)
Equity at 30 September 2019		0.9	52.3	117.7	170.9

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 2019 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 5 December 2019.

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 45. 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 was extended in October 2019 through to October 2024. This facility was undrawn at 30 September 2019 and remained undrawn at 5 December 2019 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 2020 and longer-term strategic forecasts and plans including consideration of the principal risks faced by the Company, as detailed on pages 27 to 31. 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.

Unless a change has been required by adoption of new standards, 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.

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.

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 within the next twelve months.

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 is post-employment benefits (see note 15). The Group has considered other estimates and assumptions that, whilst not deemed to represent a significant risk of material adjustment, do represent important estimates at 30 September 2019 and are disclosed accordingly. The valuation of inventory (see note 12) is disclosed as an other estimate in the current year.

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 are included within the relevant notes. Critical judgements and key sources of estimation uncertainty can be identified throughout the notes by the following symbol . 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.

Notes to the financial statements continued

1. Basis of preparation continued**New accounting standards and amendments to existing standards****Standards effective from 1 October 2018**

On 1 October 2018 the Group adopted IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments. The details of the impact of adoption are provided below.

In addition, a number of other new standards and amendments to existing standards were effective for the financial year ended 30 September 2019, which included:

- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 – Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts
- Annual Improvements to IFRSs – 2014–2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

Standards effective from 1 October 2019 onwards

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 16 – Leases. Additional information of the impact of this standard is described below.
- IFRIC 23 – Uncertainty over Tax Treatments
- IFRS 17 – Insurance Contracts
- Annual Improvements to IFRSs – 2015–2017 Cycle
- Amendments to IAS 28 – Long-term Investments in Associates and Joint Ventures
- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

Excluding IFRS 16, none of these are expected to have a material impact on the Group's consolidated result or financial position.

IFRS 9 – Financial Instruments

This standard was adopted by the Group on 1 October 2018, using the modified retrospective approach. This standard replaces IAS 39 – Recognition and Measurement. The main changes the new standard introduces are:

- a 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.

The main impacts for the Group of adopting IFRS 9 have been:

- (1) The Group's approach to currency hedging meets the criteria to be net hedged under IFRS 9. In accordance with IFRS 9, this has resulted 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 items are, therefore, now recognised at the exchange rate prevailing at the date of the transaction. For the year ended 30 September 2019, a loss of £5.9m has been recognised separately and note 21 provides the average exchange rates applied. The revised presentation will potentially result in an increase in gross margin percentage volatility.

The Group has applied this change prospectively and used 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. Accordingly, no adjustment to the comparative is required.

- (2) Revision of the Group's existing incurred loss provisioning model for its trade receivables to the required expected credit loss model. The Group has applied the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the trade receivables. The resulting reassessment of the existing provisions on adoption was highly immaterial on the net assets of the Group. As such no modified retrospective adjustment has been recognised to the opening balance sheet as at 1 October 2018, with the impact of moving to the expected credit loss model being included in the income statement in the current period.

It is noted that cash and deposits are also subject to the impairment requirements of IFRS 9; however, there was no identified impairment loss on these balances.

There has been 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 was adopted by the Group on 1 October 2018, using the modified retrospective approach. IFRS 15 provides a principles-based approach for revenue recognition, and as previously reported based on the detailed assessment performed, there has been 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).

1. Basis of preparation continued

New accounting standards and amendments to existing standards continued

IFRS 15 – Revenue from Contracts with Customers continued

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 IFRS 15 the Group must now recognise revenue when the performance obligation is satisfied and therefore revenue recognition is at the point when the material is sold by the Group for all new MUP contracts. For existing MUP contracts in place on 1 October 2018, due to the material to which the MUP relates not being disclosed by the customer until there is an onward sale, any assessment of the value of revenue to be accelerated on adoption is judgemental. Consequently following a detailed assessment, the Directors 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 has been made and no revenue has been accelerated.

IFRS 16 – Leases

This 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 new standard eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. The main changes arising on the adoption of IFRS 16 will be an increase in interest-bearing borrowings and non-current assets due to obligations to make future payments under leases that are currently classified as operating leases being recognised in the Statement of financial position, along with the related 'right of use' ('ROU') asset.

There will be a reduction in expenditure in operating expenses (within cost of sales and sales, marketing and administrative costs) and an increase in finance expenses as operating lease costs are replaced with depreciation and lease interest expense. The Group has opted to use the practical expedients in respect of leases of less than twelve months' duration and low value assets, excluding them from the scope of IFRS 16. Rental payments associated with these leases will continue to be recognised in the income statement on a straight line basis over the life of the lease.

The adoption of IFRS 16 will require the Group to make several judgements, estimates and assumptions, which include:

- 1) The approach to be adopted on transition** – the Group will use the modified retrospective transition method. Lease liabilities will be determined based on the appropriate incremental borrowing rates and rates of exchange at the date of transition, being 1 October 2019. ROU asset values will be measured based on the respective lease liabilities.
- 2) Incremental borrowing rates** – the rates used on transition are the Group's incremental borrowing rates which have been calculated based on the underlying lease terms and types of asset. The risk-free rate component has been based on LIBOR rates available in the same currency and over the same lease term. The incremental borrowing rate used is in the range 0.65% to 3.95%, with an average of 2.44%.
- 3) Estimated lease term** – the term of each lease will be based on the original lease term unless management is reasonably certain that it will exercise options to extend the lease.

The Directors have carried out a detailed assessment of the impact of IFRS 16. At transition, ROU assets and lease liabilities of approximately £9.0m will be created. The income statement for the year ended 30 September 2019 would be adversely impacted at a profit before tax level of approximately £0.1m.

In the financial statements for the year ended 30 September 2018, the Directors estimated that the lease liability at transition would be £6.5m. The estimate has increased because of rent review increases and new property leases.

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 2019 £m	Medical 2019 £m	Group 2019 £m	Industrial 2018 £m	Medical 2018 £m	Group 2018 £m
Revenue from external sales	236.3	57.7	294.0	270.4	55.6	326.0
Segment gross profit	128.2	48.1	176.3	158.6	49.4	208.0
Sales, marketing and administrative expenses			(72.2)			(81.1)
Operating profit			104.1			126.9
Net financing income			0.7			0.6
Share of loss of associate			(0.1)			—
Profit before tax			104.7			127.5
Income tax			(12.3)			(16.9)
Profit for the year attributable to owners of the Parent			92.4			110.6

Transactions between segments are at arm's length.

Notes to the financial statements continued

2. Segment reporting continued

Entity-wide disclosures

Revenue recognition

Revenue in both segments 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 all performance obligations are met, which is when the goods are dispatched or delivered in line with Incoterms. Revenue from Medical Unit Payments ('MUPs') is a form of variable consideration where all performance obligations have been met when the material is sold by the Group. The initial value of the MUP recognised is based on management's best estimate of the value that will flow to the Group only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. This will be adjusted as appropriate, with a final adjustment being made in the period the final declaration is made.

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.

The Group has taken advantage of the expedient allowed in IFRS 15 (121b) not to disclose information about its remaining performance obligations because the Group only recognises revenue on the satisfaction of performance obligations.

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					
	Industrial £m	Medical £m	2019 £m	Industrial £m	Medical £m	2018 £m
United Kingdom	3.9	0.1	4.0	6.0	—	6.0
Europe, the Middle East and Africa ('EMEA')	108.1	15.4	123.5	123.5	15.5	139.0
Americas	57.2	32.2	89.4	58.4	34.5	92.9
Asia-Pacific	67.1	10.0	77.1	82.5	5.6	88.1
	236.3	57.7	294.0	270.4	55.6	326.0

Information about major customers

In the current year no customer contributed more than 10% to Group revenue (FY 2018: one customer in the Industrial segment accounted for 10.1% of Group revenue).

3. Expenses by nature

	Note	2019 £m	2018 £m
Staff costs	5	63.9	72.4
Depreciation of property, plant and equipment	8	15.1	15.3
Loss on disposal of non-current assets	8	0.1	0.7
Operating lease rentals	8	1.8	1.7
Amortisation of intangibles	9	2.3	2.7
Trade receivable impairment allowance	14	0.2	0.2
Research & Development expenditure	9	18.0	17.4
Inventory written down during the year		1.6	0.8
Reversal of write down of inventories		(2.6)	(1.3)
Other costs of manufacture		72.8	79.1
Other sales, marketing and administrative expenses		10.8	10.1
		184.0	199.1

During the year the Group wrote down inventory by £1.6m (FY 2018: £0.8m) and reversed previously written down inventory by £2.6m (FY 2018: £1.3m) resulting in a net reduction of £1.0m (FY 2018: £0.5m). Victrex continues to focus on driving down aged and non-conforming product by working with suppliers and customers, reworking and repackaging product to realise value from this inventory. Included in the movement was a reduction of £0.5m in provisions for engineering spares following a specific project to review and rationalise engineering spares stores.

Exceptional items

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

3. Expenses by nature continued

Exceptional items were as follows:

	2019 £m	2018 £m
Included within sales, marketing and administrative expenses:		
Acquisition related costs	1.5	—
Exceptional items before tax	1.5	—
Tax on exceptional items	(0.1)	—
Exceptional items after tax	1.4	—

Acquisition and investment related costs

Acquisition related costs comprise legal and other non-recurring costs the Group has incurred directly in the course of acquisition and investment activity (see note 10). These costs are largely non-deductible expenses for tax purposes.

4. Fees payable to auditors

Auditors' remuneration was as follows:

	2019 £000	2018 £000
Audit services relating to:		
– Victrex plc and Group consolidation	77	47
– The Company's subsidiaries, pursuant to legislation	114	114
	191	161
Non-audit services relating to:		
– Interim review	16	16
– Other services	6	10
	22	26
	213	187

5. Staff costs

	Note	2019 £m	2018 £m
Wages and salaries		51.2	58.7
Social security costs		5.2	6.1
Defined contribution pension schemes		5.8	5.2
Defined benefit pension schemes	15	(0.4)	(0.2)
Equity-settled share-based payment transactions	18	2.1	2.6
		63.9	72.4

Detailed disclosures that form part of these financial statements are given in the Directors' remuneration report on pages 72 to 92.

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

	2019 Number	2018 Number
Make	551	493
Develop, market and sell	289	250
Support	133	131
	973	874

There are no people employed by the Company (FY 2018: none).

Notes to the financial statements continued

6. 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 judges 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.

	Note	2019 £m	2018 £m
Current tax			
UK corporation tax on profits for the year		14.7	13.0
Overseas tax on profits for the year		1.5	3.1
		16.2	16.1
Deferred tax			
Origination and reversal of temporary differences	11	(3.9)	2.0
		(3.9)	2.0
Tax adjustments relating to prior years:			
Corporation tax		0.4	(1.1)
Deferred tax		(0.4)	(0.1)
Total tax expense in income statement		12.3	16.9

Reconciliation of effective tax rate

	2019		2018	
	%	£m	%	£m
Profit before tax		104.7		127.5
Tax expense at UK corporation tax rate	19.0	19.9	19.0	24.2
Effects of:				
– Expenses not deductible for tax purposes		1.0		0.7
– Higher rates of tax on overseas earnings		0.8		1.4
– UK Research & Development tax credits and other allowances		(0.5)		(0.5)
– Tax adjustments relating to prior years		—		(1.2)
– Difference in rates between deferred tax and corporation tax		(1.3)		0.3
– Patent Box deduction		(7.6)		(8.0)
Effective tax rate and total tax expense	11.7	12.3	13.3	16.9

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2017 (on 6 September 2016). These include a reduction 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% (FY 2018: 17%), being the UK tax rate effective from 1 April 2020. For overseas assets/liabilities the corresponding overseas tax rate has been applied.

6. Income tax expense continued

Tax components of other comprehensive income

	2019 £m	2018 £m
Tax on items that will not be reclassified to the income statement:		
Defined benefit pension schemes' actuarial losses/(gains)	1.0	(0.9)
Tax on items that have or may be subsequently reclassified to the income statement:		
Fair value of cash flow hedges	0.3	1.7
Equity-settled share-based payment transactions ¹	—	0.3
	1.3	1.1
Current tax credit	0.3	1.7
Deferred tax credit/(charge)	1.0	(0.6)
	1.3	1.1
Tax credit recognised directly in equity		
	2019 £m	2018 £m
Equity-settled share-based payment transactions ¹	1.2	—
	1.2	—

1 Tax on equity-settled share-based payment transactions has been recognised directly in equity in the current year, in line with the associated costs. The prior year comparative of £0.3m has not been restated on the grounds of materiality.

7. 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).

	2019	2018
Earnings per share – basic	107.2p	128.8p
– diluted	106.9p	128.2p
Profit for the financial year	£92.4m	£110.6m
Weighted average number of shares used:		
– Issued ordinary shares at beginning of year	86,153,196	85,864,468
– Effect of own shares held	(160,037)	(174,813)
– Effect of shares issued during the year	147,718	167,610
Basic weighted average number of shares	86,140,877	85,857,265
Effect of share options	277,243	442,381
Diluted weighted average number of shares	86,418,120	86,299,646

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.

Notes to the financial statements continued

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 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
Exchange differences	0.1	0.4	—	0.1	0.1	0.7
Additions	0.9	5.3	—	—	15.9	22.1
Disposals	—	(2.0)	(1.5)	—	—	(3.5)
Reclassification	0.3	12.0	0.8	—	(13.1)	—
At 30 September 2019	60.0	330.2	6.5	3.8	11.7	412.2
Accumulated depreciation						
At 1 October 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
Exchange differences	—	0.1	—	0.1	—	0.2
Disposals	—	(1.9)	(1.5)	—	—	(3.4)
Depreciation charge	1.7	12.5	0.7	0.2	—	15.1
At 30 September 2019	12.8	129.7	5.4	3.5	—	151.4
Carrying amounts						
At 30 September 2019	47.2	200.5	1.1	0.3	11.7	260.8
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

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.

There is no fully depreciated property, plant and equipment that is still in use (FY 2018: nil). The fair value of property, plant and equipment is not materially different to its carrying value.

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	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
As at 30 September						
Not later than one year	1.4	1.1	0.3	0.4	1.7	1.5
Later than one year but not later than five years	3.8	3.4	0.2	0.4	4.0	3.8
Later than five years	3.3	2.3	—	—	3.3	2.3
	8.5	6.8	0.5	0.8	9.0	7.6

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

Operating lease rentals of £1.8m (FY 2018: £1.7m) relating to the lease of property, plant and equipment are included in the income statement (see note 3).

9. Intangible assets

Goodwill

Goodwill arising on the acquisition of businesses 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 sales, marketing and administrative expenses in 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 2017	14.3	13.9	2.0	0.7	3.2	34.1
Additions	—	0.1	—	—	—	0.1
Disposals	—	(0.4)	—	—	—	(0.4)
At 30 September 2018	14.3	13.6	2.0	0.7	3.2	33.8
Additions	—	0.2	—	—	1.9	2.1
Reclassification	—	0.4	—	—	(0.4)	—
At 30 September 2019	14.3	14.2	2.0	0.7	4.7	35.9
Accumulated amortisation						
At 1 October 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
Amortisation charge	—	1.9	0.3	0.1	—	2.3
At 30 September 2019	—	6.9	1.3	0.3	—	8.5
Carrying amounts						
At 30 September 2019	14.3	7.3	0.7	0.4	4.7	27.4
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

Computer software is an internally generated intangible asset. The average remaining useful life is four years.

Notes to the financial statements continued

9. Intangible assets continued

Goodwill recognised is assessed for impairment against discounted future cash flow projections for the relevant CGU (value in use model). Management has prepared cash flow projections for a five-year period derived from the approved budget for the 2020 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. In measuring these assumptions, the Directors have taken into account:

- expected demand in the markets and geographies within which the Group operates, including industry trends and external market forecasts;
- operating profits, based on historical experience of operating margins including changes to the price of raw material and utility costs and production volumes;
- the timing and cost of major capital projects; and
- cash conversion, based on historical rates.

Consideration has been given to the impact of Brexit on the underlying forecasts. There continues to be a wide range of possible outcomes, therefore, given the level of headroom noted below, no specific adjustments have been made.

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.

Goodwill is split between the two CGUs: Industrial £12.8m (FY 2018: £12.8m) and Medical £1.5m (FY 2018: £1.5m).

The goodwill and other intangible assets that relate to the Industrial cash-generating unit include Kleiss Gears, Zyex and TxV which 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% (FY 2018: 2.0%) which reflects the long-term inflation rates in the main territories within which the Group operates, and the risk-adjusted pre-tax discount rate was 9.6% (FY 2018: 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 £18.0m (FY 2018: £17.4m) was expensed to the income statement in the year within sales, marketing and administrative expenses. No development expenditure met the criteria to be capitalised (FY 2018: same).

10. Investments**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 from its involvement with the investee and can affect those returns through its power over the investee. This can be determined either by the Group's ownership percentage, or by the terms of the shareholder agreement. 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.

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. If 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.

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.

Investment in subsidiaries

Investments in subsidiaries are stated at cost less any impairment in the value of the investment.

10. Investments continued

Basis of consolidation continued

Investment in associated undertakings

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but where the Group does not have control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Investments in associates are carried in the Consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of the investment. Any goodwill recognised on acquisition is included in the carrying values of the investment.

The Group's share of the post-tax profits/(losses) of associates is included in the Consolidated income statement. If the Group's share of losses in an associate equals or exceeds its investment in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations to do so or made payments on behalf of the associate. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity.

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.

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.

Financial assets held at fair value through the profit and loss

Investments in unquoted companies are initially carried at fair value, where neither control nor significant influence is held. The initial fair value is deemed to be cost where transactions are at arm's length. They are remeasured at subsequent reporting dates to fair value with any changes recognised directly in the income statement. For investments in unquoted companies, cost will continue to be used as a proxy for fair value where more recent information is insufficient to determine fair value or there is a wide range of possible fair value measurements, and cost represents the best estimate in that range, 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.

Group

	Investment in associates £m	Financial assets held at fair value through profit and loss £m	Total £m
Cost and carrying value			
At 1 October 2018	—	4.5	4.5
Investment in Surface Generation Limited (1)	—	3.5	3.5
Investment in Bond 3D High Performance Technology BV (2)	8.3	—	8.3
Group's share of loss of Bond 3D High Performance Technology BV	(0.1)	—	(0.1)
At 30 September 2019	8.2	8.0	16.2
Magma Global Limited	—	4.5	4.5
Surface Generation Limited	—	3.5	3.5
Bond 3D High Performance Technology BV	8.2	—	8.2
At 30 September 2019	8.2	8.0	16.2

(1) Surface Generation Limited

On 22 December 2018, the Group acquired a minority equity interest of 16% in UK-based Surface Generation Limited ('Surface Generation'), for a cash consideration of £3.5m.

This strategic investment is in line with the Group's Polymer & Parts Strategy and sees Victrex forming a partnership with Surface Generation utilising potentially state of the art manufacturing processes, which will support Victrex's mega-programmes. The PtFS (Production to Functional Specification) technology Surface Generation has offers the potential for enhanced manufacturing effectiveness beyond standard moulding technology, including driving reductions in energy consumption and cycle times required to process the most complex material and part combinations.

Notes to the financial statements continued

10. Investments continued

Group continued

(2) Bond 3D High Performance Technology BV

On 22 December 2018, the Group invested an initial €2.720m via a convertible loan in Bond 3D High Performance Technology BV ('Bond').

Bond is a company incorporated in the Netherlands, developing unique, protectable 3D printing (additive manufacturing) processes which are capable of producing high strength parts from existing grades of PEEK and PAEK polymers. The investment offers the potential of utilising this technology to help accelerate the market adoption of 3D printed PEEK parts, with particular emphasis on the Medical market.

Following successful completion of technical milestones, the Group made a further convertible loan of €1.175m on 1 April 2019. On 24 May 2019, it was agreed that technical validation had been achieved and therefore these loans were converted into equity, along with a further investment made of €5.5m. This resulted in the Group's shareholding being 17.2% at 30 September 2019.

Additional investment is anticipated over the subsequent two years totalling €7.3m based on a number of performance conditions and milestones being met. Considering all relevant factors significant influence has been determined to be held from 24 May 2019 and as such has been accounted for as an associate from this date.

CompanyShares in Group
undertakings
£m**Cost and carrying value**

At 1 October 2018

131.9

Investment in subsidiaries

—

At 30 September 2019**131.9**

The Company has considered impairment of its investment in subsidiaries. The results of the impairment tests described in note 9 have been used in this consideration. Given the results of those tests, the Directors do not consider that the carrying value of the Company's investment in subsidiaries has been impaired.

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	
Invibio Limited ¹	4088050	Trading entity	
Invibio Knees Limited	8149440	Trading entity	
Invibio 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	7752971	Dormant	
Zyex Limited ²	2890014	Dormant	
Zyex Group Limited ²	2839512	Dormant	
Zyex Reclaim Limited	2890011	Dormant	
Victrex USA Holdings Inc. ¹		Intermediate holding company	
Victrex USA, Inc.		Trading entity	300 Conshohocken State Road, Suite 120, West Conshohocken, PA 19428, USA
Invibio Inc.		Trading entity	
Invibio 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
Invibio (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
TxV Aerospace Composites LLC		Trading entity	55 Broadcommon Road, Bristol, Rhode Island, RI 02809, USA

10. Investments continued

Company continued

	Company number	Company status	Registered office address
Associates			
Bond 3D High Performance Technology BV		Trading entity	Institutenweg 25A, 7521 PH, Enschede, Netherlands
Joint operations			
Aghoco 1491 Limited ³	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
Surface Generation Limited	4379384	Trading entity	7 Brackenbury Court, Lyndon Barns, Edith Weston Road, Lyndon, Oakham, LE15 8TW

1 Directly held by Victrex plc.

2 On 1 August 2018, Victrex Manufacturing Limited acquired the trade and assets of Zyex Group Limited for consideration equal to the net book value. Both Zyex Limited and Zyex Group Limited are dormant entities for the year ended 30 September 2019.

3 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.

All subsidiaries are wholly owned, with the exception of TxV Aerospace Composites LLC ('TxV'), and are involved in the principal activities of the Group. 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. Under the terms of the agreement both parties have access to financial derivatives 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 2019 is \$4m (£3.3m) – see note 14.

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 2019					As at 30 September 2018				
	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	—	1.3	7.7	1.5	10.5	—	2.1	3.7	1.4	7.2
Deferred tax liabilities	(18.9)	(1.9)	—	(0.8)	(21.6)	(19.0)	(2.6)	—	(0.9)	(22.5)
Net deferred tax (liabilities)/assets	(18.9)	(0.6)	7.7	0.7	(11.1)	(19.0)	(0.5)	3.7	0.5	(15.3)
					Note	Property, plant and equipment £m	Employee benefits £m	Inventories £m	Other £m	Total £m
Movement in net provision										
At 1 October 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					6	0.3	(0.4)	(1.7)	(0.2)	(2.0)
Recognised in other comprehensive income					6	—	(0.6)	—	—	(0.6)
At 30 September 2018						(19.0)	(0.5)	3.7	0.5	(15.3)
Exchange difference						—	—	—	0.1	0.1
Prior period adjustment						0.1	0.3	—	—	0.4
Recognised in income statement					6	—	(0.2)	4.0	0.1	3.9
Recognised in statement of changes in equity						—	(1.2)	—	—	(1.2)
Recognised in other comprehensive income						—	1.0	—	—	1.0
At 30 September 2019						(18.9)	(0.6)	7.7	0.7	(11.1)

Deferred tax liabilities of £nil (FY 2018: £nil) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested, and the Group can control the timing of any dividends. Unremitted earnings totalled £56.3m at 30 September 2019 (FY 2018: £19.1m). The year on year increase is predominantly driven by a capital restructuring in the US sub-group holding company.

Notes to the financial statements continued

11. Deferred tax assets and liabilities continued

On 29 March 2017, the UK government notified the EU of its intention to withdraw membership from the EU. Depending on the outcome of negotiations the Group could cease to benefit from the EU Parent Subsidiary Directive on dividends paid by our EU subsidiaries. In this event, additional tax of up to £0.4m could arise if the undistributed earnings of EU subsidiaries of £7.1m were to be repatriated to the UK.

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.

🔍 Critical judgements and key sources of estimation uncertainty in relation to valuation of inventories

The carrying value of inventory, comprising raw materials, work in progress and finished goods totalling £92.2m, requires the use of estimates and judgement. Judgement is required when assessing the level of normal production over which directly attributable costs are absorbed. The judgement relating to normal production considers current year actual, prior period actual and budgeted production when concluding on the appropriate level over which to absorb production costs. The primary estimate is in respect of the level of variations, including material usage and purchase price variances, between actual and standard cost absorbed into inventory at each period end. Management use their detailed experience in the process of forming their view on the adjustments required to record inventory at cost. Management has assessed the range of possible outcomes which might result from a change in assumptions and has determined this to be from a £0.7m increase in inventory to a £3.5m reduction in inventory at 30 September 2019 and can therefore conclude that no reasonable change in the key assumptions would have resulted in a material change to the inventory balance of £92.2m at 30 September 2019.

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 reprocess. The estimation of the range of possible outcomes is an increase in the value of inventory of £1.7m to a decrease of £2.7m.

Consequently, none of the sources of estimation uncertainty in inventory are expected to materially impact the result of the Group in FY 2020.

As at 30 September	2019 £m	2018 £m
Raw materials and consumables	16.3	16.5
Work in progress	12.4	6.6
Finished goods	63.5	46.2
	92.2	69.3

The amount of inventory expensed in the period is £99.6m (FY 2018: £106.1m).

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. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

Allowances are calculated by reference to credit losses expected to be incurred over the lifetime of the receivable using the simplified approach, as described in note 14.

As at 30 September	Group		Company	
	2019 £m	2018 £m	2019 £m	Restated (note 23) 2018 £m
Trade receivables	31.0	33.6	—	—
Amounts owed by Group undertakings	—	—	39.0	53.2
Prepayments	5.9	6.3	—	—
Other	8.1	2.8	—	—
	45.0	42.7	39.0	53.2

Amounts owed by Group undertakings are interest free, unsecured and repayable on demand. These balances have been considered for impairment and no credit losses are expected on these balances.

14. Financial instruments and risk management

Derivative financial instruments and hedging activities

Derivative financial instruments are primarily 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 net 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 overleaf.

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items including whether or not a net position is being hedged. A conclusion is reached as to whether the transaction qualifies as a cash flow hedge. Details on hedge documentation is shown below.

Cash flow hedges

As permitted by IFRS 9 B.6.6.1, the Group designates overall net positions as hedged items when:

- transactions are managed as net positions for risk management purposes;
- the hedges are for foreign currency risks; and
- the initial hedge designation and documentation sets out how the items within the net position will affect the income statement.

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. See below for further details.

These foreign exchange contracts are initially recognised at fair value, with most having maturities of less than one year after the balance sheet date.

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, through sales, marketing and administrative expenses.

The recognition of any cumulative gain or loss existing in equity is aligned to the timing of the hedged transaction impacting the income statement and is classified as follows:

- Hedging of a net position – separately on the face of the income statement within gains/(losses) on foreign currency net hedging.
- Other cash flow hedges – cumulative gain or loss existing in equity at the time when the forecast transaction occurs 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.

When a forecast transaction is no longer expected to occur, and therefore does not meet the criteria for cash flow hedge accounting, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement, through sales, marketing and administrative expenses.

Hedge documentation and effectiveness testing

The documentation includes identification of the hedging item(s), the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements.

With effect from 1 October 2018, hedge effectiveness is a qualitative assessment of effectiveness performed in accordance with IFRS 9. A hedging relationship qualifies for hedge accounting if it meets all the following effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of the credit risk does not dominate the value changes that result from the economic relationship; and
- the hedge ratio of the hedging relationship is the same as that used for risk management purposes.

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 through sales, marketing and administrative expenses.

Other derivative financial instruments

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.

Group

Currency risk

Currently, the Group exports in excess of 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 Chief Financial Officer 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.

Notes to the financial statements continued

14. Financial instruments and risk management continued

Group continued

Currency risk continued

Group hedging policy is to defer the impact on profits of currency movements by hedging:

- a minimum of 80% 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.

The hedging policy was updated during the current year to reduce the minimum hedging for the forthcoming six-month period from 90% to 80%.

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.

Sensitivity analysis

The impact of a 5% movement in the average Sterling/US Dollar, Sterling/Euro and Sterling/Yen rates on profit for 2019 is £5.0m, £4.9m and £1.0m (FY 2018: £6.5m, £4.9m and £1.2m) respectively. The impact of a 5% movement in the average Sterling/US Dollar, Sterling/Euro and Sterling/Yen rates on equity for 2019 is £2.8m, £1.2m and £0.7m (FY 2018: £3.6m, £0.3m and £0.5m) respectively.

In accordance with IFRS 9, the fair value of gains and losses recognised on cash flow hedges is recognised in the Consolidated income statement as part of gross margin.

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 2019		As at 30 September 2018	
	Notional contract amount £m	Carrying amount and fair value £m	Notional contract amount £m	Carrying amount and fair value £m
Current assets	22.3	1.5	39.0	1.1
Current liabilities	165.7	(9.3)	180.5	(6.2)
	188.0	(7.8)	219.5	(5.1)

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 2019				As at 30 September 2018			
	Expected cash flows £m	6 months or less £m	6 to 12 months £m	12 to 18 months £m	Expected cash flows £m	6 months or less £m	6 to 12 months £m	12 to 18 months £m
Forward exchange contracts:								
– Assets	22.3	8.1	12.2	2.0	39.0	8.2	20.9	9.9
– Liabilities	165.7	77.1	67.6	21.0	180.5	92.9	73.4	14.2
	188.0	85.2	79.8	23.0	219.5	101.1	94.3	24.1

The average exchange rates on open forward currency contracts are:

	1.32	1.30	1.25	1.38	1.36	1.33
US Dollar						
Euro	1.12	1.12	1.12	1.12	1.11	1.10
Yen	144	140	130	148	145	143

Gains and losses deferred in the hedging reserve in equity on forward foreign exchange contracts at 30 September 2019 will be recognised in the income statement during the period in which the hedged forecast transaction affects the income statement, which is typically one to two months prior to the cash flow occurring. At 30 September 2019, 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 £1.9m (FY 2018: losses of £0.9m) relating to forward exchange contracts on the balance sheet at 30 September 2019 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 £1.0m in the year (FY 2018: loss of £2.6m).

There was no hedge ineffectiveness during the year (FY 2018: nil). The hedge ratio is 1:1 in all instances.

Credit risk

The Group manages exposure to credit risk at many levels ranging from executive Director 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 are 'held to collect' assets.

14. Financial instruments and risk management continued

Group continued

Credit risk continued

Following adoption of IFRS 9 on 1 October 2018, the Group has applied the simplified approach to measuring expected credit losses, which requires lifetime expected losses to be recognised from initial recognition for trade receivables. Lifetime expected credit losses for trade receivables are calculated based on historical loss rates and adjusted where necessary for relevant forward-looking estimates. Trade receivables have been grouped for this analysis based on shared credit risk characteristics, including segment and country/region in which the customer operates. The model has been applied to the Group's two segments differently. For trade receivables in the Industrial sector, a different loss rate has been applied to the USA and Japan compared to the remainder of the segment's geographical markets. In the Medical sector, a single higher rate of allowance has been used to reflect the higher risk of default of the customer base.

Trade receivables are specifically 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. They are written off when there is no reasonable expectation of recovery, based on an estimate of the financial position of the customer.

Trade receivables can be analysed as follows:

As at 30 September	2019 £m	2018 £m
Amounts not past due	26.6	29.9
Amounts past due:		
– Less than 30 days	3.7	3.6
– 30–60 days	0.8	0.1
– More than 60 days	0.4	—
Total past due	4.9	3.7
Lifetime expected credit losses	(0.5)	—
Amounts specifically impaired	0.4	0.7
Specific allowances for bad and doubtful debts	(0.4)	(0.7)
Carrying amount of impaired receivables	—	—
Trade receivables net of allowances	31.0	33.6

Movements in the allowance for impairments were:

	2019 £m	2018 £m
At beginning of year	0.7	0.5
On adoption of IFRS 9 – charged in the year	0.1	—
Charge in the year	0.2	0.3
Release of allowance	(0.1)	(0.1)
At end of year	0.9	0.7

The range of estimated credit loss allowance is as follows:

	Current £000	Less than 30 days past due £000	30 to 60 days past due £000	60 to 90 days past due £000	More than 90 days past due £000	Total £000
2019						
% allowance	0%–0.3%	0.5%–1.5%	19%–50%	50%–60%	75%–100%	
Trade receivables	26,640	3,662	811	178	567	31,858
Allowance	(80)	(53)	(190)	(92)	(487)	(902)
						30,956

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. The credit risk in respect of inter-company receivables is £nil.

Cash and cash equivalents

Cash and cash equivalents comprise 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 carried at amortised cost in accordance with IFRS 9.

Notes to the financial statements continued

14. Financial instruments and risk management continued

Group continued

Credit risk continued

As at 30 September 2019, the maximum exposure with a single bank for deposits (cash and cash equivalents and other financial assets) was £31.2m (FY 2018: £41.7m) for the Group. As at 30 September 2019, the largest mark to market exposure for gains on forward foreign exchange contracts to a single bank was £0.9m (FY 2018: £0.8m). 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. Subsequent to the year end, this facility was renewed until October 2024.

As at 30 September 2019, the Group had a cash and cash equivalents balance of £72.5m. In addition, cash of £0.3m 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 2019 and up to the date of this report is 6 months (FY 2018: 6 months).

The facility contains covenant measures that are tested biannually. They consist of leverage, measuring debt to equity, and interest cover, measuring the interest charge related to profit before interest.

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 2020, 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	2019 £m	2018 £m
Total equity	461.6	489.9
Total assets	536.2	563.8
Equity ratio	86%	87%

Financial instruments

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 2019 £m	Carrying amount and fair value 2018 £m
Financial assets					
Forward exchange contracts used for hedging (derivative instruments)		Fair value – hedging instrument	Fair value – hedging instrument	1.5	1.1
Unquoted investments	10	FVTPL	FVTPL	8.0	4.5
Trade and other receivables	13	Loans and receivables	Amortised cost	39.1	36.4
Cash and cash equivalents		Loans and receivables	Amortised cost	72.5	71.2
Other financial assets		Loans and receivables	Amortised cost	0.3	73.2
Financial liabilities					
Forward exchange contracts used for hedging (derivative instruments)		Fair value – hedging instrument	Fair value – hedging instrument	(9.3)	(6.2)
Other derivative instruments		FVTPL	FVTPL	(3.3)	(3.1)
Other financial liabilities	16	Other financial liabilities	Other financial liabilities	(10.8)	(4.8)

¹ IFRS 9 – Financial Instruments was 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 2019.

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 124.

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

All fair value measurements are recurring.

14. Financial instruments and risk management continued

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 carried at amortised cost subsequent to initial recognition.

Future expected credit losses on amounts owed by Group undertakings are immaterial.

15. Retirement benefit asset

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 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.

Critical judgements and key sources of estimation uncertainty in relation to pension scheme valuation

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. Information about the assumptions relating to retirement benefit obligations and also the sensitivity of the pension liability to movements in these assumptions is presented below.

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, which is subject to the statutory funding objective under the Pensions Act 2004, 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 2019 and showed a scheme surplus of £7.9m. 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 £0.9m were made during the year ended 30 September 2019 as part of an ongoing programme with the trustees to work towards self-sufficiency, and therefore further contributions of a similar level are expected in the future. The Directors have approved a further voluntary contribution of £1.0m which was made in November 2019.

The trustees have agreed an investment strategy in the context of the liabilities. In particular, investments have been made that reflect the nature and term of the liabilities and the long-term nature of investment for a pension scheme.

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. There are no restrictions on the current realisability of the surplus.

The Lloyds Banking Group's High Court ruling during October 2018 confirmed the requirement on defined benefit pension schemes, including Victrex's UK pension scheme, to equalise benefits between men and women to allow for differences in Guaranteed Minimum Pensions ('GMP') for those who contracted out of the State Earnings Related Pension Scheme.

In the six-month period ended 31 March 2019, a past service cost of £1.1m was recognised in the income statement, being the Group's best estimate of the non-cash cost, made in consultation with independent actuaries. This has subsequently been reversed in the six-month period ended 30 September 2019, following the detailed calculation having been completed as part of the 2019 triennial valuation, resulting in the impact being significantly lower than expected based on the Group's scheme membership.

IAS 19 disclosures relating to defined benefits are as follows:

Notes to the financial statements continued

15. Retirement benefit asset continued

Principal actuarial assumptions

As at 30 September	2019	2018
Discount rate	1.85%	2.95%
RPI inflation	3.20%	3.40%
CPI inflation	2.20%	2.40%
Future pension increases	3.10%	3.30%
Mortality tables		
– Male	92% of S3PMA	100% of S2NMA
– Female	95% of S3PFA	100% of S2NFA
Mortality improvements		
– Model	CMI 2018	CMI 2017
– Long-term rate of improvement	1.25%	1.25%
– Initial addition	1.00%	n/a
Life expectancy from age 62 of current pensioners:		
– Male	26.0 yrs ¹	25.0 yrs ²
– Female	28.1 yrs ¹	27.1 yrs ²
Life expectancy from age 62 of active and deferred members:		
– Male	27.2 yrs ³	26.2 yrs ⁴
– Female	29.3 yrs ³	28.4 yrs ⁴

1 Life expectancy from age 62 for members aged 62 in 2019.

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

3 Life expectancy from age 62 for members aged 45 in 2019.

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

The average duration of the benefit obligation at the end of the reporting period is 22 years (FY 2018: 23 years).

Significant actuarial assumptions for the determination of the defined benefit surplus 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	Reduction in fund surplus as at 30 September 2019	Reduction in fund surplus as at 30 September 2018
Reduce discount rate by 1% p.a.	£21.8m	£17.1m
Increase inflation expectations by 1% p.a.	£17.7m	£12.5m
Increase life expectancy by 1 year	£3.0m	£2.1m

Interrelationships between the assumptions, especially between discount rate and expected inflation rates, are expected to exist in practice. The above analysis does not take the effect of these interrelationships into account.

Amounts recognised in the balance sheet

As at 30 September	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Present value of funded obligations	(85.8)	(72.1)	(73.6)	(82.4)	(60.4)
Fair value of schemes' assets	94.9	85.6	77.4	71.8	54.6
Net asset/(liability) before deferred taxation	9.1	13.5	3.8	(10.6)	(5.8)
Related deferred taxation (liability)/asset	(1.5)	(2.3)	(0.6)	1.8	1.2
Net asset/(liability) after deferred taxation	7.6	11.2	3.2	(8.8)	(4.6)
Change in assumptions and experience adjustments arising on schemes' liabilities	(14.8)	2.0	9.4	(22.2)	1.1
Experience adjustments arising on schemes' assets	8.9	3.6	4.2	10.6	0.3

Changes in the present value of the funded obligation

	2019 £m	2018 £m
Defined benefit obligation at beginning of year	(72.1)	(73.6)
Exchange difference	—	(0.2)
Interest cost	(2.1)	(2.0)
Actuarial (losses)/gains	(14.8)	2.0
Benefits paid	3.2	1.7
Defined benefit obligation at end of year	(85.8)	(72.1)

15. Retirement benefit asset continued

Changes in the fair value of the schemes' assets

	2019 £m	2018 £m
Fair value of schemes' assets at beginning of year	85.6	77.4
Exchange difference	—	0.1
Interest income on assets	2.5	2.2
Actuarial gains	8.9	3.6
Contributions by employer	1.1	4.0
Benefits paid	(3.2)	(1.7)
Fair value of schemes' assets at end of year	94.9	85.6

Major categories of schemes' assets

As at 30 September	2019 Quoted £m	2019 Unquoted £m	2019 Total £m	2018 Quoted £m	2018 Unquoted £m	2018 Total £m
UK equities	—	0.4	0.4	—	0.4	0.4
Non-UK equities	—	8.1	8.1	—	7.6	7.6
Diversified growth and absolute return funds ¹	1.8	11.7	13.5	1.8	15.1	16.9
Liability-driven instruments ²	49.7	—	49.7	37.4	—	37.4
Debt instruments	—	20.7	20.7	—	20.5	20.5
Cash	0.1	—	0.1	0.6	—	0.6
Insurance policies	—	2.4	2.4	—	2.2	2.2
Fair value of schemes' assets at end of year	51.6	43.3	94.9	39.8	45.8	85.6

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.

Quoted assets are those with a quoted price in an active market. Unquoted assets are those which do not have a daily market price and are valued by Investment Managers, except for the insurance policies which are valued at surrender price.

Amounts recognised in the income statement

	Note	2019 £m	2018 £m
Interest on liabilities		(2.1)	(2.0)
Interest income on assets		2.5	2.2
Total included in 'staff costs'	5	0.4	0.2

Of the total included in staff costs, £nil is included within cost of sales (FY 2018: £nil) and £0.4m is included within sales, marketing and administrative expenses (FY 2018: £0.2m).

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

	2019 £m	2018 £m
Cumulative amount at beginning of year	(7.4)	(13.0)
Movement in year	(5.9)	5.6
Cumulative amount at end of year	(13.3)	(7.4)

Actuarial gains and losses arising from changes in demographic and financial assumptions

	2019 £m	2018 £m
Changes in demographic assumptions	(2.8)	(0.5)
Changes in financial assumptions	(14.2)	2.8
Experience gains/(losses) on liabilities	2.2	(0.3)
Total actuarial (losses)/gains on scheme liabilities	(14.8)	2.0
Return on assets less interest	8.9	3.6
Total actuarial (losses)/gains	(5.9)	5.6

Notes to the financial statements continued

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.

As at 30 September	Group		Company	
	2019 £m	2018 £m	2019 £m	Restated (note 23) 2018 £m
Trade payables	4.3	2.5	—	—
Accruals	19.3	32.0	—	—
Other	6.5	2.3	—	—
	30.1	36.8	—	—

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 2019, the Company had no contingent liabilities (FY 2018: 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.

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.

18. Share-based payments continued

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, if 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 86.

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 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	nil p	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	nil p	4,543
Granted during the year	2,178p	346,658	1,920p	191,314	1,994p	10,422	nil p	76,282	nil p	9,647
Forfeited during the year	2,269p	(22,407)	1,999p	(38,427)	—	—	nil p	(10,259)	—	—
Exercised during the year	1,785p	(79,890)	1,277p	(213,980)	1,994p	(10,422)	nil p	(14,006)	—	—
Outstanding at 30 September 2019	2,063p	1,168,555	1,753p	334,206	—	—	nil p	196,512	nil p	14,190
Range of exercise prices										
2019	805p–2,730p		1,266p–2,164p		—		nil p		n/a	
2018	805p–2,730p		1,266p–2,164p		—		nil p		n/a	
Weighted average contractual life (years)										
2019	7.6		2.7		0.4		8.2		6.9	
2018	7.7		1.9		0.4		8.4		7.3	
Exercisable at end of year										
2019	1,733p	331,967	—	—	—	—	—	—	—	—
2018	1,697p	181,975	—	—	—	—	—	—	—	—

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 2019					As at 30 September 2018				
	ESOP	Sharesave Plan	Stock Purchase Plan	LTIP	DBS	ESOP	Sharesave Plan	Stock Purchase Plan	LTIP	DBS
Fair value at measurement date	442p	469p	589p	1,675p	2,189p	433p	330p	418p	1,607p	2,391p
Share price at grant	2,077p	2,062p	2,346p	2,244p	2,355p	2,024p	1,670p	1,944p	2,157p	2,391p
Exercise price	2,062p	1,753p	n/a	nil p	n/a	2,000p	1,439p	n/a	nil p	nil p
Expected volatility	27%	26%	29%	25%	n/a	28%	25%	23%	25%	n/a
Expected dividends	2.4%	2.6%	2.5%	2.4%	2.5%	2.4%	2.9%	2.4%	2.3%	0.0%
Risk-free interest rate	1.1%	0.8%	0.8%	0.7%	n/a	1.2%	0.7%	0.0%	0.7%	n/a

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	2019 £m	2018 £m
ESOP		1.0	1.0
Sharesave Plan		0.6	0.5
LTIP and Deferred Bonus Scheme		0.5	1.1
	5	2.1	2.6

19. Share capital and reserves**Share capital**

	2019		2018	
	Number	£m	Number	£m
Allotted, called up and fully paid shares of 1p each				
At beginning of year	86,153,196	0.9	85,864,468	0.9
Issued for cash	304,292	—	288,728	—
At end of year	86,457,488	0.9	86,153,196	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 304,292 (FY 2018: 288,728) shares were issued for cash, resulting in an increase in share premium of £4.3m (FY 2018: £5.0m).

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 2019 was 160,037 (FY 2018: 174,813). 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 £114.6m (FY 2018: £135.2m).

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 forecast hedged transactions.

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.

	2019 £m	2018 £m
Year ended 30 September 2017		
– 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
– Final dividend paid February 2019 at 46.14p per ordinary share	39.7	—
– Special dividend paid February 2019 at 82.68p per ordinary share	71.1	—
Year ended 30 September 2019		
– Interim dividend paid July 2019 at 13.42p per ordinary share	11.6	—
	122.4	105.6

A final dividend in respect of 2019 of £39.8m (46.14p per ordinary share) has been recommended by the Directors for approval at the Annual General Meeting in February 2020. 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.

	Note	Company	
		2019 £m	Restated (note 23) 2018 £m
Trading transactions with subsidiaries			
Administrative expenses paid on Company's behalf by subsidiaries		0.5	0.5
Management charge to subsidiaries		1.8	2.7
Amounts receivable from subsidiaries	13	39.0	53.2
Financing transactions with subsidiaries			
Dividends received from subsidiaries		103.5	104.4
Cash transfers received from subsidiaries		103.5	105.6
Cash transfers made to subsidiaries		117.5	89.4

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.

Bond 3D High Performance ('Bond'), in which the Group has a 17.2% shareholding, is an associated company. Other than the investment in, and share of loss of Bond set out in note 10, there were no other transactions with Bond in the year.

Notes to the financial statements continued

20. Related party transactions continued**Transactions with key management personnel**

The key management of the Group and Company are those people having authority and responsibility for planning, directing and controlling the activities of the Group and consist of the Board of Directors.

Compensation of key management personnel is shown in the table below:

	2019 £m	2018 £m
Short-term employment benefits	2.1	2.9
Post-employment benefits	0.3	0.3
Share-based payment benefits	0.7	2.1
	3.1	5.3

More detailed information concerning Directors' remuneration, including non-cash benefits and contributions to post-employment defined benefit plans, are given in the Directors' remuneration report on pages 72 to 92.

Directors of the Company control 0.04% of the voting shares of the Company, details of which are given on page 89.

Details of Directors' indemnities are given on page 96.

21. Exchange rates**Foreign currency translation****Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operated (the 'functional currency'). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation to balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges. In addition, where an exchange difference arises on an intragroup monetary item that, in substance, forms part of the entity's net investment in a foreign operation, these differences are recognised in other comprehensive income in the consolidated financial statements and accumulated in equity until the disposal of the foreign operation.

Group companies

The results and financial position of all the Group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

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

	2019		2018	
	Average spot	Closing	Average	Closing
US Dollar	1.29	1.22	1.30	1.30
Euro	1.13	1.11	1.13	1.11
Yen	143	133	144	149

The average exchange rates in the above table for the year ended 30 September 2019 are the weighted average spot rates applied to foreign currency transactions, excluding the impact of foreign currency contracts. Following adoption of IFRS 9 on 1 October 2018, any gains and losses on foreign currency contracts, where net hedging has been applied for cash flow hedges, have been separately disclosed in the income statement as required. For the prior period, the average exchange rates in the above table take into account the impact of gains and losses on foreign currency contracts.

22. Alternative performance measures

1) Operating profit before exceptional items (referred to as **underlying operating profit**) and profit before exceptional items and tax (referred to as **underlying profit before tax**) are based on operating profit and PBT before the impact of exceptional items. These metrics are used by the Board to assess the underlying performance of the business excluding items that are, in aggregate, material in size and/or unusual or infrequent in nature. Exceptional items for 2019 are £1.5m (FY 2018: £nil) relating to acquisition related costs, further details of which are disclosed in note 3.

	30 September 2019 £m	30 September 2018 £m
Operating profit	104.1	126.9
Exceptional items	1.5	—
Underlying operating profit	105.6	126.9
Profit before tax	104.7	127.5
Exceptional items	1.5	—
Underlying profit before tax	106.2	127.5

2) **Constant currency** metrics are used by the Board to assess the year on year underlying performance of the business excluding the impact of foreign currency rates, which by nature can be volatile. Constant currency metrics are reached by applying current year (2019) weighted average spot rates to prior year (2018) transactions. In the current period, gains and losses on foreign currency net hedging are shown separately in the income statement, following adoption of IFRS 9, and are excluded from the constant currency calculation.

Group

	30 September 2019 £m	30 September 2018 £m	% change
Revenue at constant currency	294.0	331.8	(11%)
Impact of FX retranslation	—	(5.8)	
At reported currency	294.0	326.0	(10%)

Industrial

	30 September 2019 £m	30 September 2018 £m	% change
Revenue at constant currency	236.3	274.8	(14%)
Impact of FX retranslation	—	(4.4)	
At reported currency	236.3	270.4	(13%)

Medical

	30 September 2019 £m	30 September 2018 £m	% change
Revenue at constant currency	57.7	57.0	1%
Impact of FX retranslation	—	(1.4)	
At reported currency	57.7	55.6	4%

3) **Operating cash conversion** is used by the Board to assess the business' 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.

	30 September 2019 £m	30 September 2018 £m
Cash generated from operations	90.3	135.8
Operating profit	104.1	126.9
Operating cash conversion	87%	107%

4) **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:

	30 September 2019 £m	30 September 2018 £m
Cash and cash equivalents	72.5	71.2
Other financial assets	0.3	73.2
Available cash	72.8	144.4

Notes to the financial statements continued

22. Alternative performance measures continued

5) **Dividend cover** is used by the Board to measure the affordability and sustainability of the regular dividend. Dividend cover is earnings per share/total dividend per share. This excludes special dividends.

	30 September 2019 p	30 September 2018 p
Earnings per share	107.2	128.8
Total dividend per share	59.56	59.56
Dividend cover (times)	1.8	2.2

6) **Return on capital employed ('ROCE')** is used by the Board to assess the return on investment at a Group level. ROCE is profit after tax/total equity attributable to shareholders at the year end.

	30 September 2019 £m	30 September 2018 £m
Profit after tax	£92.4m	£110.6m
Total equity attributable to shareholders	£461.6m	£489.9m
ROCE %	20%	23%

7) **Return on sales** is used by the Board to assess the overall profitability of the Group. It measures underlying profit before taxation as a percentage of total sales.

	30 September 2019 £m	30 September 2018 £m
Underlying profit before tax	106.2	127.5
Total sales	294.0	326.0
Return on sales	36%	39%

8) **New products as a percentage of Group sales** is used by the Board to measure the success of driving adoption of the new product pipeline. It measures Group sales generated from mega-programmes, new differentiated polymers and other pipeline products that were not sold before FY 2014 as a percentage of total sales.

	30 September 2019 £m	30 September 2018 £m
New products sales	12.3	11.5
Total sales	294.0	326.0
New products %	4%	4%

9) **Research & Development expenditure as a percentage of Group sales** is used by the Board because Research & Development spend is considered to be a leading indicator of the Group's ability to innovate into new applications, supporting future growth. The Group targets spend at 5%–6% of Group revenues.

	30 September 2019 £m	30 September 2018 £m
Research & Development expenditure	18.0	17.4
Total sales	294.0	326.0
Research & Development %	6.1%	5.3%

23. Prior year reclassification

In the prior year an intercompany balance between Victrex plc and the employee benefit trust was included within both trade and other receivables and trade and other payables. It has been determined that these balances should be netted down which has the impact of reducing both trade and other receivables and trade and other payables on the Company balance sheet by £8.5m. The prior year Company balance sheet has been restated accordingly to show the balances consistently. The netting down of the balances has no impact on the FY 2018 income statement, cash flow statement, company statement of changes in equity, retained earnings, net current assets or net assets of Victrex plc at 30 September 2018 or 1 October 2017. There is also no impact on the corresponding statements and metrics in the consolidated financial statements of Victrex plc.

The restated balance sheet at 1 October 2017 would comprise investments of £111.6m, trade and other receivables of £67.6m and trade and other payables of £0.1m resulting in net assets of £179.1m. Total equity attributable to owners of the Parent would also be £179.1m.

Five-year financial summary

for the year ended 30 September

	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m
Results					
Revenue	263.5	252.3	290.2	326.0	294.0
Profit before tax	106.4	100.3	111.0	127.5	104.7
Balance sheet					
Property, plant, equipment and intangible assets	271.7	279.0	289.2	281.0	288.2
Investments	—	10.0	10.0	4.5	16.2
Inventories	57.4	61.8	61.5	69.3	92.2
Net cash	53.8	64.0	120.1	71.2	72.5
Other financial assets	—	—	—	73.2	0.3
Trade receivables and other assets	43.6	57.9	53.5	51.1	57.7
Retirement benefit (obligation)/asset	(5.8)	(10.6)	3.8	13.5	9.1
Trade payables and other liabilities	(62.1)	(73.0)	(59.7)	(73.9)	(74.6)
Equity shareholders' funds	358.6	389.1	478.4	489.9	461.6
Cash flow					
Net cash flow from operating activities	87.6	83.4	117.6	129.0	80.1
Capital expenditure	(41.2)	(25.9)	(16.7)	(9.9)	(22.7)
Acquisitions of subsidiaries, associates and unquoted investments	(4.0)	(10.0)	(9.0)	—	(11.8)
(Increase)/decrease in other financial assets	—	—	—	(73.2)	72.9
Dividends and other items	(78.8)	(38.9)	(35.2)	(95.1)	(118.1)
Net (decrease)/increase in cash and cash equivalents	(36.4)	8.6	56.7	(49.2)	0.4
Ratios					
Earnings per ordinary share – basic	98.1p	96.8p	116.4p	128.8p	107.2p
Full-year dividend per ordinary share	46.82p	46.82p	53.80p	59.56p	59.56p
Special dividend per ordinary share	—	—	68.00p	82.68p	—
Sales volume					
Tonnes	4,217	3,952	3,992	4,407	3,751

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 27 to 29.

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 27th Annual General Meeting ('AGM') of Victrex plc (the 'Company') will be held at 11am on 6 February 2020, at J.P. Morgan, 1 John Carpenter Street, London EC4Y 0JP, to transact the business set out below. Resolutions 1 to 16 will be proposed as Ordinary Resolutions and Resolutions 17 to 20 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 2019.
2. To approve the Directors' remuneration report, other than the part containing the Directors' remuneration policy, in the form set out in the Annual Report and Accounts for the year ended 30 September 2019.
3. To approve the Directors' remuneration policy (contained in the Directors' remuneration report) in the form set out in the Annual Report and Accounts for the year ended 30 September 2019.
4. To declare a final dividend of 46.14p per ordinary share in respect of the year ended 30 September 2019, payable on 21 February 2020 to shareholders on the register of members at 6.30pm on 31 January 2020.
5. To re-elect Larry Pentz as a Director of the Company.
6. To re-elect Jane Toogood as a Director of the Company.
7. To re-elect Janet Ashdown as a Director of the Company.
8. To re-elect Brendan Connolly as a Director of the Company.
9. To re-elect David Thomas as a Director of the Company.
10. To re-elect Jakob Sigurdsson as a Director of the Company.
11. To re-elect Martin Court as a Director of the Company.
12. To re-elect Richard Armitage as a Director of the Company.
13. To re-appoint PricewaterhouseCoopers LLP as auditor of the Company until the conclusion of the next Annual General Meeting of the Company at which accounts are laid before the meeting.
14. To authorise the Audit Committee, acting for and on behalf of the Board, to set the auditors' remuneration.
15. 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 next Annual General Meeting of the Company (unless such authority is previously renewed, varied or revoked by the Company in a general meeting), to:
 - a) make political donations to political parties and/or independent election candidates not exceeding £12,500 in total;
 - b) make political donations to political organisations other than political parties not exceeding £12,500 in total; and
 - c) incur political expenditure not exceeding £12,500 in total,

provided that the authorised sums referred to in paragraphs (a), (b) and (c) 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.
16. That the Directors of the Company be and are 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'):
 - a) up to a nominal amount of £288,217 (such amount to be reduced by any allotments or grants made under paragraph (b) below in excess of such sum);
 - b) comprising equity securities (as defined in the Companies Act 2006) up to a nominal amount of £576,434 (such amount to be reduced by any allotments or grants made under paragraph (a) above) in connection with an offer by way of a rights issue:
 - i) to ordinary shareholders in proportion (as nearly as maybe practicable) to their existing holdings; and
 - ii) to holders of other equity securities or as required by the rights of those securities as the Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirement of any regulatory body or stock exchange or any other matter;
 - c) 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 2021); and
 - d) 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.

Notice of Annual General Meeting continued

Special Resolutions

17. That, conditional upon Resolution 16 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 of the Companies Act 2006 did not apply to such allotment or sale, such power to be limited:

- a) to the allotment of equity securities and sale of treasury shares in connection with an offer of, or invitation to apply for, equity securities (but in the case of authority granted under paragraph (b) of Resolution 16, by way of a rights issue only):
 - i) to ordinary shareholders in proportion (as nearly as maybe practicable) to their existing holdings; and
 - ii) to holders of other equity securities, as required by the rights of those securities, or as the Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirement of any regulatory body or stock exchange or any other matter; and

- b) in the case of the authority granted under paragraph (a) of Resolution 16 and/or in the case of any sale of treasury shares to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (a) above) up to a maximum aggregate nominal amount of £43,232.

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 2021), save that the Company may make offers, and enter into agreements, before such expiry which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the power expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the power had not expired.

18. That, conditional upon Resolution 16 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 17 to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash under the authority given by that Resolution 16 (or by way of a sale of treasury shares), as if section 561 of the Companies Act 2006 did not apply to such allotment or sale, such power to be:

- a) limited to the allotment of equity securities or sale of treasury shares up to a maximum aggregate nominal amount of £43,232; and
- b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the 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 2021), save that the Company may make offers, and enter into agreements, before such expiry, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the power expires to have effect and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the power had not expired.

Special Resolutions continued

19. That the Company be and is hereby authorised generally and unconditionally pursuant to section 701 of the Companies Act 2006 to make one or more market purchases (as defined in section 693(4) of the Companies Act 2006) of its ordinary shares of 1p each in the capital of the Company ('Ordinary Shares'), such power to be limited:
- a) to a maximum aggregate number of 8,646,523 Ordinary Shares;
 - b) by the condition that the maximum price, exclusive of expenses, which may be paid for an Ordinary Share is the highest of:
 - (i) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out at the relevant time; and
 - (ii) an amount equal to 5% above the average market value of an Ordinary Share for the five business days immediately preceding the day on which that Ordinary Share is contracted to be purchased; and
 - c) by the condition that the minimum price which may be paid for an ordinary share is 1p (exclusive of expenses).
- Such authority shall expire at the conclusion of the Company's next Annual General Meeting (or, if earlier, at the close of business on 31 March 2021) but so that the Company may before such authority expires enter into a 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.
20. 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

Richard Armitage
Chief Financial Officer
 5 December 2019

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 2020 (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 2020. 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 2020.
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 2020. 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 (as amended).
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 29 November 2019 (being the last practicable date prior to the publication of this document) the Company's issued share capital consisted of 86,465,233 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 29 November 2019 were 86,465,233. There were no shares in treasury as at that date.

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:
- 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
 - 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 auditors 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. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
14. Personal data provided by shareholders at or in relation to the AGM (including, for example, names, contact details, votes and Shareholder Reference Numbers) will be processed in line with the Company's privacy policy, which can be accessed here: www.victrex.com/en/privacy-policy.
15. A member or members meeting the qualification criteria set out in sections 338 and 338A of the Companies Act 2006, may, subject to certain conditions, require the Company to (i) give notice of a resolution which may properly be moved and is intended to be moved at the meeting, and (ii) include in the business to be dealt with at the meeting a matter (other than a proposed resolution) which may properly be included in the business (a matter of business). The conditions are that:
- the resolution or matter of business must not be defamatory of any person, frivolous or vexatious; and
 - the request:
 - may be in hard copy form or in electronic form;
 - must identify the resolution or matter of business by either setting it out in full or, if supporting a statement sent by another member, clearly identifying the resolution or matter of business which is being supported;
 - in the case of a matter of business, must be accompanied by a statement setting out the grounds for the request;
 - must be authenticated by the person or persons making it; and
 - must be received by the Company no later than six weeks before the meeting to which the request relates.
16. 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 & Company Secretary at cossec@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.
17. 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 2019.

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 2019. The Directors' remuneration report is set out on pages 72 to 92 of the Annual Report and Accounts and, for the purposes of this resolution, does not include the parts of the Directors' remuneration report containing the Directors' remuneration policy which is set out on pages 76 to 82. The vote on this resolution is advisory only and the Directors' entitlement to remuneration is not conditional on its being passed.

Resolution 3 – Approval of the Directors' remuneration policy

In accordance with the Companies Act 2006, the Company proposes an Ordinary Resolution to approve the Directors' remuneration policy contained in the Directors' remuneration report. The proposed policy is set out on pages 76 to 82 of the Annual Report and Accounts. The vote on Resolution 3 is a binding vote, and, if passed, will mean that the Company can only make remuneration payments to Directors or payments to Directors for loss of office: (i) consistent with the Directors' remuneration policy; or (ii) if the relevant payment is approved by the members of the Company by Ordinary Resolution.

Resolution 4 – Declaration of final dividend

A final dividend of 46.14p per ordinary share has been recommended by the Directors for the year ended 30 September 2019. 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 21 February 2020 to shareholders on the register at 6.30pm on 31 January 2020.

Resolutions 5 to 12 – Re-election of Directors

In accordance with the 2016 UK Corporate Governance Code, all Directors shall be subject to annual election by shareholders, with the exception of Dr Pamela Kirby, who will retire from the Board with effect from the AGM on 6 February 2020. The Chairman confirms that, following formal evaluation (as referred to on pages 55 to 58 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).

Each of Resolutions 5 to 12 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.

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 and 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.

Ms Janet Ashdown, non-executive Director

Janet Ashdown was appointed to the Board as a non-executive Director in 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. She is also an independent non-executive director of RHI Magnesita N.V.

Mr Brendan Connolly, non-executive Director

Brendan Connolly was appointed to the Board as a non-executive Director in 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 on two private equity boards, one of which he chairs.

Resolutions 5 to 12 – Re-election of Directors continued

Mr David Thomas, non-executive Director

David Thomas (MA FCA) 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, specialising in long-term industrial contracting businesses and is a former member of the Auditing Practices Board. David is a non-executive director and chair of the audit committee of Dialight Plc.

Mr Jakob Sigurdsson, executive Director

Jakob Sigurdsson was appointed to the Board in October 2017 and is the Company's Chief Executive Officer. 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 re-insurance company. Jakob holds a BSc in chemistry from the University of Iceland and an MBA from Northwestern University in the US.

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 is now the Company's Chief Commercial Officer. 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.

Mr Richard Armitage, executive Director

Richard Armitage (FCMA) was appointed to the Board in May 2018 and is the Company's Chief Financial Officer. 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.

Resolutions 13 and 14 – Appointment of auditor/auditors' remuneration

At each meeting at which the Annual Report and Accounts are laid, the Company is required under the Companies Act 2006 to appoint an auditor to serve until the next such meeting. PricewaterhouseCoopers ('PwC') have indicated their 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 14 is an Ordinary Resolution that the Audit Committee, acting for and on behalf of the Board, be authorised to set the auditors' remuneration. Under the Competition and Markets Authority's Statutory Audit Services Order, the Audit Committee has specific responsibility for negotiating and agreeing the statutory audit fee for and on behalf of the Board. Details of the remuneration paid to the auditors for 2019 and details of how the effectiveness and independence of the auditors is monitored and assessed can be found on pages 113 and 66 to 71 of the Annual Report and Accounts.

Resolution 15 – 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 2021.

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.

Explanatory notes continued

Resolution 16 – Authority to allot shares

The authority of shareholders is required to enable Directors to allot shares. The authority conferred on the Directors at the Company's 2019 Annual General Meeting 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 2021, 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 29 November 2019 (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 2019.

Resolutions 17 and 18 – 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. Section 570 of the Companies Act 2006, however, permits the disapplication of such pre-emption rights.

Resolution 17 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 £43,232 representing approximately 5% of the issued ordinary share capital as at 29 November 2019 (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, in accordance with the Pre-Emption Group's 2015 Statement of Principles ('Statement of Principles'), 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 18 is in addition to Resolution 17. As supported by the Statement of Principles, Resolution 18 will enable the Directors to allot shares for cash or sell shares out of treasury up to a further nominal amount of £43,232, representing approximately 5% of the issued ordinary share capital as at 29 November 2019 (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 18, 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 17 and 18 will lapse at the earlier of the conclusion of the next Annual General Meeting of the Company or 31 March 2021, if sooner. These resolutions will be proposed as Special Resolutions, which require a 75% majority of the votes to be cast in favour.

Resolution 19 – Authority to purchase own shares

In certain circumstances, it might be advantageous to the Company to purchase its own shares. In accordance with the Investment Association's Share Capital Management Guidelines, Resolution 19 specifies the maximum number of shares which may be acquired (approximately 10% of the Company's issued ordinary share capital as at 29 November 2019 (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 29 November 2019, options over a total of 1,485,724 Ordinary Shares were outstanding and not exercised. That number of Ordinary Shares represents 1.72% of the Company's issued Ordinary Share capital at 29 November 2019. It would represent 1.91% 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 19 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 2021, if sooner.

Resolution 20 – 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 20 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 (as is also set out in the 2016 UK Corporate Governance Code).

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).

SHAREHOLDER INFORMATION

Financial calendar and advisors

Ex-dividend date	30 January 2020
Record date ¹	31 January 2020
Annual General Meeting	6 February 2020
Payment of final dividend	21 February 2020
Announcement of 2019 half-yearly results	May 2020
Payment of interim dividend	July 2020

¹ The date by which shareholders must be recorded on the share register to receive the dividend.

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

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M3 3EB

Broker and financial advisor

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





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This is the Annual Report of Victrex plc for the year ended 30 September 2019.

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 2020 is also included within the report commencing on page 139.

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 2019, 2018 and 2017 are to the financial years ended 30 September 2019 (for 2019), 30 September 2018 (for 2018) and 30 September 2017 (for 2017). Unless otherwise stated, all non-financial statistics are at 30 September 2019.

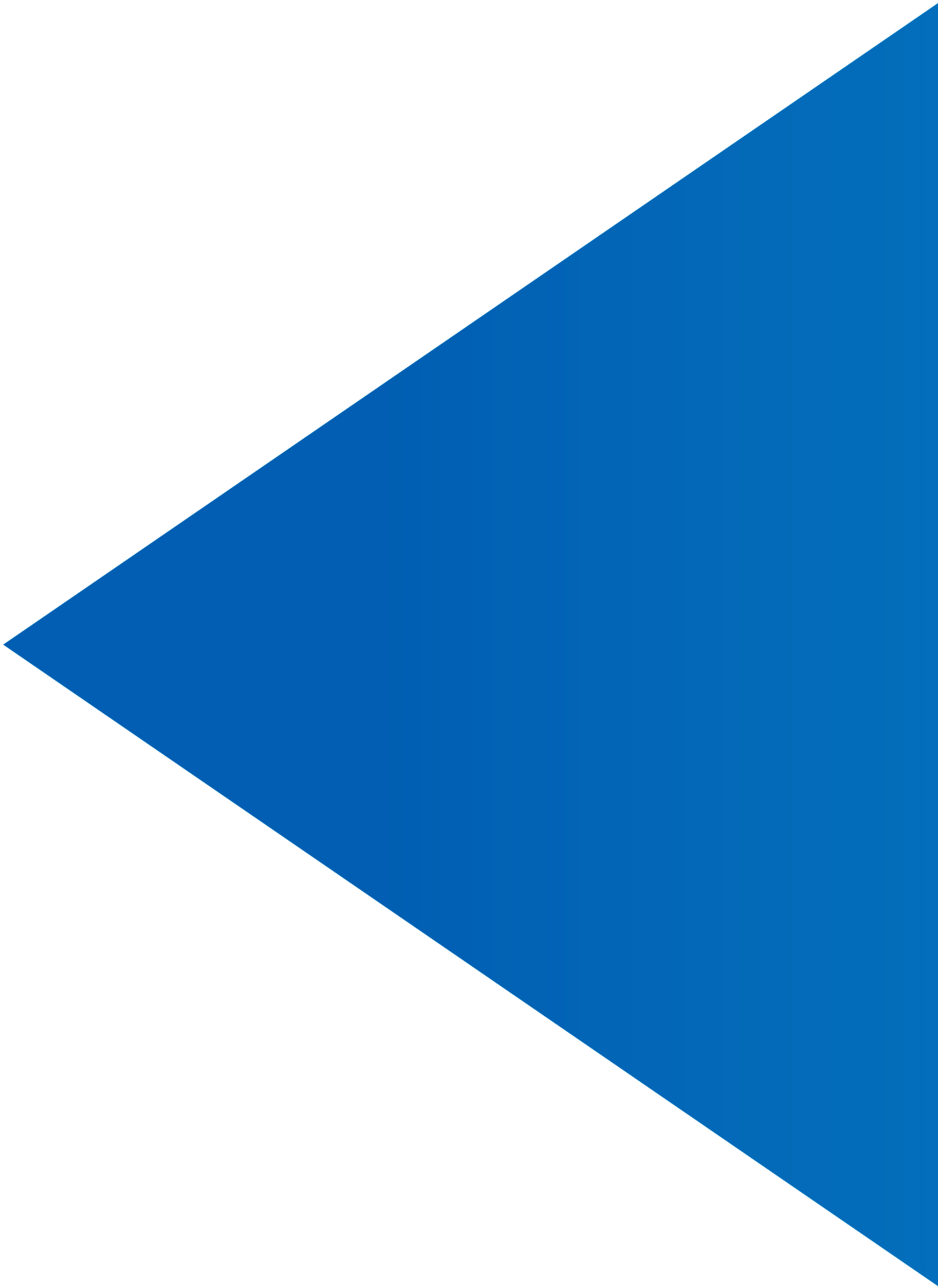
This Annual Report contains forward-looking statements with respect to the Group's financial condition, operating results and business strategy, plans and objectives. Please see the discussion of our principal risks and uncertainties in the sections entitled 'Risk management' and 'Principal risks', and 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.



victrex

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