



Victrex plc Annual Report 2017

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 which contain our polymers and materials, from smartphones, aeroplanes and cars to oil and gas operations and medical devices. With over 35 years' experience, we develop world leading solutions in PEEK and PAEK based polymers, selected semi-finished and finished parts which shape future performance for our customers and markets, and drive value for our shareholders.

Strong core growth & record cash generation

Strong core business¹ growth, fully offsetting lower Consumer Electronics

- Core business volumes up >15% reflecting broad based growth & new applications
- Total sales volumes up 1%
- Group revenue up 15%, constant currency revenue¹ up 3%
- Strong performances in Automotive, Electronics (ex-Consumer), Value Added Resellers and Energy

Further progress in new product pipeline

- PEEK Gears supply agreement to major European car manufacturer starting in 2018
- Meaningful revenue of £1m+ for PEEK-OPTIMA™ HA Enhanced Spine product
- Medium term aspiration for 10–20% of sales from new products¹ (2017: 4%)

Investment to underpin Polymer & Parts strategy

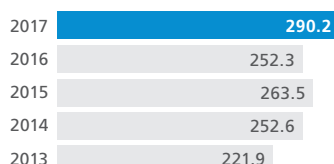
- £10m acquisition of Zyex PEEK fibres business to expand semi-finished products offering
- TxV Aero Composites² joint-venture to develop differentiated Aerospace products
- £10m Polymer Innovation Centre now operational; support prototyping & new polymer grades

Record cash generation supports strong shareholder returns

- Cash up 88% to £120.1m and operating cash conversion¹ of 124%
- Regular dividend up 15% to 53.80p (dividend cover¹ 2.2x) and special dividend of 68.00p/share

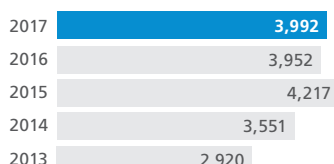
Group revenue £m

290.2 +15%



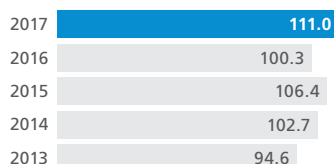
Group sales volume tonnes

3,992 +1%



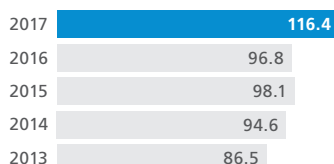
Group profit before tax £m

111.0 +11%



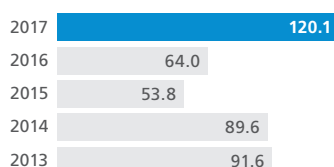
Earnings per share p

116.4 +20%



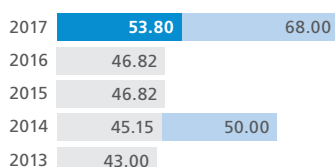
Cash £m

120.1 +88%



Dividend per share p

121.80 +160%



■ Regular dividends only ■ Special dividend

1 Alternative performance measures are defined on page 14.

2 TxV Aerospace Composites LLC trading as TxV Aero Composites.

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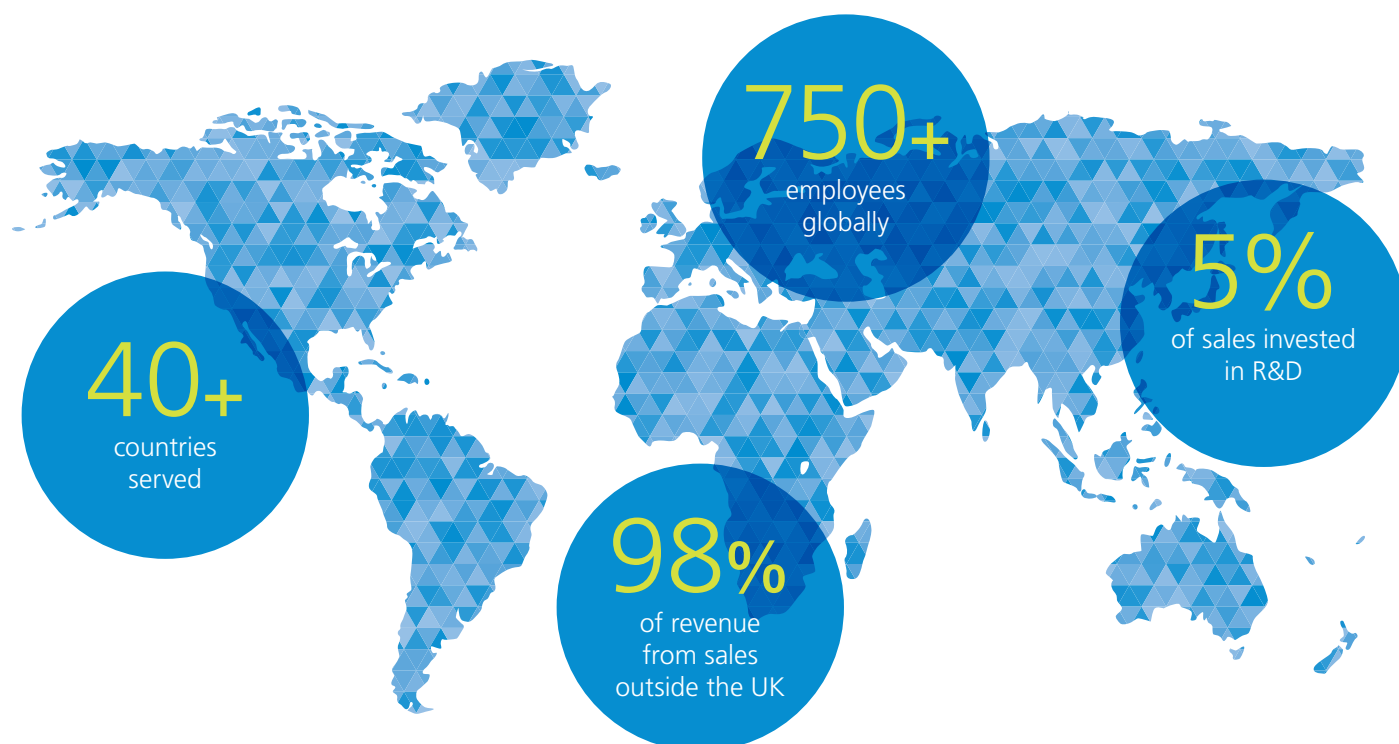


Visit www.victrexplc.com or scan with your QR code reader to visit our Group website

Victrex at a glance

Shaping future performance...

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



Investment case

An innovative world leader:
building the PEEK/PAEK market

No.1

PAEK capacity

Highly cash generative
business model

£120m

cash



Our business model
Pages 6 and 7

Strong pipeline of medium to
long-term growth opportunities

6

mega-programmes

A focused and differentiated
strategy: moving downstream

10–20%

aspiration for sales from new products
in medium term



Introduction to strategy
Page 10

...across our major markets

Victrex solutions are found across a range of applications.



AEROSPACE

15,000+

aircraft flying with Victrex solutions



AUTOMOTIVE

200m+

braking systems using Victrex™ PEEK



ELECTRONICS

1bn+

mobile devices using Aptiv™ film



ENERGY

75m+

Victrex™ PEEK seal rings in use today



MANUFACTURING & ENGINEERING

100m+

machines using Victrex solutions



MEDICAL

9m+

implanted devices



Our markets and megatrends
Pages 8 and 9

Focused on delivery



Larry Pentz
Chairman

“ With our strategy well embedded, our focus is to deliver the ‘burden of proof’ for our pipeline of growth programmes. By building the supply chain and manufacturing capability – either organically or through partnership – validating new applications with evidence and working with partners, we will seek to commercialise new selected semi-finished and finished products alongside our core polymer offering.

Strategy and differentiation

Our product leadership strategy, to become a world leader in value creation through high performance PEEK and PAEK polymer solutions, means developing new applications, new grades and product forms, including composites, and new markets alongside our core polymer offering.

As we have seen this year, our core polymer business continues to perform well in a competitive market. Whilst our sales are largely derived from core polymer materials, we believe that 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.

With structural megatrends around metal replacement, the opportunity to capture long-term growth within the PEEK and PAEK polymer markets remains sizeable. Moving downstream into new and selected semi-finished and finished products ('parts') shows Victrex as not only a differentiated business, but as the pioneer of the high performance polymer market. With a Polymer & Parts offering, we can further differentiate our business, operate as a genuine solutions provider for our customers, capture a higher value share from each application and deliver continued strong returns for our shareholders.

Delivering our growth pipeline

Our growth pipeline includes our core application developments and our 'mega-programmes', with each mega-programme offering the potential for over £50m of annual revenue in its peak sales year. Whilst we are mindful that driving full market adoption can take time, given these programmes and applications are largely 'disruptive' to incumbent metal or existing polymer technologies, 2017 saw good progress in the early commercialisation of several mega-programmes. In Automotive, our Gears mega-programme secured its first production agreement with a major European manufacturer starting in 2018 and we also have some emerging opportunities in the electric vehicle area; in Aerospace we completed a joint venture, TxV Aero Composites, providing us with the capability to manufacture semi-finished parts; whilst in Medical, first meaningful revenue of £1m was secured for our innovative PEEK-OPTIMA™ HA Enhanced next generation Spine product.

Investment to support the 'burden of proof' and delivery of our growth pipeline continues. This year we invested in our TxV Aero Composites joint venture, a £10m acquisition of Zyex PEEK fibres – which complements our semi-finished products offering – and completed our £10m Polymer Innovation Centre, to support our prototyping capability and the development of new differentiated polymer grades, including 3D printing opportunities.

Results

I am pleased to report that 2017 was a good year for Victrex, with a strong performance in our core polymer business and steady progress in the early commercialisation of our mega-programmes. The majority of our markets performed well, demonstrating the value of a balanced portfolio, with notably strong performances in Automotive, Electronics, Value Added Resellers and Energy.

Group revenue of £290.2m was 15% up on the prior year (2016: £252.3m), including the benefit from currency.

Group profit before tax of £111.0m (2016: £100.3m) was up 11%, a good performance which also reflects increased investment in the 'front-end' commercial, technical and marketing functions. Earnings per share of 116.4p (2016: 96.8p) was up 20%, largely reflecting the associated benefit of a lower tax rate as part of Victrex filing patents for our unique chemistry and IP which qualify for the UK government's 'Patent Box' legislation, which encourages investment in UK Research & Development.

Cost efficiency to support investment for growth

With an emerging proportion of our manufacturing being in the downstream 'parts' area, we will continue to ensure our core polymer production operations are fit for purpose in a competitive market. With some resources transitioning from primary manufacturing (core polymer) into secondary manufacturing (manufacturing of parts), we are also evaluating cost opportunities within our supply chain.

Capital expenditure was £16.7m (2016: £25.9m) and is expected to remain similar over the short term.

Innovation and technical excellence remain key differentiators for Victrex and our R&D expenditure of £14.5m (2016: £14.1m), or 5–6% of Group revenue, compares favourably to peers.

M&A and partnerships remain key options for Victrex in supporting our growth programmes. Our strategy of 'Make versus Buy' offers us the opportunity to develop assets or capability ourselves, or buy in this capability as we have done with Kleiss Gears, our TxV Aero Composites joint venture and the acquisition of Zyex.

Cash-generative business model

With a highly cash-generative business model, our focus remains on investment for growth, whilst ensuring we can make appropriate returns. Whilst investment in the business is the priority, with capital expenditure set to remain at current levels for the medium term, and the future benefit to cash from a lower tax rate as part of the UK government's Patent Box legislation, attractive opportunities exist for incremental shareholder returns. The Group's closing cash balance reached £120.1m this year (2016: £64.0m), with no debt. Operating cash conversion was 124% (2016: 96%).

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.

With continued strong cash generation, the Board is proposing a special dividend of 68.00p.

Our regular dividend seeks to maintain cover at or around 2x and grow the regular dividend in line with earnings. With earnings per share up 20%, the Group is proposing to pay an ordinary dividend of 53.80p per share (2016: 46.82p), an increase of 15%. Dividend cover is at 2.2x (2016: 2.1x). The Board continues to believe the capital allocation policy is appropriate in ensuring investment in the business is the priority whilst supporting opportunities for additional returns.

Governance and the Board

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

During the year we announced that David Hummel, our Chief Executive since 1993, would be retiring in 2018, after nearly 25 successful years. Dave has been instrumental in making Victrex what it is today, creating new markets and applications and growing sales by over 10% on an annualised basis. The Board is enormously grateful to Dave for his contribution over many years and the Group remains well placed for the years ahead. He is working through a transition with Jakob Sigurdsson, who joined us as Chief Executive on 1 October 2017. Jakob brings over 20 years of experience in global companies, including developing emerging markets. I look forward to working with Jakob as we focus on delivering our strategy. In December we announced that our Group Finance Director, Louisa Burdett, will step down from the Board in 2018, after four successful years. Richard Armitage has been appointed as her successor and will join Victrex in April 2018. I would like to thank Louisa for her contribution to Victrex and welcome Richard to the team.

Corporate governance at Victrex remains strong. During the year we also announced an audit tender process to replace KPMG, our auditor since 1993. The outcome of the audit tender saw PricewaterhouseCoopers LLP ('PwC') appointed to the role. Further detail can be found in the Corporate governance report on pages 52 and 53.

Safety

Victrex again recorded no lost time accidents, a measure of our safety practices. We also secured the Royal Society for the Prevention of Accidents ('RoSPA') Gold award for the 20th year.

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

Sustainability

Victrex has continued to make progress against its 2023 Vision (timed to celebrate the 30th anniversary of Victrex's formation), although we will continue to monitor the practicality of several targets. We anticipate becoming carbon neutral ahead of 2023, thanks to the strength of our products in the Aerospace and Automotive markets which support lightweighting, durability and fuel efficiency. Several of our interim targets have now been completed ahead of schedule. Further detail can be found in the Sustainability report on pages 28 to 39.

People

This has been a good year for Victrex, despite competitive markets, and on behalf of the Board I would like to thank each and every one of Victrex's employees for their continued contribution.

Outlook

Looking forward, we have started our new financial year with positive growth momentum. Whilst Sterling has strengthened over recent months, currency is still supportive for the year ahead, although not at the levels seen in 2017. We remain focused on driving growth, cost efficiency and making progress in delivering our Polymer & Parts strategy.

Larry Pentz
Chairman

5 December 2017

Our business model

► MOVE DOWNSTREAM ►

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

Our operating model is focused on becoming an integrated solutions provider across Polymer & Parts.

To **DRIVE CORE BUSINESS**, we are focused principally on cost efficiency in our manufacturing, continuous improvement in our operations, alongside technical service and great product quality for our customers. By **DIFFERENTIATING THROUGH INNOVATION**, we are investing in a **PUSH** strategy towards commercialisation of specific applications and Victrex's capability to deliver them. This includes through application development, technical service, R&D and prototyping new polymer grades or semi-finished products.

PUSH (CONCEPT & CAPABILITY)

1. DRIVE CORE BUSINESS

- Cost efficiency
- Continuous improvement
- Technical service
- Application development

2. DIFFERENTIATE THROUGH INNOVATION

- Differentiation & market making
- R&D
- Qualified value proposition
- Polymer Innovation Centre; prototyping

▶ FROM POLYMER TO PARTS ▶

...FUTURE VALUE

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



'BURDEN OF PROOF'



AUTOMOTIVE



AEROSPACE



ENERGY



ELECTRONICS



MEDICAL



MANUFACTURING
& ENGINEERING

4. UNDERPIN

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

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

PULL (EVIDENCE & VALIDATION)

3. CREATE & DELIVER FUTURE VALUE

- Build downstream manufacturing capability
- Make and/or Buy
- Capital expenditure
- M&A/JVs, partnerships
- Drive adoption: Key Opinion Leaders and market access

4. UNDERPIN

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

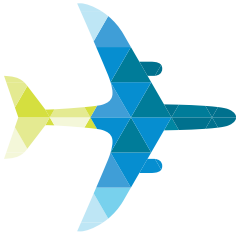




To **CREATE & DELIVER FUTURE VALUE**, we invest in a **PULL** approach, where we look to create pull through from the market by building the necessary downstream manufacturing capacity and by acquiring any necessary know-how or technology (Make and/or Buy). We seek to gain advocacy on our technology or products from Key Opinion Leaders, and by working with partners to drive adoption and delivery in the market. We characterise this as delivering the 'Burden of Proof' for our downstream semi-finished and finished products. Finally, we **UNDERPIN** our operating model through a safe and sustainable business.

Sizeable growth opportunities

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

MARKETS

MARKET OPPORTUNITY

INDUSTRIAL	Aerospace		2x current global airline fleet by 2035 <small>(Source: Composite World)</small>
	Automotive		12g PEEK/car average (increase from current 8g) over medium term
	Electronics		25 billion+ intelligent systems and devices by 2020 <small>(Source: GfK)</small>
	Energy including Other Industrial and Manufacturing & Engineering		25% increase in demand for global energy by 2040 <small>(Source: IEA)</small>
MEDICAL	Medical		Vision to treat a patient with Invibio Solutions every 15–20 seconds (by 2025)

MEGATRENDS

CONSEQUENCES

OUR OPPORTUNITIES

Fly lighter

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

Weight, cost reduction and fuel efficiency

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

Lightweight metal replacement

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

Our materials can also provide more efficient manufacturing.

Fuel efficiency and durability

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

Emissions reduction design challenges

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

Lightweight metal replacement

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

ABS braking systems, gears and transmission systems are key application areas. Electric vehicles ('EVs') offer an emerging opportunity.

Thinner, smaller, smarter

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

Energy and thermal management challenges

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

High durability, thin film technology

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

Natural resource depletion

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

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

Extreme environments

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

Recover more

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

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

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

Introduction to strategy

Delivering our strategy

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



POLYMER & PARTS

Dear shareholder,

Our focused growth strategy is now well embedded, to further differentiate Victrex by moving downstream into selected semi-finished ('product forms') and finished products and components ('parts'), complementing our core polymer materials offering.

'Polymer & Parts' seeks to capture increased value from each application opportunity, for example not only by supplying polymer, but by developing selected parts which deliver a total solution to our customers. This enables us to capture not just the material share of an application, but to secure revenue for selected semi-finished parts or components too.

Our core polymer business continues to 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. I look forward to driving forward our strategy and looking at how we may be able to accelerate the significant growth opportunities that exist for Victrex.

Driving our core business

Our core business has performed well this year and we continue to gain specification of our product with end users. Sales volumes, excluding Consumer Electronics, increased by over 15% in 2017. Continuing to focus on cost efficiency opportunities in our business will also remain important for Victrex and we have some further areas of opportunity here, including within the supply chain.

Differentiating through innovation

Developing new grades and new product forms using our inherent innovation capabilities – supported by our world-class Polymer Innovation Centre, which came online this year – will also help to drive medium-term growth and differentiate our business. That is why we are aligned to Polymer & Parts, by focusing on a small number of selected application areas, which require high levels of innovation and technical know-how. In short, Victrex is creating new markets for our products, extending beyond simply manufacturing polymers. A great example is in Automotive, where our PEEK Gears proposition can replace metal gears, saving weight, cost from quicker manufacturing, and offering reduced noise and other performance benefits. Electric vehicles are another emerging area with significant opportunity for us, including e-motors, actuators and other applications.

Creating and delivering future value

Unlike typical materials companies, Victrex seeks to understand the end market need, often where existing materials or technologies are not delivering the required performance. Once we have proven the concept and used our know-how to develop a solution, we then need to deliver the 'burden of proof' for our markets. Driving adoption of often 'disruptive' technology means considering M&A and working with partners or Key Opinion Leaders to deliver this 'burden of proof'. As we have shown over many years, particularly with our Medical business – developed organically into a £50m revenue business today – we have proven our capabilities to deliver growth and value. This year we made continued progress with several key milestones delivered in our growth pipeline. These include a supply agreement for PEEK Gears with a major Automotive manufacturer; first meaningful revenue for PEEK-OPTIMA™ HA Enhanced, our next generation Spine product; and a joint venture to build the supply chain for our Aerospace Loaded Brackets application.

Underpin: safety, sustainability and capability

We will continue to underpin our strategy through a safe and sustainable business, including effective recruitment of talent, effective processes and systems, and business efficiency.

After only a few months as Chief Executive, I have found great people, a committed team, a highly compelling strategy, a strong technology platform and significant growth opportunities. During the year we communicated our vision to grow our downstream sales from new products and differentiated polymers to be 10–20% of Group sales over the medium term. In summary, our strategy is unchanged, with execution and delivery remaining key for us over the coming years. I look forward to updating you further on our progress at the end of 2018.

Jakob Sigurdsson
Chief Executive Officer
5 December 2017



Q&A with the CEO, Jakob Sigurdsson

What is your view on the strategy after a few months at Victrex?

We have what I believe is a unique and compelling strategy. We will maximise and grow our core materials business whilst using our inherent innovation capabilities to build and create new markets for our polymers and our semi-finished products. None of our competitors are doing this. If you consider that Polymer & Parts positions Victrex as a total solutions provider, we have the opportunity to capture more value and more revenue than we do today. Consider also that whether it is Gears, Knee or Dental – these are sizeable markets and the growth opportunities are significant. We may be in the early commercialisation stages but there is no doubt that we are delivering on these early milestones and making progress.

➤ [Our strategy and key performance indicators](#)
Pages 12 and 13

When will we start to see the strategy contributing in a meaningful way?

Many of our new growth programmes are disruptive to metal or incumbent materials, and will take time to be adopted in their respective markets, even if they are technically proven. Additionally, the more bespoke nature of these applications means delivering what we call the 'burden of proof' to customers is important – this includes building the supply chain with manufacturing capability, working with partners, and gaining support from Key Opinion Leaders to deliver evidence of the performance benefits of new applications using our polymers. Our core polymer business remains in growth and we are continuing to invest in technical and marketing resources to drive adoption and deliver the 'burden of proof' for our pipeline of growth programmes. In the meantime, we are also continuing to benefit from foreign currency, whilst our cash generation remains strong, providing the potential for incremental returns to shareholders.

What will you bring to Victrex?

My experience is diverse, in both private and public companies, and across a number of industry sectors and geographies. I am also a Chemist and my education was very science oriented. Where my experience is relevant to Victrex is in developing growth strategies and – importantly – delivering them in emerging or new markets with global business development experience, including at Promens, where the company moved into several new market areas, and Rohm & Haas, a company which had similar innovation strengths to Victrex, and was aligned to excellence and product leadership. Victrex has several new market areas itself and is at an early stage of commercialisation and further developing its competencies. A renewed focus on execution and ways that we can accelerate this – whether organically or through M&A and partnerships, or refining our pipeline of projects – will be my priority.

What have you learned so far at Victrex?

That our growth opportunities and the reasons to invest in Victrex are as compelling as I originally thought and that we have a great team of employees globally who are committed to move forward with this strategy, differentiating our business and, as I have said, with execution as our number one priority every day. I have also learned that we are not short of growth opportunities but that we need to remain focused on executing what we have. Our investment case remains strong. Alongside our growth opportunities, our cash generation provides an additional attraction and I'm looking forward to continuing the strong track record Victrex has.

Our strategy and key performance indicators

Drive

core business



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

Achievements in FY 2017

- Core business volumes up >15%
- New opportunities delivered in electronics (Home Appliances)
- New Manufacturing & Engineering opportunities
- Competitive regain c.100 tonnes

Focus for FY 2018

- New and incremental applications
- Further efficiency opportunities

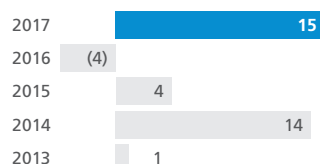
Primary link to risk

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

Key performance indicators

Revenue growth (reported) %

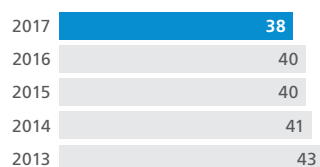
15%



Return on sales %

38%

Return on sales: PBT/revenue



Differentiate

through innovation



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

Achievements in FY 2017

- Investments in Magma; TxV Aero Composites
- Acquisition of Zyex offers new product form (fibre)

Focus for FY 2018

- Polymer Innovation Centre supports new grades and prototyping, process improvement and 3D printing opportunities

Primary link to risk

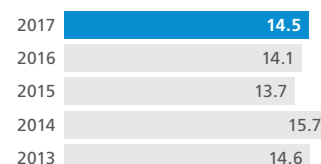
- Future business growth
- Ethics and regulatory compliance

Key performance indicators

R&D spend £m

£14.5m

5% of Group revenue



New products as a % of Group sales %

4%

Sales from new grades sold from FY 2014 onwards

(Aspiration to deliver 10–20% of sales from new products in medium term)



Create & deliver future value



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

Achievements in FY 2017

- Magma: rental pipe model roll-out
- Meaningful revenue (£1m+) for PEEK-OPTIMA™ HA Enhanced
- Gears: production agreement to major European OEM starting in 2018
- Aerospace Loaded Brackets: TxV joint venture

Focus for FY 2018

- PEEK-OPTIMA™ HA Enhanced: further progress
- Gears: multiple production agreements
- Aerospace brackets: first parts supplied

Primary link to risk

- Business continuity of supply chain
- Future business growth

Key performance indicators

Pipeline mega-programmes

6

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

2017	6
2016	6
2015	6

Earnings per share p

116.4p

2017	116.4
2016	96.8
2015	98.1
2014	94.6
2013	86.5

Underpin through safety, sustainability and capability



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

Achievements in FY 2017

- 1.3 million employee hours worked with no reportable injuries
- 500 tonne reduction in water and hazardous waste

Focus for FY 2018

- Continued safety performance
- Progress towards 'carbon neutral'

Primary link to risk

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

Key performance indicators

Employee hours worked with no reportable injuries m

1.3m

2017	1.3
2016	1.3
2015	1.2
2014	1.1
2013	1.1

Hours worked in the community

600+

As communicated from FY 2015 onwards

2017	600+
2016	500+
2015	500+

Strong core growth and record cash generation



Louisa Burdett
Group Finance Director

“ Strong growth in our core business offset the expected impact of significantly lower Consumer Electronics volumes.

	2017	2016
Group revenue	£290.2m	£252.3m
Group profit before tax	£111.0m	£100.3m
Cash	£120.1m	£64.0m
Earnings per share	116.4p	96.8p
Dividend per share (regular and special dividend)	121.80p	46.82p

Strong core business (ex-Consumer Electronics) volumes up >15%

The strong growth in our core business offset the expected year on year impact of significantly lower Consumer Electronics volumes. Total Group sales volume of 3,992 tonnes was 1% ahead of the prior year (2016: 3,952 tonnes). Excluding volumes from the large Consumer Electronics order, core business growth was over 15% ahead.

Our second half year saw a tougher comparative, reflecting that volumes from the large Consumer Electronics order were heavily H2 weighted during 2016. Despite this challenge, H2 2017 Group volumes of 2,133 tonnes were only 2% lower than the second half of 2016 (H2 2016: 2,182 tonnes), underlining the strength and diversity in our core business.

Our Industrial division (VPS) reported revenues of £236.3m, 17% ahead of the prior year (2016: £201.5m), supported by currency. Market growth was broad based, with Automotive, Electronics (ex-Consumer), Value Added Resellers – driven partly by indirect business into the Automotive and Industrial markets – and Energy being particularly strong, offsetting a weaker performance in Aerospace in the second half of this year, principally driven by phasing of new models.

Medical (Invisio) revenues were £53.9m, 6% ahead of the prior year (2016: £50.8m), reflecting currency. Whilst the US Spine market remains mature, progress outside of the US in Europe, as we diversify our Medical business away from just being US focused, continues to be positive. Spine revenue overall was down 1% although we enjoyed good progress with our next generation Spine product, PEEK-OPTIMA™ HA Enhanced, which delivered over £1m of revenue this year. We anticipate further growth and progress towards our next milestone in 2018.

Alternative performance measures

We use alternative performance measures to assist in presenting information in an easily comparable, analysable and comprehensible form. The measures presented in this report are used by management in evaluating performance and are as follows:

- Group metrics excluding Consumer Electronics are referred to as core, i.e. core volumes, core revenue and core business;
- Group revenue in constant currency, which is reached by applying current year (FY 2017) effective currency rates to prior year (FY 2016) transactions (see note 21);
- Operating cash conversion (cash generated from operations/ operating profit);
- Sales from new products (sales from new grades sold from FY 2014 onwards);
- Return on sales (PBT/revenue); and
- Dividend cover (earnings per share/total dividend per share). This excludes the special dividend.



Financial statements
Pages 78 to 104

Strong core business

Automotive performed well again this year.



Revenue 15% ahead; 3% ahead in constant currency

Group revenue for 2017 was £290.2m, 15% ahead of the prior year (2016: £252.3m). Group revenue in constant currency was 3% ahead of the prior year (2016: £282.8m in constant currency). Sales from new products (one of our strategic KPIs) were £10.7m, or 4% of Group revenues. Our aspiration is to drive sales from new products up to 10–20% of Group revenues over the medium term. This includes sales from our mega-programmes and new differentiated polymer grades (sales from new products includes new grades or semi-finished products which commenced commercialisation from FY 2014 onwards).

Currency benefiting pricing

Our Average Selling Price ('ASP') of £72.70/kg was ahead of the prior year (2016: £63.80/kg), principally reflecting currency benefits. Mix, with much lower Consumer Electronics volumes, offset by a muted performance in Medical and a higher proportion of Value Added Resellers business, remained similar to 2016.

Underlying pricing in the core business remains broadly stable, with product mix being an important driver. Competitive pressure remains, however, and our focus on differentiation and value added semi-finished products will be a key driver of maintaining price over the coming years. Excluding Consumer Electronics volumes and the impact of foreign currency, our ASP in 2017 was £65/kg (2016: £68/kg), which reflects a higher proportion of Value Added Resellers and a muted performance in Medical.

Looking into 2018, with a further, but reduced, benefit from currency, our expectations are for full-year ASP to be slightly ahead of 2017.

Gross margin

Group gross margin of 63.3% (2016: 62.9%) was marginally ahead of the prior year, but slightly lower than our full-year expectations particularly given favourable currency movements. Two factors contributed to this. Firstly, during 2017, there was a strong ramp in higher than anticipated demand during our second half and, after a degree of downsizing in the earlier part of the year, the business needed to deploy additional resource quickly back into our operations team to meet this growth. This inevitably led to some inefficiencies in ramp up and the need for air freighting of material. The impact of this on the margin should not reoccur. Secondly, and as previously communicated, our strategy involves a transition to a higher cost of manufacture – as we develop differentiated polymers and new grades and products to support our mega-programmes and semi-finished products. This will continue to be a feature of our business model.

However, our strategy also offers the opportunity to capture a higher value share of each application (rather than just the material share). Remaining focused on growing absolute profits, rather than solely focusing on the gross margin percentage, remains a priority for Victrex.

Profit before tax up 11% and EPS 20% ahead

Group profit before tax ('PBT') of £111.0m was 11% up on the prior year (2016: £100.3m). PBT in constant currency – removing the effect of the Group's profit linked bonus scheme, which did not pay out in 2016 – was down approximately 2%, driven by the higher cost of manufacture and higher investment in the business during the year.

Basic earnings per share of 116.4p was 20% ahead (2016: 96.8p), principally reflecting the associated benefit to the Group's tax rate following Victrex filing patents to reflect its unique chemistry and intellectual property ('IP') which qualified for the UK government's Patent Box scheme.

Volatile currency but still supportive for 2018

Currency provided a benefit of approximately £18m to our 2017 profits, weighted approximately 30:70 in H1 and H2. As a UK-based exporter, and with a significant global revenue exposure, Victrex hedges currency up to 12 months in advance. We are mindful that Sterling has been re-rating over recent months against some of our selling currencies, meaning the benefit for 2018 will be lower than that seen in 2017. All hedging placed for 2018 is based on post-Brexit deals. With over 80% hedging now in place for 2018, the anticipated currency benefit is expected to be more than £10m.

Brexit

Management continues to consider the potential impact of Brexit on its business. Based on our assessment of the available information, the largest 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. To mitigate such a risk, the Group is assessing additional global warehousing and the potential opportunities from measures to improve import and export processes, such as Authorised Economic Operator status. In the short term, Brexit has provided, and continues to provide, a currency benefit. If Sterling remains weak, this upside could compensate for any additional tariffs. However, at this stage, there remains considerable uncertainty as to the overall net impact on the business from Brexit after March 2019. The Directors' focus on Brexit is to ensure that the Group remains in the best position to ensure continuity of supply on raw materials and access for our products to key markets.

Financial review continued

Investment for growth

Our world-class £10m Polymer Innovation Centre was completed this year.



Cost focus; support 'front-end' investment

Victrex remains fully focused on being cost competitive in our manufacturing. As communicated earlier in the year, we are evaluating some potential cost opportunities in our supply chain, whilst ensuring that we retain the differentiators in our polymer chemistry and manufacturing process.

As we move further downstream to add semi-finished and finished products to our portfolio, we will continue to invest to drive the 'burden of proof' for these products.

Overheads were up 24% to £72.7m (2016: £58.4m) which reflects higher front-end investment, as well as the Group's profit growth-linked bonus scheme and LTIPs (which did not pay out during 2016). The Group also incurred £2.0m of restructuring costs from business reorganisation during the first half of 2017. Research & Development investment was £14.5m (2016: £14.1m), representing approximately 5% of Group revenue.

Investment to support long-term growth

During the year we announced an investment in a new joint venture, TxV Aero Composites, where Victrex and Tri-Mack Plastics will team up to manufacture, at scale, differentiated Loaded Brackets for the Aerospace market. We anticipate the capital investment, for a new US manufacturing facility, will be in the region of £10m, with approximately half committed during 2017, alongside some incremental overhead investment. Construction of our new facility and recruitment to support it is progressing well. Commissioning is on track for the second half of 2018, with the first 'parts' available for supply.

Victrex also announced the acquisition of Zyex, a UK-based PEEK fibres business, for approximately £10m. Zyex is recognised as a global leader in the manufacture of PEEK fibres for the Aerospace, Industrial and Automotive markets. Examples of product applications include fuel filters for Automotive and food processing belts for Industrial. We have made good progress integrating Zyex and are focused on improving efficiency within the business, as well as the significant opportunity to build this new product form as a platform to translate globally.

Our other recent investments were in Magma (our Oil & Gas mega-programme) where we acquired a minority equity stake; and in our world-class Polymer Innovation Centre at our UK headquarters, which supports the ability to scale up or test new polymer grades or applications – a key role for our downstream Polymer & Parts strategy – and supports process improvement for existing products. M&A, joint ventures, acquisitions or organic investments remain very much in focus and with our cash resources we will continue to consider appropriate investments which can help accelerate progress in our pipeline.

For organic investment, our expectations of medium-term capital expenditure in the £25m–£35m per annum range are unchanged, but in the short term we anticipate this will now be closer to a £20m per annum level. Total capital expenditure for the year was £16.7m (2016: £25.9m).

Progress in our development pipeline

Victrex has a strong core application development pipeline. In our core business, we benefited from some new and incremental applications during the year. These include home appliance applications in Electronics, business machines and fluid handling systems in Manufacturing & Engineering (which reports under Energy & Other Industrial). New and incremental applications in the wider Electronics market offer us good medium-term opportunities.

In our medium to longer-term pipeline, Victrex has six mega-programmes of Dental, Victrex Pipe/Magma, Trauma, Knee, Gears and Aerospace Loaded Brackets, as well as some smaller opportunities such as PEEK-OPTIMA™ HA Enhanced for the Spine market.

Good progress was made this year in Gears, where we have a first supply agreement to a major European automotive manufacturer starting in early 2018. Thanks to the capabilities we acquired through the Kleiss Gears acquisition, we are able to design, develop and manufacture gears. With a number of other Gear development programmes also underway with major car manufacturers and in the industrial space, we anticipate further progress, working in partnership, which will limit the need for significant capital outlay and could reduce development time, whilst ensuring that Victrex retains the IP for development.

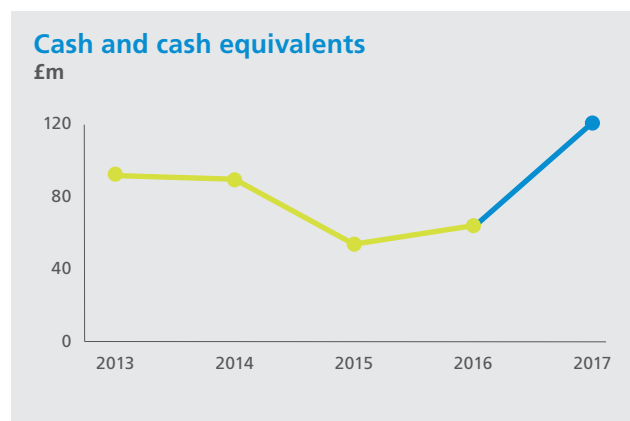
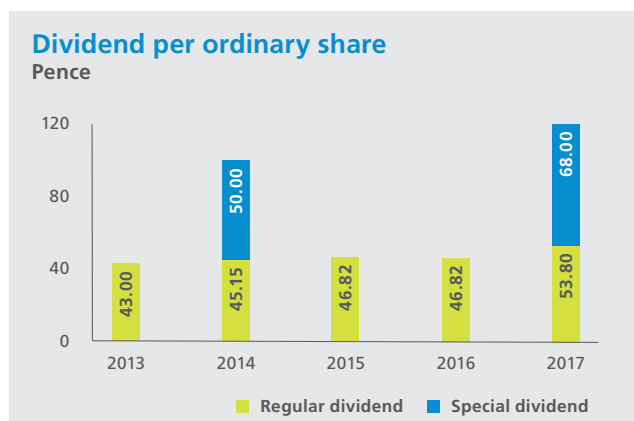
Aerospace Loaded Brackets also saw progress thanks to our TxV Aero Composites joint venture. Our AE 250 composites are pre-qualified with the major aerospace manufacturers and development of our US parts manufacturing facility is well underway. Whilst our PEEK-OPTIMA™ HA Enhanced programme in Spine is now a major programme – reflecting the long-term cannibalisation of existing PEEK-OPTIMA™ products – progress has been good this year, with 28 global approvals and first meaningful revenues of over £1m delivered slightly ahead of schedule.

Our other mega-programmes of Magma, Trauma, Dental and Knee continue to progress. Magma's long-term proposition remains strong, although the immediate focus continues on revenue from test orders or pipe for intervention or jumper lines. The focus in our Trauma, Dental and Knee programmes is on partnerships and collaborations to deliver market access, and we are closing in on a major OEM agreement in Dental.

Strong balance sheet

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

Net assets at 30 September 2017 totalled £478.4m (2016: £389.1m). Our defined benefit ('DB') pension scheme was closed to future accrual in March 2016. We continue to work closely with the pension trustees on de-risking pension outcomes. During the year, we have shifted investment from equities into diversified growth funds and liability-driven instruments which align our DB investment strategy more closely with the profile and volatility of the scheme liabilities.



Stock levels were at £61.5m (2016: £61.8m), reflecting strong demand alongside some of the early efficiency benefits from our ERP system being implemented.

For the medium term, we continue to see some opportunities to reduce our inventory levels, but remain mindful of the requirements, in the near term, to support the early development of more differentiated products. Many of these differentiated polymers and downstream products, including parts, require either minimum volume production campaigns or some initial stock build.

Victrex's Revolving Credit Facility (RCF), which expired in September 2017, was replaced with a 5 year bank facility of £40m, £20m committed and £20m accordion. The facility was undrawn at year end.

Continued strong cash generation

Cash generated from operations was £137.4m (2016: £96.0m) representing an operating cash conversion (cash generated from operations/operating profit) of 124% (2016: 96%). Net cash (with no debt) at 30 September 2017 was up 88% to £120.1m (2016: £64.0m).

This record cash performance was driven by a combination of strong trading, lower capital expenditure and favourable working capital movements. Working capital improved due to receivables moving to a more normalised level, following the weighting of Consumer Electronics volumes in Q4 2016.

In June 2017 we paid the interim dividend of 12.20p per share. Combined with the final 2016 dividend, paid in February 2017, these totalled £40.4m (2016 dividends paid: £39.9m).

Taxation

The effective tax rate for the year was 10.4% (2016: 17.7%).

This reflects the associated benefit of a materially lower UK tax rate, following Victrex filing patents as part of its unique chemistry and IP which qualified under the UK government's Patent Box scheme, which incentivises Research & Development investment in the UK. As previously communicated, the patents, based on our unique chemistry, are expected to provide an associated benefit to our tax rate, resulting in a normalised tax rate of approximately 12% from 2018. The lower rate during 2017 reflects the additional patent box deduction relating back to the date the patent application was made during 2016.

Dividends

Growth investment remains our top priority, whether that is capital expenditure or M&A, joint ventures or partnerships. Our capital allocation policy is to grow the regular dividend broadly in line with earnings, whilst maintaining cover around 2x. After this, and subject to no additional growth investment, Victrex will return around 50% of the net cash balance to shareholders, via a special dividend subject to a 50p/share minimum level. The threshold for payment of a special dividend is approximately £85m of net cash. With capital

expenditure reducing from historic levels, and reflecting the post-tax benefit to earnings and cash from Patent Box, the opportunities for incremental returns are attractive.

Victrex plc, the Parent Company of the Group ('Parent Company'), is a non-trading investment holding company which derives its distributable reserves from dividends paid by subsidiary companies. The level of distributable reserves in the Parent Company is reviewed bi-annually, aligned to the Board's review of the proposed interim and final dividend. The Board aims to maintain distributable reserves that provide adequate cover for dividend distributions. Distributable reserves equate to the balance on the profit and loss account reserve, which at 30 September 2017 equates to £132.1m.

The Group continues to be highly cash generative, providing sufficient funds to invest and with which to fund its dividend. The Group's continuing viability and going concern are detailed on page 27. The Board's ability to maintain the above dividend policy will be influenced by a number of the principal risks identified on pages 24 to 26. The risks that could have the largest impact on the dividend policy are those identified for sensitivity analysis in the viability statement, primarily core business growth, foreign currency risk, business continuity of supply chain and future business growth. Mitigation plans against all these risks are outlined within the risk section.

For the full year, with Group profit before tax increasing by 11% and earnings per share increasing by 20%, the regular dividend will increase by 15% to 53.80p (2016: 46.82p) and will be supplemented by a special dividend of 68.00p, following our cash balance reaching a record £120.1m. The special dividend of 68p/share equates to a payout of approximately £58m. The calculation to arrive at this payout excludes cash earmarked for investment in our TxV Aero Composites joint venture. Total dividends for the year were 121.80p (2016: 46.82p).

Audit tender process

The process to appoint a new external auditor took place during the year and we are pleased to have announced PricewaterhouseCoopers LLP ('PwC') as our auditor starting from our 2018 financial year (subject to approval at the 2018 AGM). The Board is grateful to KPMG for its lengthy service to Victrex.

Outlook

Looking forward, we have started our new financial year with positive growth momentum. Whilst Sterling has strengthened over recent months, currency is still supportive for the year ahead, although not at the levels seen in 2017. We remain focused on driving growth, on cost efficiency and making progress in delivering our Polymer & Parts strategy.

Louisa Burdett
Group Finance Director
5 December 2017

Shaping future performance



Tim Cooper
Executive Director
Industrial



Martin Court
Executive Director
Medical

Industrial (Victrex Polymer Solutions)

“ Industrial saw a strong and broad based performance from the core business.

Industrial (Victrex Polymer Solutions) revenue

£236.3m +17%

Industrial (Victrex Polymer Solutions) gross profit

£135.5m +19%

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

Our Industrial business (VPS) delivered revenue of £236.3m (2016: £201.5m), 17% ahead of the prior year, supported by currency. Gross profit was up 19% on the prior year, with gross margin at 57.3% (2016: 56.7%), offset by the business having to quickly deploy additional resources back into our operations team, to meet core growth. The Industrial business saw significantly lower volumes from the large Consumer Electronics order, but a strong and broad-based performance from the core business to replace these volumes. This resulted in a similar pricing mix, as Value Added Reseller business remained strong this year.

Energy & Other Industrial

Energy & Other Industrial (which includes Manufacturing & Engineering) reported sales volume of 555 tonnes, which was 14% ahead of the prior year (2016: 485 tonnes), with Oil & Gas up 15% overall. Victrex saw good year on year improvement, although parts of the Oil & Gas market continue to be challenging and capital expenditure in the industry has not yet returned to levels seen earlier this decade.

In our Magma Oil & Gas mega-programme, our £10m equity investment helped establish a pipe rental model, whereby operators can choose to lease a flexible pipe-based unit for 'intervention' or 'jumper pipe' activities. Our investment has also helped to drive initial adoption of the value proposition of m-pipe®.

Having secured first meaningful revenue for the Magma mega-programme in 2016, revenue this year was slightly down, although Magma is in active discussions for further trial or engagement programmes with operators – alongside recent deployments with the likes of ENI – and we believe the longer-term opportunity remains attractive. We also anticipate growth from the Magma opportunity during 2018. The emerging Manufacturing & Engineering ('M&E') area yielded some good results this year, with new or incremental applications in fluid handling, process systems and the 'internet of things'. This is a market area we will continue to add focus to, and one which has helped drive our core business growth this year.

Value Added Resellers

Value Added Resellers ('VARs') is an area we continue to focus on, and one which has helped drive our core business growth this year. VARs combines a mix of long-term 'Channels' business, where processors or compounders are using our materials for part or component manufacturing, together with more variable demand requirements. Because of the fragmented nature of the industrial supply chain, once PEEK and our polymers have been specified by end users, full clarity on the exact route to market for all of our polymer business is not always possible. The VARs segment reflects this and our sales volume of 1,688 tonnes was 21% ahead of last year (2016: 1,398 tonnes), as processors and industrial customers continued to benefit from the growth opportunities within the high performance polymer market.

Transport

Our Transport markets overall continue to perform well as the megatrends of lightweighting, CO₂ reduction, durability, comfort and heat resistance support growth. Sales volumes increased 7% to 929 tonnes (2016: 869 tonnes), primarily driven by the strong performance in Automotive, with a slightly weaker performance in Aerospace this year, primarily in the second half.

Automotive

In Automotive, growth was particularly strong, with volumes up 11%. Our core applications continue to offer good global translation opportunities, and across manufacturers, in braking systems and transmission and chassis applications. Victrex™ PEEK is predominantly located within the vehicle powertrains and, with a long track record here, our focus is to increase the average volume to approximately

12 grams of PEEK per vehicle over the medium term, compared to approximately 8 grams today.

Victrex's value proposition is not just focused in the internal combustion engine ('ICE') platform. The potential from electric vehicles ('EVs'), whilst still emerging, with slot liners and other applications, remains significant. 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 potential for over 100 grams per EV application, and with more 'value' rather than simply 'volume' business, we continue to work on several differentiated products in this area.

Our Gears mega-programme has made good progress this year and reflects the demand for lower noise, vibration and harshness ('NVH'), where PEEK Gears based on Victrex™ HPG PEEK can offer a 50% performance benefit compared to metal gears, as well as the trend for CO₂ reduction through weight and inertia reduction, and quicker manufacturing compared to metal. A supply agreement for PEEK Gears with a major European car manufacturer commences in early 2018 and we have also added new development programmes with several major car manufacturers. We are focused on driving this mega-programme towards a meaningful (£1m+) revenue stage during the 2018/2019 period. Partnering with others to support a wider manufacturing roll-out and reduce development time whilst retaining the IP and development know-how will be a key part of this programme.

Aerospace

In Aerospace, translation opportunities for our existing products in brackets, fasteners and other applications remains strong, although phasing of new platform build rates meant a second half slowdown this year in certain models, leading to volumes declining by 5%. We remain positive for medium-term growth prospects as build rates and the use of composites 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 AE250™ (low-melt) version, continue to progress, alongside our focus on product forms such as film and parts such as our Aerospace Loaded Brackets opportunity.

We formed our TxV Aero Composites joint venture this year, with Tri-Mack Plastics, to build a new manufacturing facility in the US, supporting a differentiated and protectable Loaded Brackets product, following pre-qualification for our PEEK/composites last year.

Electronics

Electronics was a very strong performer this year, despite the significant decline in Consumer Electronics resin volumes. Total volumes were down 36% to 626 tonnes (2016: 977 tonnes), but excluding the lower year on year volumes from the large Consumer Electronics order, Electronics volumes were over 40% ahead. This principally reflects an improved performance in semiconductor, in Aptiv™ film and in some emerging applications for home appliances and other consumer related areas.

For the large Consumer Electronics order, our current planning assumption, and based on some initial volumes supplied, is that our PEEK will be used on smartphone models during 2018. At this early stage, volumes are anticipated to be in a similar range to those delivered in 2017. We continue to work hard to secure differentiated product opportunities across the major device manufacturers.

Regional trends

In our regions, Europe was up 8%, with 2,155 tonnes (2016: 1,987 tonnes), reflecting the strength in Transport, Value Added Resellers and Industrial markets. Asia-Pacific was down 19% to 1,049 tonnes (2016: 1,303 tonnes) principally from lower Consumer Electronics, whilst US volumes were 19% ahead at 788 tonnes (2016: 662 tonnes) principally reflecting the improvement in the Energy market and Value Added Resellers.



Opportunities in Electronics

We are exploring new application opportunities.

Performance review/Executive Directors' reports continued

Medical vision

We aspire to treat a patient with Invibio solutions every 15–20 seconds.



Medical (Invibio Biomaterial Solutions)

“ Our premium and differentiated PEEK-OPTIMA™ HA Enhanced product made good progress this year, delivering over £1m of meaningful revenue.

Medical (Invibio) revenue

£53.9m +6%

Medical (Invibio) gross profit

£48.3m +9%

Our Medical business performed steadily during the year, principally reflecting the maturity of the US Spine market, with the US accounting for nearly two thirds of our Medical revenues. Europe performed well, with revenues increasing by 13%. Overall, Invibio revenue, including the benefit of currency, was up 6% at £53.9m (2016: £50.8m), although it was down in constant currency. Gross profit was £48.3m (2016: £44.5m) and gross margin nudged up to 89.6% (2016: 87.6%).

Medical market overview

Spine accounts for around two thirds of our Medical revenues. With a lack of material growth in the number of US spinal procedures, market growth in recent years has remained muted. This is now a mature market where PEEK has a good position and remains the material of choice in spinal fusion surgery, but incremental innovation is required to drive growth, offsetting the mature phase of the product lifecycle and some competition from Titanium in one very specific application – expandable cages.

Our premium and differentiated PEEK-OPTIMA™ HA Enhanced product made good progress this year, delivering over £1m of revenue by the third quarter, slightly ahead of schedule. This product, which offers improved bone-on growth and enhanced clinical benefit, now has 28 global approvals and whilst it will cannibalise some of our existing Spine product, the opportunity for global translations is attractive. We are focused on moving revenue beyond £1m and delivering further growth in 2018, including a focus on product launches in Asia.

Medical remains well placed in both the US and other geographic markets on a medium to longer-term basis, although adoption of new applications can be slow. During the year we communicated our vision to treat a patient every 15–20 seconds with Invibio solutions in 8–10 years (compared to approximately every 35 seconds today). As well as being a materials supplier, our in-house regulatory expertise and positioning with supportive clinical evidence will help us to drive our existing programmes and new business, including in Dental, Trauma and Knee programmes.

For our emerging business opportunities, our focus is on market adoption, whether through support data and clinical evidence to vindicate these programmes or engagement with Key Opinion Leaders and market influencers.

“ Our focus is on market adoption, whether through support data and clinical evidence or engagement with Key Opinion Leaders.

Mega-programmes

Whilst Dental sales remain below the £1m meaningful revenue threshold, we are closing in on a major OEM agreement, and have other opportunities, to gain enhanced market access and distribution, and to help drive adoption. Our focus is on establishing the clinical value of our solutions in order to be attractive to partners, and to gain wider market access through partnerships and distribution. We now have 5 year clinical data in implant borne prosthetics, and support from our collaboration with the Malo Clinic in Portugal, which reported successful performance data for JUVORA™ last year. With a 99% satisfaction rate (based on comfort and fit) for patients using our Juvora™ dental disc, our focus is on using strong clinical evidence and building enhanced market access.

Last year we commissioned our Trauma manufacturing facility, enabling us to have the ability to meet initial demand. These products offer the potential for 50x better fatigue resistance compared to a metal plate in the body. Collaboration or development agreements remain in focus, particularly with innovators or smaller players. Recent clinical trial data demonstrated that PEEK composites proved 100% successful in healing high risk trauma patients with distal femur fractures, whereas metal plates suffered breakage and only 75% of patients successfully healed. The awareness of composites as a viable metal alternative is growing and during the year we entered into a number of ongoing development agreements with small innovative players.

In Knee, we successfully completed all preparations for the Maxx Orthopedics clinical trial, with patient recruitment set to commence. With 1 in 5 patients dissatisfied with their knee surgery, typically using metal based solutions, patient demand for non-metal based solutions offer significant potential in this \$8bn global market. Our partnership with Maxx Orthopedics provides a good platform to support our long term aspirations.

Differentiated product

Our next generation Spine product performed well this year.



Image courtesy of Meditech Spine

Risk management

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



1 RISK AGENDA

Why do we undertake risk management?

Risk objectives

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

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

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

Risk strategy

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

2 RISK ASSESSMENT

How do we assess and record risks?

When assessing risk, we consider:

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

Analysis and recording of risks

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

We look at three lines of defence:

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

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

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

Re-evaluation and challenge of risks

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

During the year the eight principal risks were reviewed in accordance with the risk management policy. By assessing the components of each principal risk it was considered appropriate to redefine two of the original risks and as a result the two were separated into three as can be seen on pages 24 and 26. The remaining six were unchanged. Whilst there are now nine principal risks the overall risk profile of the Company remains unchanged.

3 RISK RESPONSE

How do we respond to risks?

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

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

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

4 RISK COMMUNICATION

Effective communication

At Victrex, our risk management structure is as follows:

Victrex plc Board

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

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

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

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

Audit Committee

The responsibilities of the Audit Committee are explained on pages 51 and 52. These responsibilities include reviewing the Company's risk management systems. The risk management system is primarily designed to mitigate risk down to an acceptable level, rather than completely eliminate the risk, and the review can provide only reasonable and not absolute assurance of effective operation, compliance with laws and regulations and against material misstatement or loss.

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

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

ELT Risk Management Committee

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

Risk management subcommittees

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

Projects

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

5 RISK GOVERNANCE












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

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

- For Board and internal audit, see pages 48 and 53 respectively.
- The chairman of each of the risk management subcommittees communicates significant output, activities and emerging and evolving risks to the meetings of the ELT Risk Management Committee, which reviews these and the risks in the corporate risk register. The three lines of defence model is recognised as best practice in relation to risk governance, and its inclusion on the face of our corporate risk register enhances the governance aspect of our risk management framework.

Principal risks

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.

Safety, health and environment	Core business growth	Recruitment and retention of the right people
Primary link to strategy 	Primary link to strategy 	Primary link to strategy 
<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>Whilst we continue to drive growth in our core business, the environment in which we operate is associated with a number of competitive risks.</p> <p>One of these competitive risks arises from pricing pressure and the second from the introduction of new competitor capacity and/or new competing materials.</p> <p>Failure to address these risks could significantly impact our ability to achieve growth in our core business.</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.</p> <p>We have policies and procedures to efficiently, safely and compliantly manage all our operations; protect the safety and health of our employees, contractors and visitors; and both manage our environmental responsibility and continually improve our resource efficiency.</p> <p>As our manufacturing facilities are regulated, we are subject to close review, for example by the Environment Agency and the Health and Safety Executive.</p> <p>Further detail is contained in the Sustainability report on pages 28 to 39.</p>	<p>Mitigation</p> <p>We aim to address price pressure by being focused on cost efficiency and continuous improvement in our operations, by having an appropriate pricing policy and by offering a strong value proposition as a solutions company – unique chemistry, specification of products with end users, quality and technical service, the performance benefits of our products and the ability to develop new applications.</p> <p>We seek to address new industry capacity in polymers by differentiating our business, with our offering now comprising semi-finished and finished products. These ‘downstream’ products offer future growth potential to help offset competitive pressure in core polymer material sales.</p> <p>We keep abreast of technological changes to materials and potential threats to PEEK and PAEK polymers by developing new grades with differing properties, as well as creating new markets for PEEK/PAEK polymers.</p>	<p>Mitigation</p> <p>We have strategies in place (collectively our ‘People Strategy’) to attract and retain the best talent, provide opportunities for personal development, encourage diversity and recognise and reward excellence. The People Strategy is discussed at Board, ELT and functional levels. Our employees have clear objectives and development plans, aligned to our strategy, and participate in formal and informal training programmes and reviews to assess their performance and effectiveness.</p> <p>We have succession plans in place for key roles and develop our future leaders so that we are able to promote internally as well as bringing in new talent from the outside.</p> <p>Where necessary, we will supplement the skills of our own employees with those of third parties in order to deliver our downstream strategy.</p> <p>We operate an equal opportunities policy and regard this as a commitment to make full use of the talents and resources of all our employees.</p>
<p>Change</p> <p> No change</p>	<p>Change</p> <p> Risk redefined  Risk decreased</p>	<p>Change</p> <p> Risk decreased</p>
<p>Viability statement links</p> <p> Risk considered</p>	<p>Viability statement links</p> <p> Risk considered</p> <p> Risk focused on in sensitivity analysis</p>	<p>Viability statement links</p> <p> Risk considered</p>

KEY TO STRATEGY



Drive



Differentiate



Create & deliver



Underpin

Foreign currency risk

Primary link to strategy



Risk area and description

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.

Mitigation

The Group adopts a hedging policy to mitigate short-term currency risk. Currency movement can have either a positive or a negative impact on the Group.

The currency policy is managed by a dedicated Currency Committee. The Committee regularly assesses whether the impact of major events, like the UK's referendum on EU membership, requires any modification to that policy.

Change



Risk decreased

Viability statement links



Risk considered



Risk focused on in sensitivity analysis

Business continuity of supply chain

Primary link to strategy



Risk area and description

It is essential to ensure continuity of supply and service to our customers and that we can operate even if a significant event did occur.

Failure to maintain a secure supply of high quality products to our customers by, for example, an unexpected upsurge in demand or delays in the implementation of major capital expenditure programmes could lead to a capacity shortage or insufficient inventory and loss of earnings.

Mitigation

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.

Our sales and operations planning process, together with our stocks of finished goods, which are held in a number of locations worldwide, is intended to enable us to maintain supplies to our customers during any short-term disruption. Additionally we work with our key suppliers to maintain appropriate stocks of key raw materials.

We have business continuity plans in place that are regularly reviewed to ensure their continued effectiveness.

Change



No change

Viability statement links



Risk considered



Risk focused on in sensitivity analysis

Network and IT systems and security

Primary link to strategy



Risk area and description

A significant failure or interruption in our IT networks and systems could have a detrimental impact on our business.

Cyber attacks are becoming more frequent and could result in denial of service or data theft. Data security is very important to us, as failure to appropriately process, store or share information could result in the loss of IP or the loss of data, whether it be our data, or that of our employees or customers.

Mitigation

We continue to review and invest where appropriate in the development and maintenance of our IT infrastructure, systems and processes and information security.

Implementation of our new ERP system commenced during FY 2016 and completed its roll-out in FY 2017.

We operate a firewall, antivirus software and third-party penetration testing and monitor any attempted breaches and take action where necessary to ensure our infrastructure remains robust and appropriate.

We have in place recovery plans and business continuity plans, which are regularly reviewed and tested.

Change



No change

Viability statement links



Risk considered

Principal risks continued

KEY TO STRATEGY  Drive  Differentiate  Create & deliver  Underpin

Product liability	Ethics and regulatory compliance	Future business growth
<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>We sell into highly demanding end-use applications and regulated markets. Any failure to supply our products in accordance with the specification could lead to loss of business which would impact revenue and give rise to a potential product liability claim.</p>	<p>Risk area and description</p> <p>Changes in regulatory requirements can provide an opportunity for further differentiation. Any failure to comply with ethical and regulatory standards has the potential to significantly affect our ability to deliver our business strategy.</p>	<p>Risk area and description</p> <p>Exposure to changes and events, such as increased competition and competitor capacity, external global economic conditions, or political environment, may impact the Group's performance and its ability to achieve its strategic objectives.</p> <p>Continued innovation, beyond polymer manufacturing, will help us move downstream, further differentiating our business but with the potential to increase risk.</p>
<p>Mitigation</p> <p>Victrix™ PEEK polymer is manufactured within a quality management system approved to ISO 9001:2015.</p> <p>Invio PEEK-OPTIMA™ polymer is additionally manufactured within a quality management system approved to ISO 13485:2016, a system of good manufacturing practice often used by the pharmaceutical industry and by medical device manufacturers.</p> <p>Victrix™ pipes for the Aerospace market are manufactured within a quality management system approved to AS9100 Rev C.</p> <p>We have also attained ISO 17025:2005 General Requirements for Competence of Testing and Calibration Laboratories certification.</p> <p>All of our products are supplied to an agreed specification.</p> <p>Supply contracts are used to mitigate the risk where practicable and in addition the Group maintains appropriate levels of product liability insurance.</p>	<p>Mitigation</p> <p>We continue to invest where appropriate in our Legal and Compliance teams, including the Quality teams and the Safety, Health and Environment team, supplemented by external resources as necessary, to ensure that we have access to the right resources.</p> <p>The new Medical Devices Regulations provide an opportunity for further differentiation which we will be looking to optimise in the coming financial year.</p> <p>Our Code of Conduct policies are reviewed regularly and compliance against them is monitored and reported to the Audit Committee. Training is provided to support the policies.</p> <p>Commercial contracts and our pricing strategy are reviewed by our Legal and Product Management teams.</p> <p>The UK vote to leave the EU (Brexit) has not had a direct material impact on the Group's performance in the current reporting period. Our central team is in place to review and assess the impact as more information becomes available and we are engaged with trade associations which are in contact with government.</p>	<p>Mitigation</p> <p>Whilst we continue to monitor and review competitive intelligence, our focus remains on further differentiating our business by developing new growth platforms and continuing to move downstream beyond polymer manufacturing into semi-finished products and components and leveraging our know-how and protectable IP.</p> <p>Delivery of our mega-programmes is influenced by a number of external factors; however, our portfolio and product management processes are designed to identify, quantify and when possible mitigate these uncertainties.</p> <p>Through our portfolio steering committee we regularly review and monitor the projects that will enable us to move downstream to ensure that any increased risks are being addressed.</p> <p>Whilst growth is impacted by a number of factors outside the Group's control, the diverse nature of its markets, its customers and the territories in which it operates, together with appropriate contingency planning, helps to mitigate the impact on the business of such changes and events.</p>
<p>Change</p> <p> No change</p>	<p>Change</p> <p> Risk redefined  No change</p>	<p>Change</p> <p> Risk redefined  No change</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> <p> Risk focused on in sensitivity analysis</p>	<p>Viability statement links</p> <p> Risk considered</p> <p> Risk focused on in sensitivity analysis</p>

Going concern and viability statement

Going concern

The Directors have performed a robust assessment, including review of the budget for the year ending September 2018 and longer-term strategic forecasts and plans, including consideration of the principal risks faced by the Company, as detailed on pages 24 to 26.

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

Viability statement

In accordance with the provision of section C.2.2 of the 2014 revision of the Code, the Directors have assessed the viability of the Group over a five-year period to September 2022, being the period covered by the Group's Board-approved strategic plan. The strategic plan, which is updated annually, includes analysis of profit performance (including our core business and our Horizon programmes), cash flow, investment programmes and returns to shareholders.

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

In making their assessment, the Directors have considered the Group's current strong financial position, including the level of cash at 30 September 2017 and the Group's ability to generate cash, and undertaken a comprehensive sensitivity analysis over the key trading assumptions combined with the potential impact of crystallisation of one or more of the principal risks (detailed on pages 24 to 26) over the five-year period. The risks have been assessed for their potential impact on the Group's business model, future trading and funding structure. The range of scenarios tested was carefully considered by the Directors, factoring in the potential impact, probability of occurrence and effectiveness of the mitigating actions.

A combined sensitivity containing an aggregation of all scenarios considered was performed and, whilst considered implausible, it demonstrated the Group's ability to take mitigating actions to maintain liquidity.

Whilst each of the risks outlined on pages 24 to 26 has a potential impact, the sensitivity analysis has been focused on those considered to have the most significant financial impact. These are marked as such in the table above. In addition to the risk mitigation plans, the Group's two distinct segments, both with diverse geographic markets, assist in reducing the risk of regional economic challenges and sector-specific issues. The strategy of partnering closely with customers to develop the right applications and our existing and growing list of specified products are also important mitigants.

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

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

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

Delivering sustainable benefits

Victrex's sustainability strategy builds on the competitive advantage and performance benefits we deliver to our customers and our markets, for example in helping reduce CO₂ in transport through lighter and more durable materials.

Our 2023 Vision – with long-term targets – is largely on track, with several interim targets already delivered. Victrex continues to focus on three key areas: sustainable solutions, resource efficiency and social responsibility.



New 2023 target for patients with PEEK-OPTIMA™ implanted globally

12 million

Introduction from the Chief Executive – Jakob Sigurdsson

In the three years since we introduced our sustainability strategy and 2023 Vision, Victrex has made continued progress. I am pleased to report that we have now completed several of our interim targets, whilst one of our long-term targets in the sustainable solutions area is close to being surpassed. Consequently, we have actually increased the target from 9 million patients implanted with PEEK-OPTIMA™ to 12 million, underlining our long-term confidence. Whilst we will continue to assess the practicality of our long-term targets, I am confident that we remain on the right path, and that we are delivering real sustainable benefits to our customers and markets, to our business, and to the communities where we operate.

Our sustainable solutions area also sees a new interim target in Automotive, to increase the level of PEEK polymers in cars from an average of 8 grams today, to 12 grams in the next three to five years. Across our resource efficiency area, our focus on CO₂ reduction continues to see steady improvement. We also delivered a 500-tonne reduction in water and hazardous waste per unit of revenue improved, whilst in social responsibility, our activities in the community, and to support the next generation of scientists and engineers, show progress. Our target to have over 75% of employees engaged and active on sustainability by 2023 has been revised down to 50%, largely reflecting realistic timing. Nevertheless, with continuous improvement and cost efficiency at the forefront of our business, we have a great opportunity to further improve our sustainability record over the coming years.

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

Jakob Sigurdsson
Chief Executive Officer
5 December 2017

Our sustainability goals

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

Sustainable solutions



Vision:

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

2023 target:

- Save more CO₂ than we produce (carbon neutral)
- 5 million-tonne reduction of CO₂ in Aerospace and Automotive
- Target 12 million patients with PEEK-OPTIMA™ implanted globally (target enhanced from current 9 million+)

Our 2023 Vision: interim targets

Metric:

- CO₂ savings
- Scale of patient benefits

Interim targets:

COMPLETED

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

TO DO

- Extend Invibio Biomaterial Solutions into emerging geographies

ENHANCED TARGETS

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

Resource efficiency



Vision:

Maximise resource efficiency across the value chain

2023 target:

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

Our 2023 Vision: interim targets

Metric:

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

Interim targets:

COMPLETED

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

TO DO

- Establish a long-term energy efficiency plan

ENHANCED TARGETS

- Establish long-term resource efficiency plan with raw material supply chain

Social responsibility



Vision:

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

2023 target:

- 10,000 employee hours (cumulative) supporting community activity by 2023
- 1,000 young people reached through education activities
- 50% of employees engaged on sustainability

Our 2023 Vision: interim targets

Metric:

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

Interim targets:

COMPLETED

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

TO DO

- Continue to support Fleetwood High School to achieve improved STEM academic results

Doing business the right way – Global Code of Conduct



Acting ethically and responsibly is not only the right thing to do, but also the right thing to do for our business, helping us to maintain our competitive advantage. The Global Code of Conduct, further details of which can be found in the corporate governance section starting on page 41 and on our website, is a fundamental guide to upholding our good reputation as a business and one that can be trusted by our employees, customers, suppliers, partners, investors and all other stakeholder groups with whom we engage. Our success as a business rests on maintaining this trust and ensuring that we are a company that upholds the highest standards of integrity.

Acting ethically


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



We have a zero tolerance approach to behaviour that breaches our Code of Conduct.

Our three principles of ethical business conduct are:

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

 **Performance reviews from
the Executive Directors**
Pages 18 to 21



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.



Shaping future performance

Beyond lightweighting and durability benefits, our PEEK and PAEK polymers continue to offer reduced cycle times (with the potential for quicker manufacturing), as well as the associated properties that make our polymers one of the highest performing materials available. Our customers continue to specify our polymers in many of their applications, whether it be in Aerospace to 'fly lighter', in Automotive to 'reduce wear' and 'improve durability', in Electronics to deliver 'thinner, smaller and smarter' devices, in Energy to 'improve durability' and 'recover more', or in Medical applications to help address an ageing global population. The demands on material performance across our markets remain strong. Achieving higher performance with less continues to be important, less material, less energy, less waste, less noise, less time and less cost. This requires innovation in developing solutions for our customers and markets.

As we move further downstream – beyond manufacturing polymers – into selected semi-finished products, our inherent innovation capabilities offer us the potential to deliver further performance and sustainability benefits for our customers and markets.

We are already moving close to becoming carbon neutral (through the CO₂ savings our polymers deliver, offsetting the CO₂ produced in our manufacturing operations), following on from our independent review of the methods of measuring CO₂ savings. During the year, we had verification of 9 million patients with PEEK-OPTIMA™

implants since we started supplying materials into the Medical market in the late 1990s. This brings us close to our 9 million target ahead of schedule and, consequently, we have increased our target to 12 million.

In Transport markets, our PEEK Gears programme has moved forward this year, with a supply agreement to a major European Automotive manufacturer commencing in 2018. With an average PEEK Gear application at more than 20 grams, our new interim target of increasing the average PEEK content in cars from 8 grams to 12 grams in 3–5 years looks possible. Our polymers are up to 60% lighter than metals and offer genuine CO₂ saving opportunities and performance benefits (in the case of Gears, lower noise vibration). In addition to Gears, Victrex also has an emerging opportunity in electric vehicles, thanks to the heat resistance and insulating properties of our polymers. In Aerospace, with the global commercial airline fleet set to double by 2035, weight savings (and hence CO₂ reduction) and faster manufacturing cycle times provide a strong proposition to the aerospace industry. Our next-generation Loaded Brackets, using a unique hybrid moulding process, have many potential application uses. Emerging areas of opportunity include renewable energy, including nuclear, and 3D printing.

Our sustainable solutions continue to provide a strong performance proposition across our markets.

Sustainable solutions continued



Focus: Automotive – the huge potential for reductions in CO₂

In one of Victrex's largest markets, every single contribution to cutting CO₂ emissions counts. For the automotive industry, this is more relevant than ever since the underlying technology is right in the middle of a paradigm shift from internal combustion engines to hybrid and fully electric vehicles. Companies along the entire supply chain are looking for enhancements to engine and vehicle design that could, potentially, result in reducing the carbon footprint further.

Victrex already has a strong history supplying the automotive industry and is well placed across existing internal combustion engine ('ICE') platforms and new platforms for electric vehicles ('EVs'). Our materials, which can help to save weight compared to metals, as well as durability and other benefits, are used in ABS braking systems, transmission and a number of other applications. In Gears, one of Victrex's emerging application areas, alongside the opportunities in electric vehicles and 'e-motors', our differentiated gears capabilities span from design and engineering to gear system testing, manufacturing and quality control. PEEK based precision gears are expected to contribute more and more to environmental goals over the coming years.

Gear designs based on the VICTREX HPG™ (high performance gear) product family can reliably function in harsh environments and contribute to gain competitive advantages. In contrast to metal gears, they can be up to 70% lighter in weight, and the moment of inertia can be reduced by up to 80%. This translates into improved responsiveness and consequently lower power consumption, which in turn contributes to lower CO₂ emissions. At the same time, a 50% (3 decibel) reduction in noise, vibration and harshness can also be achieved.

Now, just two years after the acquisition of gears specialist Kleiss Gears, the Victrex development pipeline is already filled with multiple new gear opportunities. An initial production agreement with a major European car manufacturer will commence in 2018

and, after successful durability testing, other projects could potentially move forward towards production.

Victrex's investment in driving the adoption in the automotive industry has a set aim: partnering with an increasing number of customers to develop high precision gear solutions that contribute to environmental targets and increase the amount of PEEK used in cars. With an average of 8 grams of PEEK today per car, a typical engine gear solution, which could have over 20 grams per application, offers huge potential for continued CO₂ reduction. Considering that more than 90 million vehicles, including passenger cars, were sold worldwide in 2016¹ according to the International Organisation of Motor Vehicle Manufacturers ('OICA')² this global perspective on CO₂ emissions is what really counts: no matter how small the application, it can have big implications.

Two other facts further support and magnify the importance of Victrex gear technology. First, between 2005 and 2016, worldwide sales of passenger cars steadily increased from 45 to 69 million per year³. Second, an additional environmental benefit comes from the different processes used in the manufacture of gears. Whereas traditional metal parts require additional processing, incurring additional production costs, the manufacture of gears, specifically designed for the application from high performance PEEK polymer, enables cost-efficient injection-moulding processes, and therefore less energy, resulting in lower production costs. Alongside existing automotive applications and the future potential from e-motors, Victrex gear technology could prove to be a winning and sustainable solution for the automotive industry over the coming years.

Sources

- 1 www.oica.net/wp-content/uploads/170308-Charts.pdf: p.8/2017-09-08.
- 2 OICA, Organisation Internationale des Constructeurs d'Automobiles, www.oica.net.
- 3 www.oica.net/category/sales-statistics.



Resource efficiency

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

Resource efficiency

Whilst our sustainability credentials are strong, through lighter materials which can support CO₂ savings, we have an impact on the environment through the resources that we use to make our products and the processes that we operate. This is where resource efficiency comes in. 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 delivering continual improvement to address these areas.

For example, this year a development programme has successfully focused on waste reduction in our raw material manufacturing process. The amount of water used in one step of the process was successfully reduced by 10% resulting in annual savings of over 500 tonnes of water and an equivalent reduction in hazardous waste, as part of that process.

In another downstream processing plant, to improve energy efficiency, high power lighting was replaced with LED lighting resulting in a saving of over 30 MWh per year.

Principal environmental impacts

The Group's operations and environmental impact are set out in the charts on page 36 and are different from the Group's overall GHG emissions (see overleaf). These show energy use, water use and waste from our main UK production sites. The impact from our overseas gears facility, new fibres plant in the UK and our technical and office facilities is not material and is not included.

We have reported data per unit of revenue to best align our indicators with our business strategy based on our varied product mix, along with absolute data to demonstrate our total impact. Environmental indicators improved this year, due to higher revenues and economies of scale. As we move downstream into more specialised manufacturing, CO₂ per unit of revenue remains the most appropriate measure. CO₂ emissions are reported separately, as part of our greenhouse gas emissions report under the Companies Act 2006 (Directors' Report) Regulations 2013. Victrex also participates in the Carbon Disclosure Project ('CDP').

Compliance

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

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

We recorded two environmental notifiable events during the year. At our Hillhouse manufacturing plant in the UK, during routine environmental monitoring, we detected an instance when the concentration of acetone in a waste stream from the plant was slightly elevated above agreed levels, but with no potential to cause significant environmental impact; and at our Rotherham manufacturing plant in the UK, during routine environmental monitoring, we detected an emission of oxides of nitrogen from a plant vent that was elevated above agreed levels, again with no potential to cause significant environmental impact. There were no other environmental notifiable events at any of our other UK manufacturing sites.

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

Resource efficiency continued

Greenhouse gas ('GHG') emissions

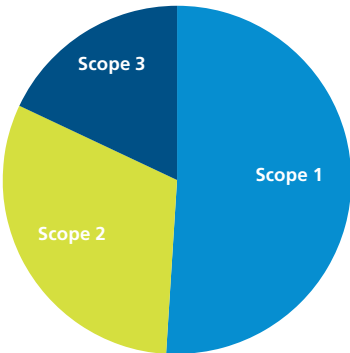
Our emissions have been calculated based on the GHG Protocol Corporate Standard. Emissions reported correspond with our financial year. We have included emissions from both our owned and leased assets for which we are responsible in the UK and overseas. This includes our manufacturing plants, technical centres and offices. No material Scope 1 or Scope 2 emissions are omitted. Emissions have been calculated using data gathered to fulfil our reporting requirements under Climate Change Agreements at two of our UK manufacturing sites (we operate under a tenancy agreement at our Seal Sands facility). National and regional emission conversion factors have been used. This year, we have included emissions from the newly acquired Zyex fibres facility in the UK and have adjusted the previous reported year emissions to maintain consistency. Whilst this shows an increase in absolute direct emissions, with newly acquired downstream assets, the opportunity for improvement over the medium term remains. Whilst not a mandatory requirement, we have included indicative Scope 3 emissions in our report for greater transparency; these include indirect emissions from employee travel and international air and shipping freight of goods.

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

Whilst absolute direct emissions from gas (Scope 1) increased slightly this year – due to higher production levels – encouragingly, our indirect emissions from electricity purchased (Scope 2) decreased. This is primarily due to a favourable reduction in the UK grid electricity CO₂e factor as a result of a decrease in UK coal-powered electricity generation and an increase in gas and renewables generation. This factor, combined with higher 2017 revenues, has resulted in a low intensity measurement. Indirect emissions from transport of goods and employees increased (Scope 3), primarily from increased air freighting of goods, to meet the upturn in customer demand within our core business during the year, or based on specific air freighting requirements from our customers. This year 2016 Scope 3 emissions have been revised to include understated distribution emissions.

Victrex GHG emissions 2017

Tonnes of CO₂ equivalent
2017 from PEEK manufacture
and downstream products.



SCOPE 1 Direct emissions resulting from combustion of fuels Tonnes CO₂e

2017	22,478
2016	22,048
2015	21,203
2014	16,728
2013	14,339

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

2017	8,136
2016	4,583
2015	3,839
2014	2,815
2013	1,462

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

2017	13,667
2016	16,206
2015	17,932
2014	15,363
2013	12,947

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

2017	126
2016	152
2015	149
2014	127
2013	123

Note: Following the 2016 independent review undertaken of our GHG reporting, all our prior year comparatives have been restated accordingly.

This year, in accordance with the updated GHG Protocol Scope 2 guidance we have again calculated our scope 2 emissions using the market-based method (9,408 tonnes CO₂e). This is a reduction on last year (10,848 tonnes CO₂e) primarily driven by a more favourable supplier fuel mix at one of our key manufacturing sites. We have market-based data for over 75% of our Scope 2 emissions based on supplier declarations.



REACH

The EU chemicals policy known as REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals regulations) is a well established regulatory regime for the chemical industry and Victrex has well established processes in place to comply with it. We regularly monitor and review to ensure that raw materials involved in our manufacturing process are compliant and that REACH will not adversely impact on the security of supply, which is important both for Victrex and for our customers, which are focusing on long-term demand. There has not been, and we do not anticipate, any disruption to the supply of products arising from the regulations, particularly as the 2018 deadline approaches. Following the EU referendum (Brexit), we are also monitoring any potential amendments to regulations such as REACH, or other EU-led legislation.

Health and safety

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

We received the Royal Society for the Prevention of Accidents ('RoSPA') Order of Distinction award this year. It is the 20th consecutive year that we have received a Gold award and the sixth year running that we have received an Order of Distinction award, a great achievement and one which underlines our significant commitment to health and safety and consistent high level of performance.

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

The occupational health and safety of contractors working on our sites is of equal importance as our employees'. With ongoing investment in new projects like our world-class Polymer Innovation Centre, over 70,000 contractor hours have been worked on our UK manufacturing site at Hillhouse with no contractor reportable injuries or incidents. Health and safety management remains a priority during projects, achieved by working closely with project contractors to ensure that robust project health and safety procedures are in place and that they are actively monitored, audited and reviewed.



Employee hours worked with
no reportable injuries

1.3 million

Sustainability report continued

Resource efficiency continued

This year, our environmental indicators have improved due to higher revenues and economies of scale.

Energy use (UK operations)

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

Total energy has increased this year driven by higher volumes manufactured and, to a lesser extent, commissioning of our new Polymer Innovation Centre which will support differentiated grades and prototyping of new applications. Pleasingly, energy per unit of revenue decreased.

Energy per unit of revenue is our preferred metric, reflecting that with an emerging proportion of semi-finished products and parts (compared to higher volume products), energy per unit of volume is not an appropriate measure.

Primary energy
Thousands GJ

2017	764
2016	735
2015	731
2014	574
2013	518

Primary energy per unit revenue
Thousands GJ/£m

2017	2.6
2016	2.9
2015	2.8
2014	2.3
2013	2.3

Water (UK operations)

Water use is reported for our UK production operations (North of England). Our overseas water usage is not material. Our polymer manufacturing operations are in North West England, a region which does not typically experience water shortages and has seen flooding events in recent years. Whilst total water usage increased this year, again driven by higher volumes manufactured, pleasingly, water use per unit of revenue decreased.

Water usage
Thousands m³

2017	566
2016	532
2015	602
2014	499
2013	377

Water usage per unit revenue
Thousands m³/£m

2017	2.0
2016	2.1
2015	2.3
2014	2.0
2013	1.7

Waste (UK operations)

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

We have invested in improving and optimising the production process to reduce waste, but we are already striving to reduce it further. This is a priority sustainability objective and there is an ongoing programme of work to examine how we can further minimise generation of waste at source and how we can also recover value from waste generated over the medium term. Pleasingly, as a result of this programme we have seen waste per unit of production in one of our raw material manufacturing processes driven down by 5% (500 tonnes).

Hazardous waste produced
Tonnes

2017	53,135
2016	51,041
2015	60,908
2014	55,072
2013	47,254

Hazardous waste produced per unit revenue
Tonnes/£m

2017	183
2016	202
2015	231
2014	218
2013	213

Hazardous waste disposed to landfill (after treatment)
Tonnes

2017	19
2016	1
2015	12
2014	14
2013	15

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

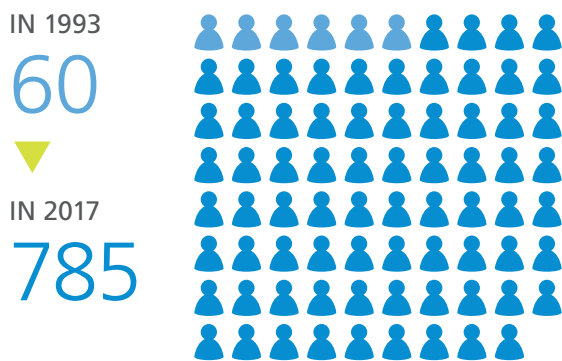
2017	0.07
2016	0.00
2015	0.05
2014	0.06
2013	0.07



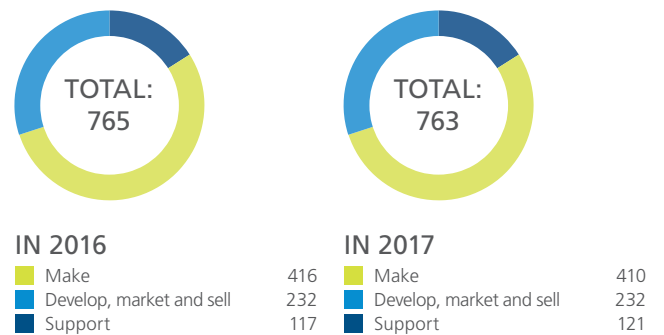
Social responsibility

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

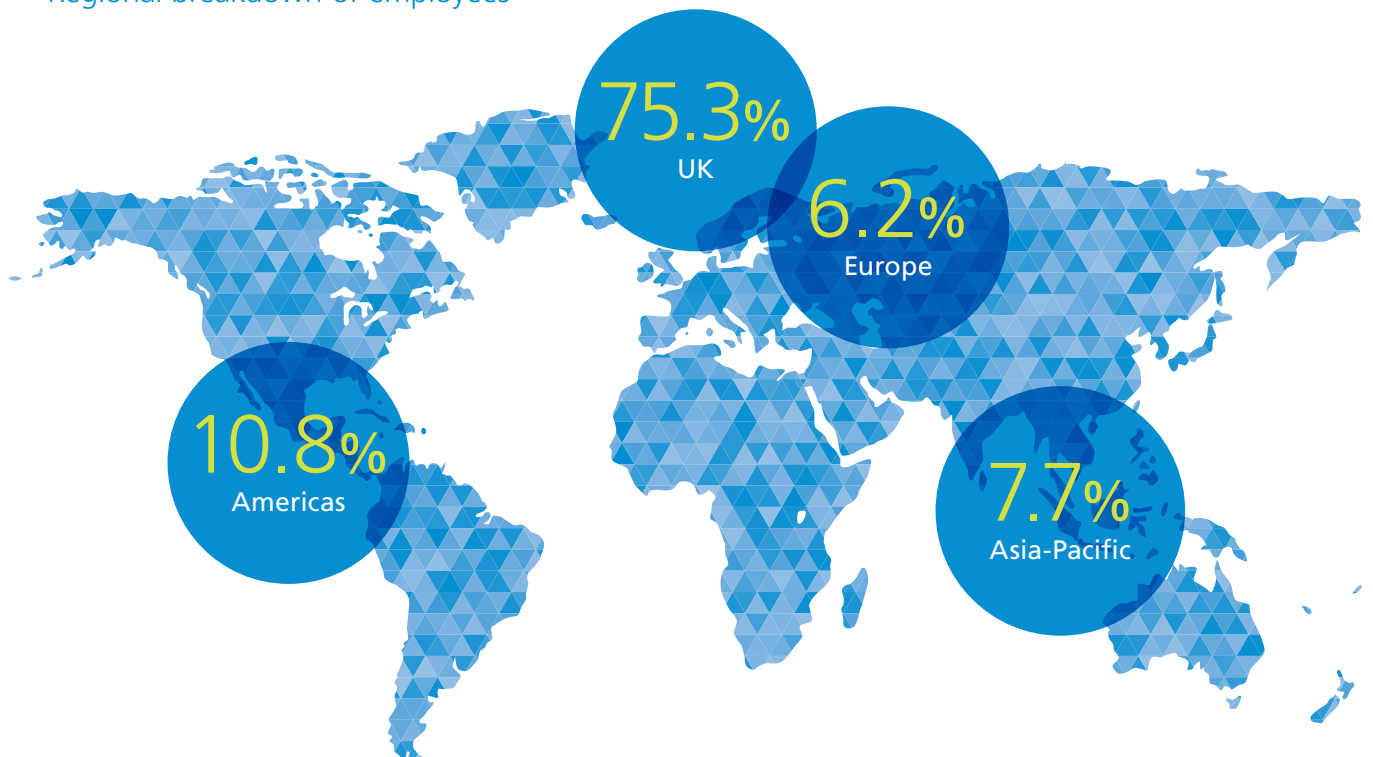
Employees (as at year end)



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



Regional breakdown of employees



Sustainability report continued

Social responsibility continued

Our employees

The breadth and depth of talent across our workforce at all locations continues to be important to Victrex, particularly as we move further downstream towards selected semi-finished products, ensuring we have the capabilities both at a manufacturing level, and across our business. In an increasingly competitive global market, ensuring that we attract, engage, develop and retain our people remains a consistent theme for Victrex. Each year we run an organisational capability review following our annual strategic review. This supports us to identify and develop the capabilities and experience we need to deliver our business strategy. This is led by the Chief Executive Officer, supported by the Group Human Resources Director and the Executive Directors of each business unit.

Employee breakdown

Diversity is something we actively support. Approximately 79% of our employees are male (as at 30 September 2017) and 21% are female (as at 30 September 2017). On our Executive Leadership Team during 2017, one quarter of the team was female. In Victrex, diversity encompasses differences in ethnicity, gender, language, age, sexual orientation, religion, socio-economic status, physical and mental ability, thinking style, experience and education. We believe that the wide array of perspectives that result from such diversity promotes innovation and business success. We operate a global diversity and equal opportunities policy which is reviewed each year and provides the framework for productive working relationships within the organisation. With the acquisition of Zyex completed this year, we have extended our diversity agenda to our new employees, and will continue to do so for similar acquisitions or joint ventures in the years ahead.

Our voluntary employee turnover was lower this year at 3%, which is better than other similar sized global manufacturing companies.

Development

Investment in the development of all our employees remains a key priority, through both an informal and formal route. Assessment of individual training needs is a key element of the annual appraisal process which is undertaken by all employees. This year has seen us introduce a learning and performance portal which allows us to manage our development programmes consistently and give greater availability and visibility to all of our programmes globally.

This is our 11th year of recruiting apprentices, and we have recruited 31 apprentices to date across a number of functions, principally in operations. The first apprentices we recruited were recently awarded their 10 year long service award, a strong testament to the attraction of Victrex as a sustainable and developing global business. This year we became part of the Apprenticeship Levy in the UK and are looking at different ways that we can use our contributions from increasing the number of apprenticeships to using them to develop existing employees.

Wellbeing

Our priorities for the health and wellbeing of employees are unwavering. Occupational health and private medical services are available for all employees in all locations. Our focus on wellbeing services includes on-site medical checks, provision of financial education sessions and driver safety for company car owners and frequent travellers. This year we have introduced a new behavioural approach to driver safety and training for traveller safety.

Recognition

Our well established recognition programme ranges from instant and functional awards through to our annual CEO Awards, which have become the showcase of the year, with an increased number of categories to reflect the global talent across our business.

Involvement

The Group places considerable emphasis on two-way communication and involving our employees in the business. We have a number of channels, both formal and informal, to keep employees informed on business news. These include quarterly global staff briefings involving all of our global employees and, more formally, UK and global regional employee forums and union partnership meetings. Our newer employees at our Kleiss (Grantsburg) and Zyex (Stonehouse) locations are also becoming involved. This year we also introduced a Works Council in Germany following discussion with employees at our Hofheim offices. The purpose of the forums is to promote positive two-way communication, proactive involvement and problem solving. We have over 50 employees involved across all countries, functions and levels.

The Company supports employee share ownership and offers the opportunity to participate in share schemes. As at 30 September 2017, approximately 88% (2016: 91%) of employees worldwide were participants in employee share schemes, principally as option holders under the Company's employee share option schemes.

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

Community volunteering

Supporting local communities and participating in regional and national events which inspire the next generation of employees is a big focus for Victrex. Our main focus is to get young people interested and excited about science, technology and engineering. This year our employees participated in activities in local schools and colleges, spending over 600 hours supporting the next generation. Since we started formally measuring our activities, we have committed over 1,700 hours to the community since 2015.

We continue to partner with Catalyst Discovery Centre in the UK – which teaches school-age children about chemistry and how polymers are made, in an interactive way – and are actively involved in the Science Industry Partnership ('SIP').

Working with other manufacturers in the UK is also important for Victrex. The Springfields Award saw one of our engineering apprentices – Dan Larsen – scoop the Endeavour Award this year, as well as being runner-up in the main award.

Victrex has also participated in a range of activities within local communities, offering apprenticeships, promoting awareness in schools and advancement of research work at universities and providing work experience to students of all ages at varying stages of their academic careers.

Charitable giving

Last year we established a Community Investment team to look after the distribution of the charitable donations budget in the UK, through nominations made by employees. A similar approach is now in its second year in the US and we are making good progress in targeting investments to the right areas.

Charitable donations totalling £115,450 (2016: £58,337) were made during the year. No political donations were made (2016: £nil).

3%

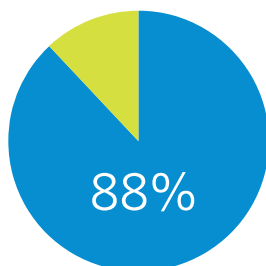
Voluntary employee turnover

2017	2016	2015	2014	2013
3%	7%	7%	5%	2%

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

Overall, we spent over 600 hours working in local communities this year.

Participation in employee share schemes



2017	2016	2015	2014	2013
88%	91%	87%	89%	86%

Note: Excludes recruitment during the year.

As a business we continue to:

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



A person wearing a white lab coat and blue nitrile gloves is holding a square microchip. The chip has a grid of gold pins on one side and a central square area with various components. The background is a blurred laboratory setting with other people in white coats.

Directors' report – corporate governance

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54	Directors' remuneration report
67	Other statutory information
71	Statement of Directors' responsibilities
72	Independent auditor's report

Introduction from the Chairman



To our shareholders and stakeholders,

The Board is accountable to our shareholders and stakeholders for creating and delivering sustainable value through the management of the Group's business.

We believe good governance is the foundation for how we should operate, and an enabler in the development, implementation and oversight of policies and procedures, sound business practices and ethical judgement, informing how we work together as a company and in our engagement with customers, suppliers and wider stakeholders.

The responsibilities of the Board include setting the Group's strategic aims, providing the leadership to deliver them, holding management to account in the conduct of the business and reporting to our shareholders. The Board recognises that for Victrex to remain a world leader, we need to continually innovate not only in the products and solutions we provide but also in our working practices as your Company grows and develops.

Significant progress has been made by management and employees during the year, not only in delivering the day to day business that has underpinned our strong performance, but on completing the implementation of a global business information system intended to support business decision making, reporting and enabling growth for the future. This Group-wide project has been the subject of detailed planning and considerable scrutiny by the Board and Audit Committee, given that the system has implications for many of the aspects which impact sound governance. On page 52, we provide additional information on the project.

As part of our regular cycle of business, presentations to the Board are provided by members of the executive and wider management team on programmes and initiatives concerned with the delivery of our strategy. Such presentations support understanding of the progress in meeting important milestones, including strategic engagements with third parties (for example, linked to our investment in Magma or our aerospace joint venture TxV Aero Composites) and new opportunities and the associated challenges in execution (one example of which is the evolving opportunities in Electronics, where our ability to respond expeditiously to market changes is an important part in success).

We remain cognisant of the strong relationship between ethics and governance and the role the Board plays in demonstrating ethical leadership. We continue to embed our Victrex Global Code of Conduct across all areas of the business and all territories. Further information on ethics and social responsibility is contained in our Sustainability report on pages 37 to 39.

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

Our Corporate Governance Report is set out on pages 44 to 66, including the Directors' Remuneration Report on pages 54 to 66. This section of the Annual Report sets out how we manage the Group and comply with the provisions of the Code. It also outlines any governance initiatives undertaken in the year.

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

Larry Pentz
Chairman

5 December 2017

 For more information visit
www.victrexplc.com

Board of Directors

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Larry Pentz
Chairman BS ChE MBA

Larry Pentz was appointed to the Board in 2008 and became Chairman in 2014. Larry is Chairman of the Nominations Committee. Larry has over 30 years' service within 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 has been instrumental in the acquisition and integration of multiple catalyst

and chemical companies for Johnson Matthey Plc, and was formerly executive director responsible for Emission Control Technologies of Johnson Matthey Plc.

Larry retired as an executive director of Johnson Matthey Plc during 2016 where he held board-level responsibility for Johnson Matthey's Process Technologies and Fine Chemicals divisions. Larry is Non-Executive Chairman of Scapa Group plc.

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Pamela Kirby
Non-executive Director BSc PhD

Pamela Kirby was appointed to the Board in 2011 and as Senior Independent Director in November 2014. Pamela has detailed knowledge of the international pharmaceutical industry, and was formerly CEO of Quintiles Transnational Corp. based in North Carolina, USA. Pamela has also held a number of other senior positions in the international pharmaceutical industry including at AstraZeneca PLC, where she was a regional director, and F. Hoffmann-La Roche Ltd, where she was director of strategic marketing and

business development. She was previously non-executive chairman of Oxford Immunotec Limited and non-executive director of Novo Nordisk A/S and Smith & Nephew plc.

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

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Patrick De Smedt
Non-executive Director BSc MSc

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

knowledge of international markets, technology and diverse industry sectors. Patrick is to retire from the Board of Directors at the Annual General Meeting in February 2018.

Patrick is Senior Independent Director at PageGroup plc, KCOM Group plc and Morgan Sindall Group plc, where he is also Chairman of the Remuneration Committee. He is a non-executive Director of Kodak Alaris Holdings Limited and Nexinto Holding Ltd.

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Andrew Dougal
Non-executive Director B Acc CA

Andrew Dougal was appointed to the Board in March 2015 and was appointed Audit Committee Chairman effective from October 2015. Andrew is a chartered accountant and brings a wealth of experience to the Board, from a lengthy executive and non-executive career of over 35 years in industrial, manufacturing and services companies. Andrew is a non-executive director and Chair of the Audit Committee at Carillion plc. He was previously a Non-Executive Director and Audit Committee Chair of Taylor Woodrow Plc,

Taylor Wimpey Plc and Creston Plc and a Non-Executive Director of BPB Plc and Premier Farnell plc. Formerly, Andrew served as Chief Executive of Hanson plc, the international building materials group, following its demerger from Hanson, the Anglo-American conglomerate, where he was Finance Director, having previously held a number of senior roles in general management and finance. Andrew is a member of the Council of the Institute of Chartered Accountants of Scotland ('ICAS').

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Jane Toogood
Non-executive Director MA Hons

Jane Toogood was appointed to the Board in September 2015. Jane has a wealth of experience across a number of business management, senior commercial and business development roles within the global chemical industry, including Borealis, ICI and Uniqema, and also held a Non-Executive Director role with NHS Harrogate and District Foundation Trust.

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

Jane is the Sector Chief Executive, Efficient Natural Resources at Johnson Matthey Plc.



Jakob Sigurdsson
Chief Executive Officer BSc MBA

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

Between September 2016 and June 2017, Jakob was Chief Executive Officer of VÍS, the largest Icelandic insurance and re-insurance company. Jakob holds a BSc in Chemistry from the University of Iceland and an MBA from Northwestern University in the US.



David Hummel
Executive Director BSc

David Hummel assumed responsibility for VICTREX PEEK worldwide in 1992 and has more than 25 years of experience of the global high performance polymer industry. Formerly with Diamond Shamrock, GE Plastics and ICI, David was appointed to the Board in 1993

following his leading of the successful MBO of Victrex from ICI. He served as CEO of Victrex until the end of September 2017 and will be retiring from the Board at the Annual General Meeting in February 2018.



Louisa Burdett
Group Finance Director BSc ACA

Louisa Burdett was appointed as Group Finance Director in February 2014. Louisa also has overall responsibility for the Group Legal and Company Secretarial functions, as well as IT. Louisa formerly held the position of Chief Financial Officer at Optos plc. Prior to this, Louisa was Chief Financial Officer at the Financial Times Group from 2008 to 2012. Louisa has also held roles at Chep Europe, a division of Brambles Ltd, the Australian listed pallet distribution company, GE Healthcare and GlaxoSmithKline plc. Louisa has also worked as

an M&A Consultant at Charterhouse Bank and spent four years at KPMG in London. She has a first class degree in biochemistry from Imperial College London and is a member of the Institute of Chartered Accountants in England and Wales.

Louisa is Chairman of the Currency Committee. Louisa is a Non-Executive Director of Electrocomponents plc where she is Chair of the Audit Committee and a member of its Nomination and Remuneration Committees.



Tim Cooper
Executive Director BA

Tim Cooper was appointed as an executive director to the Board in October 2012. Tim joined Victrex in January 2010 as Managing Director of Victrex Polymer Solutions. Tim has over 30 years of international business management and commercial experience, having held senior leadership positions in a number of industries. Prior to joining the

Victrex business, Tim was with Umeco Plc, initially as Managing Director of Aerovac Systems Ltd, but later becoming Group Managing Director of Umeco Composites Process Materials. He has been Managing Director of Tellermate Plc and of Avery Berkel Ltd, having developed his international career with GEC, BP and Land Rover.



Martin Court
Executive Director BSc (Eng) PhD

Martin Court was appointed to the Board as an executive director in April 2015. Martin joined Victrex in February 2013 as Managing Director of Invibio, Victrex's medical business. Martin has significant proven international experience in the medical and high performance materials and chemicals industries, including with Cytec

Industries, and in a number of senior roles at both ICI and UCB. He is an INSEAD alumni 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.

Statement of corporate governance

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

The revised code published by the Financial Reporting Council in April 2016 (the 'Code') took effect for companies with accounting periods beginning on or after 17 June 2016 and has applied to the Company for the financial year ended 30 September 2017. As disclosed in our last report, during the preceding financial year, the Board proactively considered the areas of change arising from the Code (which also implemented the European Union's Audit Regulation and Directive), choosing to early adopt a number of the provisions. The following report reflects the actions taken to comply with the Code and the underlying principles.

Statement of compliance

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

This report, including the Directors' Remuneration Report on pages 54 to 66, describes how the main principles of good governance have been applied throughout our business.

The Company has complied with all relevant provisions of the Code throughout the year ended 30 September 2017. With the appointment to the Board of Jakob Sigurdsson as an executive Director with effect from 1 October 2017, the Board does not comply with the requirement of B.1.2 of the Code that at least half of the Board (excluding the chairman) comprise independent non-executive Directors.

The Company took steps during the last financial year to comply with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 concerning the period of tenure of the external auditor. As previously reported and also noted on page 52, KPMG has been our auditor since the management buy-out from ICI in 1993. We explain in more detail on pages 52 and 53 how, during 2017, led by the Audit Committee, we conducted a competitive tender, culminating in a recommendation to appoint PricewaterhouseCoopers LLP ('PwC'). Appointment of PwC remains subject to shareholder approval at the Annual General Meeting ('AGM') being held in February 2018. For more details on the proposal to appoint PwC, please see the Notice of AGM on page 113.

Leadership

The role of the Board

The role of the Board is to provide entrepreneurial leadership and the Directors are collectively responsible for the long-term success of the Company. The Board also acts as custodian of the Company's values and of its long-term vision and provides strategic direction and guidance for the Company. The names, biographical details and significant time commitments of the members of the Board are set out on pages 42 and 43.

In discharging its responsibilities, the Board also seeks to set, promote and demonstrate adherence to our values and ethical standards for the Company. It remains mindful of the need to observe the duties owed by directors in law, including promoting

the sustainable success of the Company, not only for our shareholders, but also for our stakeholders, which includes our employees, suppliers, customers and the wider community.

The offices of the Chairman and the Chief Executive Officer ('CEO') are separate and clearly distinct. The division of their responsibilities is set out in writing. It is intended to review these during the forthcoming financial year with the appointment of our new CEO, Jakob Sigurdsson, to ensure that they reflect appropriately the functions and activities of the respective roles, changes occurring in the Group and management of the business. The role and responsibilities of the Senior Independent Director ('SID') are also set out in writing and approved by the Board. The CEO is responsible for the day to day running of the Group, carrying out the agreed strategy and implementing specific Board decisions.

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

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

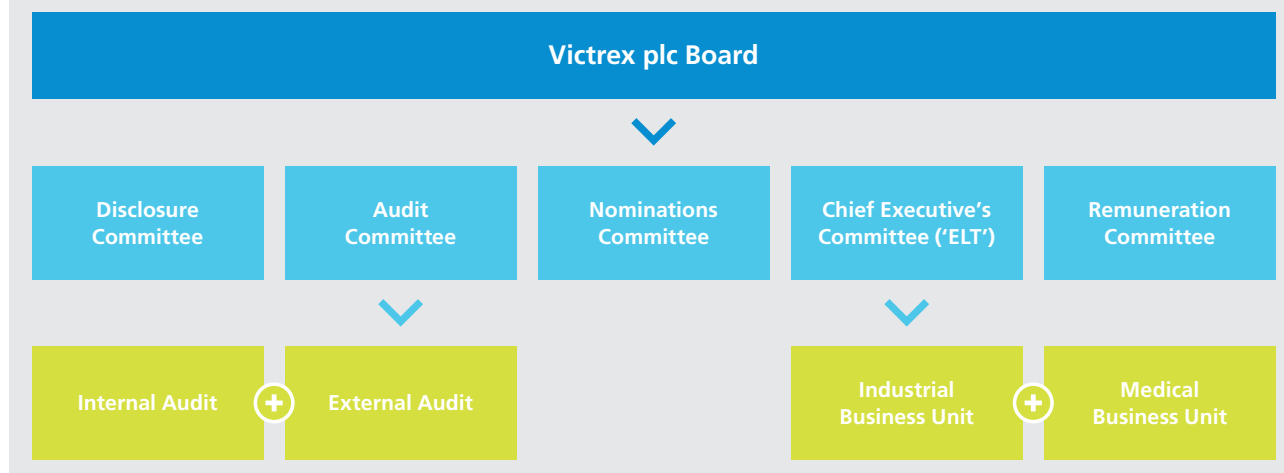
Our Senior Independent Director, Pamela Kirby, acts as a sounding board to the Chairman and serves as an intermediary for other Directors when necessary. She is also available to meet with shareholders should they have any concerns, where contact through the normal channels may be inappropriate. Pamela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

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

Operation of the Board

The Board is responsible for the Group's strategic development, monitoring achievement of its business objectives and maintaining a system of effective corporate governance, which includes the responsibility for health, safety, environmental, social and ethical matters. It also establishes the Company's risk management and internal control systems and carries out a review of their effectiveness, and has reported on this in the report on pages 48 and 49.

Corporate governance framework



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

The agenda for each meeting of the Board combines scheduled items derived from a planned programme of business in addition, where appropriate, to ad-hoc matters reflecting the needs 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 health and safety and financial performance. The programme of business is subject to periodic review and assessment to ensure that the Board is discharging its duties effectively, taking into account the development of the Group as well as evolving governance requirements.

Matters reserved for the Board and delegation of authority

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

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

The Board delegates day to day and business management control to the executive Directors, who in turn delegate as appropriate to senior management. A detailed review of the Group's authority matrix has been undertaken, taking account of the prevailing matters reserved for the Board. This has reflected developments in the breadth and scale of the Group's business to ensure that

there is appropriate escalation of decisions through the Group hierarchy.

Board Committees

The Board has delegated certain responsibilities to Board Committees, namely:

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

The Board has ultimate responsibility for the annual approval of the treasury and cash management policy and continues to be supported in its work by the Currency Committee. The Currency Committee is chaired by the Group Finance Director, Louisa Burdett, and meets on a monthly basis to manage the application of the Group's treasury policy. During 2017 the Currency Committee led work in the renewal of the Group's revolving credit facility with a consortium of banks, which was approved by the Board in May 2017. Further details on the policy and the activities of the Currency Committee are included in note 14 to the financial statements.

The reports of the Nominations, Audit and Remuneration Committees are set out on pages 50 to 66 and that for the Disclosure Committee is shown on page 47. These Committees operate under terms of reference and a standing agenda item provides for them to report at each Board meeting via the Committee Chairmen. The terms of reference are reviewed at least annually, with any revisions proposed by the respective Committees and then approved by the Board. The Board has provided its Committees with sufficient resources to undertake their duties, including access to the services of the Group Company Secretary and external advisors, where appropriate.

 **Nominations Committee Report**
Page 50

 **Audit Committee Report**
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 **Remuneration Committee Report**
Page 54

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

Statement of corporate governance continued

Attendance at meetings

Directors' attendance at the Board and Committee meetings convened in the year to 30 September 2017:

◆ Attended ◇ Not attended

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

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

Board effectiveness**Composition, independence and diversity of the Board**

At the date of this report, the Board comprised a non-executive Chairman, four other non-executive Directors and five executive Directors. The Code requirement that at least half the Board should be independent non-executive Directors continued to be met throughout the year to 30 September 2017.

As mentioned in the Annual Report for the year ended 30 September 2016, during 2017, Mr Patrick De Smedt completed nine years as a non-executive Director. Mr De Smedt has served on each of the Committees of the Board, including as Chairman of the Remuneration Committee. The Board gave particular consideration to the recommendation that Mr De Smedt be re-elected at the Annual General Meeting held in February 2017, including as to Mr De Smedt's independence, as to which the Board confirmed it was satisfied. The recommendation that Mr De Smedt be re-elected at the last Annual General Meeting was approved by shareholders.

With the appointment of Jakob Sigurdsson as an additional executive Director in October 2017, compliance with provisions of the Code on the balance of the Board is not met.

At the Company's Annual General Meeting in February 2018 both David Hummel, an executive Director, and Patrick De Smedt, a non-executive Director, will retire from the Board. At the same meeting resolutions will be submitted to shareholders for the election of Janet Ashdown and Brendan Connolly as additional non-executive Directors and of Jakob Sigurdsson as an executive Director. With the appointment of Janet Ashdown and Brendan Connolly, the Board will comprise five independent non-executive Directors and four executive Directors, a majority therefore being independent non-executive Directors.

The non-executive Directors (including the Chairman, Larry Pentz, who was independent on his appointment) are all considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

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

Current female representation on the Board is 30% and, therefore, exceeds the minimum target representation level as recommended by the Davies Review. The Board recognises the importance of gender diversity at the level below the Board and is committed to ensuring an appropriate level of gender diversity, in particular at senior management level. There is a commitment in the Company to support women in rising to the top of the management structure. The female representation on the ELT is 20%. Further information on the total female representation on our workforce is provided in our Sustainability report on page 38.

Disclosure Committee

Chairman – Larry Pentz, Jakob Sigurdsson or Louisa Burdett

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

The Committee comprises all Directors of the Company and the Group Company Secretary, with a quorum being any two Directors which must include one of the Chairman, the CEO or the Group Finance Director. The Chairman of each Committee meeting will be appointed on an ad-hoc basis. Meetings of the Committee may be called by any member of the Committee on any period of notice, provided that notice is given to all members.

The Chief Executive's Committee

In discharging his responsibilities, the Chief Executive is assisted by the Executive Leadership Team ('ELT'). The ELT comprises the five executive Directors, Jakob Sigurdsson, David Hummel, Louisa Burdett, Tim Cooper and Martin Court. They are supported in their duties by the Group HR Director, the Group Company Secretary and the General Counsel. This team is responsible for making recommendations to the Board on matters that are reserved for their decision, such as strategy, corporate development and annual budgets. During 2017, eleven meetings of the ELT were held. In addition, members of the ELT participate in other forums which oversee and provide governance on the conduct of the Group's business, including for example a committee that meets to discuss investment in new products and technologies together with monitoring progress in execution of programme milestones.

As already mentioned on page 46, we also recognise the importance of diversity in general at Board level and our Board members comprise a number of different nationalities with a wide range of experience from a variety of business backgrounds. Further information on our Group HR policies, including those on equal opportunities and diversity, is set out on page 38.

Election and re-election of Directors

Consistent with best practice, all the Directors will retire at the Annual General Meeting ('AGM') being held in February 2018. As already mentioned, Mr Hummel and Mr De Smedt will be standing down from the Board and therefore will not be proposed for re-election. Jakob Sigurdsson was appointed to the Board in October 2017. Accordingly, approval of the shareholders to his election will be considered at the forthcoming AGM. Being eligible, with the exception of Mr Hummel and Mr De Smedt, each of the other Directors will offer themselves for re-election by shareholders. In addition, the approval of shareholders will also be sought at the AGM for the election of Ms Ashdown and Mr Connolly as non-executive Directors of the Board.

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

The Notice of AGM on pages 111 and 112 gives details of the Directors. Further information on both the appointment and replacement of Directors is given in the Directors' report on page 68.

Conflicts of interest

Under the Companies Act 2006, a director must avoid a situation where a direct or indirect conflict of interest may occur and procedures are in place to deal with any situation where a conflict may be perceived. The Board confirms that it has considered and authorised any conflicts or potential conflicts of interest in accordance with these procedures. The Board has specifically considered the other appointments held by Directors, summary details of which are contained in their biographies on pages 42 and 43, and has confirmed that each is able to devote sufficient time to fulfil the duties required of them under the terms of their contracts or letters of appointment.

Board evaluation

The Board recognises that a rigorous performance evaluation is important to optimise Board effectiveness. A formal evaluation of the Board, Board Committees and individual Directors' performance is carried out annually. The most recent externally facilitated Board evaluation was conducted in 2015 with Stone Court Consulting. A further externally supported review is intended to be undertaken in 2018.

In the year ended 30 September 2017, the performance evaluation was conducted internally through use of a questionnaire which was prepared by the Group Company Secretary following consultation with chairs of the Board and Committees. As well as questions designed to support the assessment, the questionnaire also incorporated sections that invited respondents to provide comments and observations on aspects of the business of the Board and Committees.

The results of completed questionnaires were shared with the Chairman of the Board and chairs of the respective Committees and discussed at subsequent meetings held during the autumn. The overall conclusion was that the Board and its Committees were performing well and that satisfactory progress had been made in addressing areas which the Directors had previously identified as meriting additional attention. In reaching this conclusion, particular consideration was given to progress in reporting on each of strategy (including delivery by management against key milestones) and risk, as well as work on succession planning (with due regard for the appointment to the Board during the 2017 calendar year) and in respect of remuneration, the work resulting in adoption by shareholders at the 2017 Annual General Meeting of the Remuneration Policy.

The Board considers that performance evaluation should form an important part of evolving practice not just at Board level but throughout the organisation. For example, as part of continuous improvement, during the year, changes were made to reporting on progress in meeting milestones and objectives associated with the execution of initiatives. This included tracking of progress being made in the mega-programmes, enabling discussion between members of the Board and senior management on the overall performance, with due regard to evolving opportunities and routes to market identified through engagement with potential partners as well as potential new challenges that may arise. Further information on progress in the mega-programmes is given on pages 18 to 21.

Executive Directors' performance is reviewed by the Remuneration Committee in conjunction with the Chief Executive, except in the case of his own performance review. The Chairman's performance is reviewed by the Board, without the Chairman present, which during 2017 was led by the Senior Independent Director.

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

Statement of corporate governance continued

Board effectiveness continued

Induction and training

All new non-executive Directors receive a personalised induction programme, tailored to their experience, background and particular areas of focus. It includes a wide range of meetings with other Directors and senior management, attending results and broker briefings and opportunities to visit the Group's operations outside of the UK. The programme has evolved over time to take into account feedback from Board members. The Board evaluation process also considers specific training or development needs.

New executive Directors also receive an induction focused on their new role and wider responsibilities which includes briefings on areas such as directors' duties and corporate governance guidelines and best practice. Induction programmes cover matters such as Group structure and strategy, industry and competitive environment, Group risk profile and our approach to risk and safety, health and environmental matters. Training (including social, environmental and ethical matters) is also provided, which for 2017 incorporated refresher training on the UK Market Abuse Regime and on the Group's response to the forthcoming GDPR.

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

Information and support

There are robust processes in place to ensure the Board receives management information and reports on strategic and operational matters on a timely basis. The CEO also updates the Board on progress against the Group's strategic plan. Briefings by operational management also take place regularly to enhance the Board's understanding of the business, during which consideration is given to financial and commercial performance within target markets against the relevant business plan for the year and future strategy.

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

Appropriate levels of insurance cover are obtained for all Directors and Officers of the Company. Further information on Directors' indemnities is given in the Directors' report on page 69.

Accountability

Financial and business reporting

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

During 2017, management completed the Group-wide implementation of a new ERP system. The Board and Audit Committee have received reports on aspects of the implementation, including for example consideration of underlying system and financial controls associated with the migration. Positive feedback has also been provided by users on the enhanced reporting of business information, which is expected to benefit decision making and reporting, thereby supporting the Group as it continues to grow.

The Directors' statement explaining why they continue to adopt the going concern basis for preparing the financial statements is given in the Directors' report – Strategic report on page 27. In accordance with provision C.2.2 of the Code, the Directors have assessed the prospect of the Company over a longer period than the twelve months required by the 'going concern' provision. This assessment is outlined in our Viability statement on page 27.

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

Risk management and internal control procedures

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

A sound system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board is responsible for establishing formal and transparent arrangements for considering how it should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditor.

Twice a year the Board reviews the principal risks, allowing it the opportunity to review the level of risk it is prepared to accept in pursuit of the Group's strategic objectives. This has included remaining vigilant to evolving issues, for example connected with the termination of the United Kingdom's membership of the European Union and understanding their potential impact on the Group in the conduct of its business ('Brexit'). The Board considers that there remain a wide range of issues to be addressed before the Group can make an informed assessment on the potential impact of Brexit.

During 2017, the Board also considered in particular certain mitigation steps for a number of the principal risks. This included discussing management's assessment of how the mitigation measures reduce the potential occurrence or impact of a risk. Arising from the autumn 2017 Board performance evaluation, the Directors agreed that focus on the management and reporting of risk in the forthcoming year remained a priority, as the Group continues to evolve.

The Board confirms that it has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity; that the principal risks remain within its risk appetite; and that there is a framework of processes in place for identifying, evaluating, monitoring and managing the principal risks faced by the Company, as outlined above. These processes were reviewed during the year by the ELT Risk Management Committee, and the findings

reported to the Audit Committee, which has responsibility (as delegated by the Board) for reviewing the risk management systems and the effectiveness of these systems and reporting to the Board.

The Board's view of the key strategic and operational risks and how we seek to manage those risks is set out on pages 22 to 26.

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

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

The Group has a whistleblowing policy, which is subject to periodic review to ensure compliance with relevant local regulations within each of the territories in which we operate and with good governance. The most recent detailed review of the policy was undertaken during 2016. The Audit Committee oversees whistleblowing arrangements, by which staff may, in confidence, raise concerns about possible improprieties. The Company continues to operate a Global Code of Conduct. This Code of Conduct includes areas such as anti-bribery, data protection and conflicts of interest. During the year, led by the General Counsel, training combined with question and answer sessions were conducted across our regions to facilitate engagement and enhance understanding of certain Group policies. That training was also provided to the executive Directors in the first instance. This allowed the Directors to benefit from the training and also gave them the opportunity to provide comment on the approach to be taken, prior to wider engagement. In addition, at staff briefings attended by executive Directors, presentations have been held on particular aspects of the Code of Conduct and how this affects employees. These form an important element in our drive to promulgate practices and standards which we recognise contribute to our reputation as a business and our standing with all stakeholder groups.

The Audit Committee has reviewed the effectiveness of the internal control system, including financial, operational and compliance controls, and risk management in accordance with the Code. As a result of this process, the Board is satisfied that there have been no significant failings or weaknesses. We confirm that the Group has complied with the Code provisions on internal control by operating throughout the year ended 30 September 2017 (and up to the date of approval of this Annual Report) appropriate procedures in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Further details of the risk management framework operating at Victrex are given on pages 22 and 23.

Relations with shareholders

The Board as a whole has a responsibility for ensuring that satisfactory engagement with shareholders takes place, based on the mutual understanding of objectives. The Board achieves this through dialogue with shareholders and analysts, led by the Chief Executive, Group Finance Director and Head of Investor Relations. In addition, the Chairman is available to meet institutional shareholders. The Senior Independent Director and other non-executive Directors will attend meetings with major shareholders, if requested. No such meetings were requested during the year.

The Board believes that appropriate steps have been taken during the year so that all members of the Board and, in particular the non-executive Directors, have an understanding of the views of major shareholders. Such steps include, for example, analyst and broker briefings, a standing Board agenda item covering investor relations matters, consideration by the Board of brokers' reports and feedback from shareholder meetings on a six-monthly basis. During the year, a detailed investor survey was conducted by our brokers, J P Morgan, which was discussed by the Board. Institutional investor relations activity is normally concentrated in the periods following the announcement of the half-year and full-year results, although the Group participates in investor conferences and UK and overseas investor roadshows throughout the year. Additional presentations and site visits are arranged where appropriate and we hosted a number of such meetings during 2017. Following joining the Company, Mr Sigurdsson attended a number of meetings with institutional shareholders as part of his induction.

All shareholders will have the opportunity to ask questions at the forthcoming AGM, which is being held on 9 February 2018. The Chairs of the Audit, Nominations and Remuneration Committees will be available to answer questions at that meeting. Proxy votes lodged on each AGM resolution are announced at the meeting, published on the Company's website and announced via the Regulatory Information Service.

Statement of corporate governance continued

Larry Pentz
Chairman of the
Nominations
Committee



Nominations Committee report

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

Membership

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

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

Responsibilities

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

In considering an appointment, the Committee evaluates the balance of skills, knowledge, independence and experience of the Board and prepares a description of the role and capabilities required for a particular appointment. Internal candidates are considered where appropriate.

A particular focus during the financial year was considering candidates for appointment of a new CEO in preparation for the retirement of David Hummel, who has served as CEO and a Director of the Company for nearly 25 years. As reported previously, David Hummel stood down as CEO with effect from 30 September 2017 and will retire from the Board as a Director at the Annual General Meeting in February 2018.

The Committee was supported in the conduct of a search for a suitable candidate by external recruitment agency Korn Ferry. In conjunction with the Remuneration Committee, an assessment was also undertaken of the appropriate structure for remuneration of the successful candidate which was supported by WillisTowersWatson. The search culminated in appointment of Mr Jakob Sigurdsson, who joined the Company on 1 September 2017. Jakob assumed the role of Chief Executive Officer and was appointed an executive Director from 1 October 2017. The biography of Jakob is on page 43 and a resolution for his election as a Director will be proposed to shareholders at the Annual General Meeting in February 2018. Information on Jakob's remuneration can be found in the report of the Remuneration Committee on page 66.

During 2017, meetings of the Committee also considered the Company's initiatives for the training and development of employees, including those to support succession planning and career progression to senior positions in the Group, which the Board recognises can in turn support future considerations on the appointment of internal candidates to executive positions, but also plays an important part in enabling the Group to fulfil its strategic objectives.

The Nominations Committee also reviews the time required from each non-executive Director and any other significant commitments of the Chairman. The 2017 review found the non-executives' time commitments to be sufficient to discharge their responsibilities effectively.

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

Boardroom diversity

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

'The Board of Victrex plc welcomed the publication in February 2011 of the Davies Review on Women on Boards. Our current female representation on the Board is 30% and is therefore in excess of the minimum representation level as recommended by the Davies Review. We also recognise the importance of diversity in general at Board level and our Board members comprise a number of different nationalities with a wide range of experience from a variety of business backgrounds.'

Andrew Dougal
Chairman of the
Audit Committee



Audit Committee report

As previewed in our report for 2016, we have during the past year undertaken a comprehensive audit tender. The process was completed in September with a recommendation to appoint PwC, who will, subject to shareholder approval at the 2018 AGM, succeed KPMG, our present auditor.

I am pleased to present the report of the Audit Committee for the year ended 30 September 2017. The Audit Committee is integral to the scrutiny which is given by the Board to the performance of management and the standing of the Group as a whole.

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

As previewed in our report for 2016, we have during the past year undertaken a comprehensive audit tender. The Audit Committee appointed a subcommittee, which included me and non-executive Director Jane Toogood, in addition to the Group Finance Director and members of management. The process was completed in September, with a recommendation to appoint PwC, who will, subject to shareholder approval at the 2018 AGM, succeed KPMG, our present auditor. We report separately on this work on page 52.

Membership

I am a member of the Institute of Chartered Accountants of Scotland. In addition to experience serving as chairman of audit committees for other FTSE 250 companies, I have previously served as Group Finance Director for a FTSE 100 business. The Board is satisfied that I have recent and relevant financial experience as required by the Code. The other members of the Audit Committee during the year were Patrick De Smedt, Pamela Kirby and Jane Toogood. The qualifications of the Audit Committee members are outlined in the Directors' biographies on pages 42 and 43.

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

Committee meetings

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

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

For example, during 2017, the Committee supported the Board in undertaking a review of the Group's tax strategy, with regard to evolving regulation and good governance. This included considering the statement on tax strategy, prior to its approval by the Board. The tax strategy has been published on the Victrex plc website.

Responsibilities

The Audit Committee undertakes its activities in line with a programme of business based on its terms of reference which are reviewed annually and approved by the Board. The terms of reference were most recently reviewed in September 2017. The terms of reference are available on our website, www.victrexplc.com. The key responsibilities of the Committee are to:

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

Statement of corporate governance continued

Audit Committee report continued

Responsibilities continued

Within its routine business, the Committee supports the Board in considering the systems of controls associated with financial reporting. During 2017, the Company completed the global implementation of an integrated ERP system first launched in the UK during 2016. The Committee has given particular emphasis to the control and reporting environments of the new system during its meetings to assess to what extent key metrics identified during the planning and implementation stage have been satisfied. In addition, it considered separate reports from an independent consultant, engaged by the Director of Risk and Compliance, which evaluated the steps for mitigating potential risks associated with the global implementation.

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

Financial reporting

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

- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- areas in which significant judgements have been applied, including discussions on such matters undertaken with the external auditor;
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The statement incorporating the conclusion of this assessment is included on page 71; and
- any correspondence from regulators in relation to our financial reporting.

In addition to the above, the Committee supports the Board in completing its assessment of the adoption of the going concern basis of preparing the financial statements. During 2017, the Committee reviewed the approach taken by management in preparing and reporting on the Viability Statement with due regard for wider market practice and developing guidance. As a result of that review, the Committee was satisfied that the approach adopted was appropriate. The Viability Statement for the 2017 financial year was prepared on a consistent basis with that reported in each of 2015 (its year of inception) and 2016 and is on page 27.

In the preparation and final approval of the financial statements, the Committee has discussed with management the key sources of estimation and critical accounting judgements outlined in note 20. The significant areas of focus considered and assessed by the Committee in relation to the 2017 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, KPMG reported to the Committee on, and the Audit Committee discussed and assessed, these judgements and estimates. During the meeting of the Committee which considered the draft of the report and financial statements, the matters raised by KPMG 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 Financial Statements. In particular we considered the following recurring matters:

Carrying value of inventory: the Committee reviews the nature of the costs absorbed into inventory, the level of production over which these costs are absorbed, the variances between standard cost and actual cost and the reasons for movements in inventory value period to period. The basis for and level of provisioning, including those areas which are judgemental or require a high degree of estimation, are presented to the Committee by management. The Committee discussed and assessed the information provided by management and concluded that the valuation of inventory and level of provisioning were reasonable.

Defined benefit accounting: the valuation of the defined benefit scheme obligation is dependent on a number of assumptions that are inherently judgemental, or require a high level of estimation. Following the closure of the scheme on 31 March 2016, judgement on future salary growth rates ceased, but judgement over future interest and inflation rates, together with the estimation of mortality rates remain, with sensitivities of +/-1% having a material impact on the value of scheme liabilities and therefore the balance recognised on the Group Balance sheet. The Audit Committee assesses these judgements and estimates based on reports received from management and the Group's actuarial advisors. The Committee also considered the opinions made and benchmark provided by KPMG. The Committee concluded that the assumptions used and the resulting valuation were reasonable.

To aid the conduct of reviews, the Committee considers reports from the Group Finance Director and the Group Financial Controller and also reports from the external auditor on the outcomes of its half-year review and annual audit.

External audit

Appointment, independence and effectiveness

KPMG was re-appointed as auditor at the 2017 AGM. The Committee considers the appointment of the external auditor each year, whilst assessing its independence and effectiveness on an ongoing basis. The Committee reports its findings to the Board alongside its recommendation.

The Committee has acted upon The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 concerning the need to put the external audit to tender at least every ten years. Taking account of those requirements, and as communicated in the financial statements for the year ended 30 September 2016, the 2017 financial year was the final year KPMG has been the Company's auditor (having been the auditor since 1993). An audit tender process has taken place through the year ended 30 September 2017, overseen by the Committee and supported by a subcommittee. The subcommittee was chaired by the Audit Committee Chairman and comprised another Audit Committee member, the Group Finance Director, the Group Financial Controller, the Director of Risk and Compliance, the Head of Internal Audit, the Group Reporting Manager and the Group Company Secretary.

At each stage of the process, Victrex participants declared any conflicts of interest, which primarily related to the alumni status of certain individuals. These were discussed and considered to be appropriately managed through the number of participants in the process.

The subcommittee provided updates to and received feedback from the Committee throughout the process, following the audit tender plan approved by the Committee. The plan took due regard for guidance and best practice. As part of its preparations for the tendering process, the Committee satisfied itself that there were no contractual obligations that restricted the Committee's choice of external auditor. The Committee was also mindful of the new regulations requiring a 'cooling in' period, which precludes the performance of certain non-audit services for the year preceding appointment as auditor.

Five audit firms registered an interest in participating in the tender, with four being formally invited to present to the subcommittee, during June 2017. The quality of engagement from each was very high, during which constructive dialogue was held covering the key aspects of the audit with due regard for Victrex's evolving business and global reach. Of the four invited three took part, being Deloitte LLP, Ernst & Young LLP and PricewaterhouseCoopers LLP ('PwC'), with one firm opting not to participate in the remainder of the selection process.

The three firms were reduced to two firms by the subcommittee with the final two presenting to the full Audit Committee in September 2017.

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

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

Whilst PwC's appointment is subject to approval at the AGM, the nominated partner, Ian Morrison, was invited to attend the Audit Committee meeting which considered the Annual Report for the year ended 30 September 2017, in order to commence the knowledge transfer from KPMG. In the event of shareholder approval at the AGM in February 2018, a detailed handover will take place, including review of KPMG working papers, spending time with management and visiting key locations. PwC has not performed any precluded work for Victrex during the year ended 30 September 2017.

The Committee would like to thank KPMG for their work and support over many years.

External audit: effectiveness

The Audit Committee actively considers the effectiveness of the external audit process on an ongoing basis. This process commences in advance of the audit with the identification by the Committee of the key risks to audit quality and effectiveness. The Committee then assesses the auditor against these key risks twice during the annual audit cycle. This focused approach is supplemented by a detailed questionnaire provided to Committee members and management following the completion of the audit. The questionnaire covers assessment of the audit partner, the approach, communication, independence, objectivity, audit quality, interaction with internal

audit and reporting and the role of relevant functions within the Company in the context of audit findings and, in addition, their facilitation and engagement with the audit process as a whole.

The Committee considers KPMG to be independent and effective in their role as auditor for the financial year ended 30 September 2017.

Non-audit services

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

Non-audit fees for the year ended 30 September 2017 were £28,699 (2016: £51,800). The non-audit fees primarily related to the interim review, the pension scheme audit and iXBRL tagging of the UK subsidiaries' statutory accounts. Alternative providers were considered but not deemed practical in the specific circumstances. No approval was given to any non-audit services not in accordance with the APB's Ethical Standards for Auditors. When awarding non-audit work to KPMG, the Committee is cognisant of the EU Audit Regulation, including the cap on non-audit fees of 70% of the audit fee. Non-audit services in the 2017 financial year represented 19% (2016: 35%) of the audit fee.

Risk management, internal control and internal audit

The Audit Committee has responsibility for reviewing the risk management systems and effectiveness of these systems. The responsibilities and processes in respect of risk management are described separately on pages 22 to 26 and pages 48 and 49.

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

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

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

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

Directors' remuneration report

Patrick De Smedt
Chairman of the
Remuneration
Committee



Remuneration Committee report

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

Annual statement

Dear shareholder,

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 30 September 2017 following a busy year for the Committee.

This included the detailed review of the Remuneration Policy, which was put to shareholders at the AGM in February 2017, with changes made to reflect the evolution of our Company and implementation of key performance indicators intended to maintain alignment with the interests of our shareholders and reward the executive Directors in delivering on our strategic imperatives of the business and financial growth as Victrex continues to evolve.

The Committee was delighted to receive the support of 96% of shareholders for the Remuneration Policy at the AGM, enabling us to implement the Policy during the year. Details of votes cast for and against the resolution to approve the Remuneration Policy are set out on page 66. Notwithstanding this positive response, the Committee continues to monitor developments in executive pay including the government's recent proposals for corporate governance reform. It is the Committee's intention that the policy, as set out in summary form on the following pages, will continue to apply until it is due for renewal at the 2020 AGM. How the Committee intends to implement policy looking forward into 2017/18 is set out on page 63.

Leadership changes

The Committee also supported work associated with the recruitment of a new Chief Executive, culminating in the appointment of Jakob Sigurdsson, who joined the Company on 1 September 2017. I would like to take the opportunity to welcome Jakob. We are delighted that he has now assumed the position of CEO which took effect from 1 October 2017. We have summarised the principal terms of Jakob's compensation on page 66 of this report, which are consistent with the Remuneration Policy approved by our shareholders earlier this year.

In conjunction with Jakob joining, David Hummel stood down as CEO. David will remain an executive Director until our AGM in February 2018 and will be retiring as an employee of the Company in March 2018. The Committee extends its thanks to David, who over more than 20 years has built a UK listed company with global reach, employing over 750 employees, participating in exciting markets offering leading solutions to our customers and creating substantial value for our shareholders.

As CEO, David has been pivotal in creating the business Victrex is today. It is testament to his unwavering focus that in the year he stands down,

Victrex has supplied more core products in one year to our customers than ever before and delivered impressive profit growth.

On page 66 we explain the terms the Committee has agreed in respect of David's transition to retirement including the treatment of performance related elements of his compensation, considering our policy and his performance.

Business performance

As explained on pages 4 to 21 of our Annual Report, Victrex has made good progress during 2017 in value creation, delivering growth in its prevailing business and executing on its strategy to be the leading provider of innovative and differentiated high performance polymer solutions using our proprietary PEEK and PAEK technologies. This performance has been brought about by a combination of strong core business sales in our established markets, coupled with growth in new applications where we have once again demonstrated our ability to deliver solutions meeting the specific needs of our customers.

During the year, mega-programmes in Automotive, Medical and Aerospace realised good progress in the commercialisation of new products and technologies with market-leading customers. We have also continued to invest in programmes which reflect our confidence for the future and which position Victrex as a provider of differentiated products and solutions that will drive growth and create value for our shareholders over the longer term.

We give more detail on our strategy on pages 10 to 27 and explain the investment in our mega-programmes on page 16.

Reflecting the balanced portfolio of our business mix, we saw growth in the majority of our markets, resulting in the Company delivering revenues for 2017 of £290.2m, 15% ahead of 2016 (£252.3m).

Group profit before tax of £111.0m, an increase of 11% on the prior year (2016: £100.3m), reflects a combination of the improved core business sales, continued focus on managing costs and currency. Earnings per share of 116.4p (2016: 96.8p) was up 20%. A more detailed assessment of our financial performance can be found on pages 14 to 17.

Decisions made during the year and incentive outcomes

As I have noted, a significant proportion of the annual reward for our executive Directors links to the financial performance of the business and achievement of both strategic and personal objectives that underpin our long-term performance. The Committee sets stretching financial, strategic and personal targets at the start of each financial year taking into account the need to balance performance and the associated behaviours over both the near and longer term. Strong financial performance in 2017, as summarised above, together with each executive having excelled against the overall strategic and their individual performance targets, has resulted in annual bonus payments ranging between 78% and 97%. More detail on the bonus payments can be found on pages 58 to 60.

Following assessment of the financial targets for the LTIP grant to executive Directors in December 2014, the Committee determined that the EPS element of the target had not been satisfied, whilst for the TSR target, the vesting achieved represented 22.1% of the total award. Information on the number of shares vesting are shown on page 61.

Recognising the contribution of the executive team to the continued success of Victrex, and the growth in responsibilities as a result of both personal development and changes to the team, the Committee also undertook a comprehensive review of each executive's compensation. This was in the context of how roles had evolved since base salaries were last increased in 2015. Consequently, the Committee approved an increase of 7.5% for Tim Cooper and 9.8% for Martin Court to take effect from 1 October 2017. The Committee considers this an equitable increase in response to growth in responsibility and individual performance and to maintain market competitiveness during a time of significant change.

Patrick De Smedt
Chairman of the Remuneration Committee

5 December 2017

Directors' Remuneration Policy – summary

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

Remuneration Policy

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance targets
Salary	<p>To provide competitive fixed remuneration</p> <p>To attract and retain executive Directors of the calibre required in order to deliver the Company's strategy and enhance earnings over the long term</p>	The basic salary for each executive Director is reviewed annually taking into account each executive Director's performance and the Group's financial circumstances, as well as pay for senior management in the Group and relative to the external market	<p>There is no prescribed maximum annual increase. The Committee will take into account the general increase for the broader employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role</p> <p>Current salary levels are set out on page 63</p>	Not applicable
Benefits	<p>To provide market consistent benefits, including insured benefits to support the individual and their family during periods of ill health, accidents or in the event of death</p> <p>Car or car allowances to facilitate effective travel</p>	Current benefit provision includes a company car or car allowance and private medical insurance. Other benefits may be payable where appropriate	There is no defined maximum as the costs of benefits can vary year on year	Not applicable
Pension	<p>To attract and retain high calibre executive Directors</p> <p>To provide retirement benefits</p>	<p>Defined benefit, defined contribution and/or salary supplement arrangements</p> <p>Where the promised levels of benefits cannot be provided through the appropriate scheme, the Group may provide benefits through the provision of salary supplements</p>	A maximum of 25% of salary can be contributed to a defined benefit, defined contribution pension or equivalent arrangement, or in the form of salary supplements. Such supplements are subject to tax deductions	Not applicable
Bonus	<p>Assessed annually against achievement of both financial and non-financial performance targets</p> <p>Maximum bonus only payable for achieving suitably demanding targets</p>	<p>A minimum of 25% of earned bonus is deferred into shares under normal circumstances for three years, with the remainder paid in cash</p> <p>Clawback and malus provisions apply</p>	Up to 125% of salary	<p>A combination of Group profit before tax, strategic objectives and executives' personal performance</p> <p>The profit measure will represent no less than 50% of the total bonus opportunity</p> <p>The bonus for personal and/or strategic performance is payable only if, in the opinion of the Remuneration Committee, underlying financial and operating performance of the business is sufficient in that year to warrant payment</p>

Directors' remuneration report continued

Directors' Remuneration Policy – summary continued

Remuneration Policy continued

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance targets
Victrex Long Term Incentive Plan (2009) ('LTIP')	Designed to align the strategic objective of delivering sustainable earnings growth over the longer term with the interests of shareholders	<p>Annual grant which vests subject to continued employment and achievement of performance targets measured over a three-year period</p> <p>At the end of the performance period, a further two-year holding period will normally apply to vested shares</p> <p>Participants will receive a payment (in the form of cash and/or additional shares) of an amount equal to the dividends that would have been paid on vested shares between grant and vesting. Clawback and malus provisions apply</p>	<p>Plan limits:</p> <p>150% of salary (normal limit)</p> <p>200% of salary (exceptional limit – e.g. recruitment or retention)</p>	<p>Targets will be based on a combination of EPS and TSR</p> <p>Targets based on one or more other financial measures linked to the long-term strategy of the business may also be applied, as deemed appropriate by the Remuneration Committee</p> <p>The Committee retains discretion to alter the weightings of the individual measures over the course of the Policy, including to zero. 20% of the EPS element and 25% of the TSR element of an award vests at threshold performance (0% vests below this), increasing pro-rata to 100% vesting for maximum performance</p>
Share ownership guidelines (Not part of the approved Policy)	To increase alignment between executives and shareholders	Executive Directors are required to retain 50% of the net of tax vested LTIP shares until the guideline is met	100% of salary	Not applicable
Non-executive Director fees and benefits (Determined by the Board)	<p>Reflects time commitments and responsibilities of each role</p> <p>Reflects fees paid and benefits provided by similarly sized companies</p>	<p>Cash fee paid</p> <p>The Chairman, the SID and Chairs of the Audit and Remuneration Committees receive additional fees</p> <p>Fees are reviewed on an annual basis</p> <p>Non-executive Directors may be eligible for such cash and non-cash benefits as the Company deems appropriate from time to time</p>	<p>There is no prescribed maximum annual increase. The Board is guided by the general increase in the market for NED roles and for the broader employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role</p> <p>Current fee levels are set out on page 63</p>	<p>Not applicable</p> <p>Non-executive Directors do not participate in variable pay arrangements and do not receive retirement benefits</p>

Notes

- The Committee operates share plans in accordance with their respective rules, the Listing Rules and HMRC requirements where relevant. In addition to the LTIP as described above, executive Directors are invited to participate in all employee share plans on the same terms as employees and subject to the legislative requirements of those schemes as they apply. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plans.
- For the avoidance of doubt, this Directors' Remuneration Policy, as it was approved at the 2017 AGM, included authority for the Company to honour any commitments entered into with current or former Directors prior to its implementation and approval (such as the payment of a pension or the vesting/exercise of past share awards), provided that any such commitments complied with the Remuneration Policy in effect at the time they were given. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

Service contracts for executive Directors

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

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

Directors' Remuneration Policy continued

Approach to recruitment and promotions

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

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

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

Approach to leavers

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

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

Outside appointments

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

Non-executive Directors

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

Directors' remuneration report continued

Annual Report on Remuneration

Implementation of the Remuneration Policy for the year ended 30 September 2017

A summary of how the Directors' Remuneration Policy was applied for the year ended 30 September 2017 is set out below.

Remuneration received by Directors for the year ended 30 September 2017 (audited)

	Salary and fees ¹ £	Taxable benefits ² £	Pension ³ £	Annual bonus ⁴ £	Long-term incentives ⁵ £	Total £
D R Hummel						
2017	587,654	8,467	147,051	570,024	149,078	1,462,274
2016	521,903	6,950	139,358	—	—	668,211
L S Burdett						
2017	316,573	16,109	59,330	246,927	79,415	718,354
2016	316,573	16,133	62,333	—	—	395,039
T J Cooper						
2017	274,363	16,035	48,778	214,003	68,824	622,003
2016	274,363	16,198	48,938	—	—	339,499
M L Court						
2017	264,068	16,322	46,205	205,973	63,541	596,109
2016	264,068	16,380	48,594	—	—	329,042
L C Pentz						
2017	170,000	—	—	—	—	170,000
2016	170,000	—	—	—	—	170,000
P J Kirby						
2017	52,600	—	—	—	—	52,600
2016	52,600	—	—	—	—	52,600
P J M De Smedt						
2017	55,600	—	—	—	—	55,600
2016	55,600	—	—	—	—	55,600
A J H Dougal						
2017	56,600	—	—	—	—	56,600
2016	56,600	—	—	—	—	56,600
J E Toogood						
2017	46,600	—	—	—	—	46,600
2016	46,600	—	—	—	—	46,600
J O Sigurdsson						
2017	41,667	631	9,166	—	—	51,464
2016	—	—	—	—	—	—

The remuneration for executive and non-executive Directors comprising salary (or fees), taxable benefits and bonus was £3.2m (2016: £1.8m).

Annual Report on Remuneration continued

Implementation of the Remuneration Policy for the year ended 30 September 2017 continued

Notes and additional information

1. Salary and fees

D R Hummel received a salary of \$746,321, converted at an average exchange rate of £1/\$1.27 (2016: £1/\$1.43).

J O Sigurdsson received pro-rata payment following his employment on 1 September 2017. He was formally appointed as a Director with effect from 1 October 2017. Further details are in the implementation section of this report.

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.

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.

D R Hummel participates in a defined contribution scheme and a life assurance plan operated in respect of the Group's US employees. The Group's contribution to his pension scheme and associated salary supplement remain at 25% of salary. Where the promised levels of benefits cannot be provided through the appropriate scheme, the Group provides benefits through the provision of salary supplements.

L S Burdett and M L Court withdrew from the pension scheme in 2016 and now receive a cash supplement of 12%. T J Cooper (who recommenced his membership of the pension scheme from 1 October 2016) and J O Sigurdsson (who joined the scheme at the commencement of his employment) 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 (2016: none). None of the Directors are accruing pension benefits under defined benefit schemes (2016: none).

4. Annual bonus payments

The annual bonus outturn presented in the table on page 58 was based on performance against growth in Group profit before tax ('PBT') and performance against both shared and individual personal performance objectives measured over the relevant financial year. The Committee determined to waive the requirement for deferral of 25% of the bonus outturn in recognition of D R Hummel's outstanding commitment and leadership of Victrex over the last 25 years and his forthcoming retirement.

Group financial targets	Maximum (% of salary)	PBT required for threshold bonus £m	Growth in PBT required for maximum bonus %	Actual PBT £m	Actual (% of salary)	Strategic objectives	Individual objectives	Total (as a % of maximum opportunity)
D R Hummel	125	106.4	15	111.0	52%	25%	20%	97%
L S Burdett	100	106.4	15	111.0	42%	20%	16%	78%
T J Cooper	100	106.4	15	111.0	42%	20%	16%	78%
M L Court	100	106.4	15	111.0	42%	20%	16%	78%

The Committee concluded that the annual bonus outcomes as outlined above are a consequence of the strong underlying financial performance of the business, recognising the positive impact of the successful Patent Box application.

In addition to financial performance, executive Directors were set a number of stretching strategic and personal performance objectives for 2017, which account for 50% of total annual bonus opportunity. The Committee assesses performance against those objectives using a combination of quantitative and qualitative information. A summary of the objectives which were assessed is shown below.

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

Non-financial bonus objectives – strategic outcomes disclosure

The Committee considered performance against three strategic targets connected with enabling growth of the Group over the medium and long term. These comprised:

- Deliverables on the Group's mega-programmes against project milestones (we provide more details on progress against these programmes on pages 16 and 18 to 21 of the Annual Report);
- Progress in key projects linked to organisational effectiveness; this included restructuring undertaken in the latter part of 2016 and the subsequent work in supporting business growth through changes in working practices within our business; and
- Strategic collaboration with third parties (we provide more details on such activities on page 16 of the Annual Report).

Directors' remuneration report continued

Annual Report on Remuneration continued

Implementation of the Remuneration Policy for the year ended 30 September 2017 continued

Non-financial bonus objectives – personal objective outcome disclosure

Targets	Outcome
<p>D R Hummel was awarded 80% of the total available element for his personal objectives.</p> <p>Three objectives were set, covering organisational development; shareholder engagement as the Company continues its transition 'Polymer to Parts' and delivery of growth (split into respectively organic and inorganic objectives).</p>	<p>The assessment of the Committee is summarised below:</p> <ul style="list-style-type: none"> → Global organisational development and continuous improvement initiatives. Achievements considered by the Committee: 1/ Significant changes at executive and senior management level, including transition to a new CEO, 2/ Continuous improvement in operational performance, thereby supporting the delivery of core volume growth >15%. → Shareholder engagement as the Company continues its transition from 'Polymer to Parts'. The Committee assessed the quality of engagement during the course of the year, taking into account feedback provided by shareholders and brokers. → Delivery of growth which included specific objectives in target markets. Achievements considered by the Committee: 1/ Revenue growth of 15%, 2/ meaningful revenue for the HA Enhanced programme, 3/ investments and acquisitions to support the Group's growth programmes.
<p>T J Cooper was awarded 80% of the total available element for his personal objectives.</p> <p>Objectives were set covering commercial targets, strategic and organisational development.</p> <p>The commercial element included revenue targets with established and new customers within Electronics, in addition to regaining business with customers.</p>	<p>The assessment of the Committee is summarised below:</p> <ul style="list-style-type: none"> → Delivering growth in electronics with existing and new customers. Achievements considered by the Committee: 1/ revenue growth in Industrial to £236.3m (FY 2016: £201.5m), 17% up on prior year, 2/ Electronics – progress in semiconductor business, (Aptiv™ film) and some emerging applications for home appliances with growth opportunities. → Enhancing capabilities to extend the Company's long term strategy in aerospace. Achievements considered by the Committee: 1/ joint venture with Tri-Mack Plastics, forming TxV Aero Composites to exploit our Loaded Brackets solution, 2/ planning and execution of integration and organisational effectiveness of the JV. → Growing sales by regaining business with identified target customers within the Core business. Achievements considered by the Committee: 1/ enhancing online resources for use by customers for enquiries and orders, 2/ enhanced tracking and reporting on opportunities which in turn has helped, 3/ competitive regain of c100tonnes of business.
<p>M L Court was awarded 80% of the total available element for his personal objectives.</p> <p>These incorporated traction in Automotive with our Gears programme, developing key partnerships for the longer-term opportunities in Medical including HA Enhanced and Dental and with Magma in Energy.</p>	<p>The assessment of the Committee is summarised below:</p> <ul style="list-style-type: none"> → Gaining commercial traction with target customers within Horizon programmes. Achievements considered by the Committee included: 1/ agreement with major OEM in Gears mega-programme, representing important commercial traction, 2/ Medical–HA Enhanced achieving meaningful revenues of £1m. → Delivery of key milestones on programmes through a combination of internal development and collaboration with external parties. Achievements considered by the Committee included: 1/ Energy – completed the acquisition of a stake in Magma, enabling traction with potential customers in the Americas and Middle East, 2/ successfully completed preparations for the Maxx Orthopaedics clinical trial. → Continued progress with research and innovation and in identifying opportunities to deploy existing and new technologies in new areas. Disclosure around such areas is challenging for reasons of commercial sensitivity. The Committee took account of progress in programmes managed exclusively by the Company as well as in programmes with external partners inside and outside the UK.
<p>L S Burdett was awarded 80% of the total element for her personal objectives.</p> <p>These incorporated embedding the ERP system (supporting continued internal controls and reporting), engagement with shareholders and further strengthening the Group's assessment and management of risk.</p>	<p>The assessment of the Committee is summarised below:</p> <ul style="list-style-type: none"> → Embedding the ERP system globally (supporting continued internal controls and reporting). The Committee considered the completion during 2017 of the global ERP system implementation, important to supporting the growth of the business both in size and complexity. A third-party review on the implementation and post-completion adoption (including assessment of key controls), concluded that the project compared highly against the benchmark. → Engagement with shareholders to further develop understanding of the Company's evolving strategy. The Committee assessed the quality of engagement during the course of the year, taking into account feedback provided by shareholders and brokers. → Further strengthening the Group's assessment, mitigation and the management of risk. The Committee recognised the development of the Group's systematic identification, rating and mitigation of risk supporting decision making on our business model.

Annual Report on Remuneration continued

Implementation of the Remuneration Policy for the year ended 30 September 2017 continued

Non-Financial Bonus objectives – Personal Objective Outcome Disclosure continued

5. Vesting of LTIP awards

The LTIP awards granted on 15 December 2014 were based on performance to the year ended 30 September 2017. The performance targets for these awards and actual performance against those targets were as follows:

Metric	Performance condition	Threshold target	Stretch target	Actual	% vesting
Earnings per share (50%)	Normalised EPS growth of RPI + 5% p.a. (10% vesting) to RPI + 12% p.a. (50% vesting) over three financial years	116.6p	140.9p	116.4p	0%
Total shareholder return (50%)	TSR against the constituents of the FTSE 250 Index (excluding investment trusts). 12.5% vesting for median performance and 50% vesting for upper quartile performance or above. TSR measured over three financial years with a three-month average at the start and end of the performance period	24.7%	77.4%	37.5%	44.2%
Total vesting					22.1%

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 £
D R Hummel	15 Dec 2014	15 Dec 2017	29,749	6,574	23,175	12,464	149,078
T J Cooper	15 Dec 2014	15 Dec 2017	13,735	3,035	10,700	5,754	68,824
L S Burdett	15 Dec 2014	15 Dec 2017	15,848	3,502	12,346	6,639	79,415
M L Court	15 Dec 2014	15 Dec 2017	12,679	2,802	9,877	5,312	63,541

1 The stated dividend equivalent reflects the notional value, assuming all shares are released on 15 December 2017 and applying a share price based on an average over the 3 month period ended September 2017. Given that actual vesting is phased over three tranches and only one third will be released at each phase, the final dividend equivalent will be subject to adjustment to reflect accrued dividends through to release of the subsequent tranches.

Long-term incentives granted during the year (audited)

On 8 December 2016, the following LTIP awards were granted to executive Directors:

Executive	Type of award	Basis of award granted	Share price at date of grant ¹	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over
D R Hummel	Conditional	125% of salary	£17.84	41,469	£739,807	27	Three financial years to 30 September 2019
L S Burdett	Nil-cost option	100% of salary	£17.84	17,745	£316,571	21	
T J Cooper	Nil-cost option	100% of salary	£17.84	15,379	£274,361	21	
M L Court	Nil-cost option	100% of salary	£17.84	14,802	£264,068	21	

1 The share price at date of grant is the mid-market price quoted over a two-day average on 6 and 7 December 2016 in accordance with the Plan rules.

Directors' remuneration report continued

Annual Report on Remuneration continued

Outstanding share awards

The table below sets out details of outstanding share awards held by executive Directors. The table shows changes in the options held by each Director, taking into account grants made, options which have lapsed and any options exercised. The closing position at the end of the financial year 2017 is shown in bold.

Plan	Grant date	Exercise price	No. of share awards at 1 October 2016	Granted during the year	Vested/ exercised during the year	Lapsed during the year	No. of share awards at 30 September 2017	End of performance period	Date from which exercisable ¹	Expiry date
D R Hummel										
LTIP	16/12/2013	Nil	33,076	—	—	33,076	—	30/09/2016	n/a	n/a
	15/12/2014	Nil	29,749	—	—	—	29,749	30/09/2017	n/a	n/a
	14/12/2015	Nil	34,256	—	—	—	34,256	30/09/2018	n/a	n/a
	08/12/2016	Nil	—	41,469	—	—	41,469	30/09/2019	n/a	n/a
L S Burdett										
LTIP	13/01/2014	Nil	16,484	—	—	16,484	—	30/09/2016	n/a	n/a
	15/12/2014	Nil	15,848	—	—	—	15,848	30/09/2017	15/12/2017	15/12/2024
	14/12/2015	Nil	17,685	—	—	—	17,685	30/09/2018	14/12/2018	14/12/2025
	08/12/2016	Nil	—	17,745	—	—	17,745	30/09/2019	08/12/2019	08/12/2026
SAYE	30/01/2014	£14.51	620	—	—	620	—	n/a	01/03/2017	31/08/2017
T J Cooper										
LTIP	16/12/2013	Nil	15,834	—	—	15,834	—	30/09/2016	n/a	n/a
	15/12/2014	Nil	13,735	—	—	—	13,735	30/09/2017	15/12/2017	15/12/2024
	14/12/2015	Nil	15,327	—	—	—	15,327	30/09/2018	14/12/2018	14/12/2025
	08/12/2016	Nil	—	15,379	—	—	15,379	30/09/2019	08/12/2019	08/12/2026
SAYE	01/04/2016	£12.66	710	—	—	—	710	n/a	01/04/2019	30/09/2019
M L Court										
LTIP	27/05/2014	Nil	13,296	—	—	13,296	—	30/09/2016	n/a	n/a
	15/12/2014	Nil	12,679	—	—	—	12,679	30/09/2017	15/12/2017	15/12/2024
	14/12/2015	Nil	14,752	—	—	—	14,752	30/09/2018	14/12/2018	14/12/2025
	08/12/2016	Nil	—	14,802	—	—	14,802	30/09/2019	08/12/2019	08/12/2026
SAYE	01/04/2016	£12.66	710	—	—	—	710	n/a	01/04/2019	30/09/2019

¹ The 2013, 2014, 2015 and 2016 awards to D R Hummel were conditional awards and therefore no exercise period applies.

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

For the year ended 30 September 2017, no awards under the Company's 2009 Long Term Incentive Plan vested for executive Directors. In addition, no executive Directors exercised any nil-cost options. Therefore there are no gains made by the Directors for 2017 compared to 2016 gains of £45,038.

Payments to past Directors (audited)

No payments were made to past Directors during the year ended 30 September 2017 (2016: none).

Payments for loss of office (audited)

No payments for loss of office were made during the year ended 30 September 2017 (2016: none).

Annual Report on Remuneration continued

Implementation of Policy in 2017/18

Salaries and fees

Executive Directors

Recognising the contribution of the executive team to the continued success of Victrex, and the growth in responsibilities as a result of both personal development and changes to the team, the Committee undertook a comprehensive review of each executive's compensation. This was in the context of how roles had evolved since base salaries were last increased in 2015. Consequently, the Committee approved an increase of 7.5% for T J Cooper and 9.8% for M L Court to take effect from 1 October 2017. The Committee considers this an equitable increase in response to growth in responsibility and individual performance and to maintain market competitiveness during a time of significant change.

	2018	2017	% increase
J O Sigurdsson	£500,000	—	n/a
D R Hummel	\$375,000¹	\$746,321	(50.0)
L S Burdett	£316,573	£316,573	—
T J Cooper	£295,000	£274,363	7.5
M L Court	£290,000	£264,068	9.8

¹ To ensure a smooth transition; whilst standing down as CEO from 1 October 2017, D R Hummel remains an executive Director up until the 2018 AGM. He will retire as an employee on 31 March 2018. He receives a commensurate reduction in base salary to reflect the reduced responsibilities during this period.

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. There was no increase in fees for the 2017 financial year. Following a review of allowances versus the market, the following increases were approved by the Board for the 2018 financial year.

Position	2018	2017	% increase
Chairman	£190,000	£170,000	11.8
Base fee	£48,000	£46,600	3.0
Senior Independent Director	£7,500	£6,000	25.0
Audit Committee Chair	£10,000	£10,000	—
Remuneration Committee Chair	£10,000	£9,000	11.1

L S Burdett was appointed as a non-executive Director for Electrocomponents plc on 1 February 2017 with an annual fee of £50,000. She was appointed as the Chair of the Audit Committee with effect from July 2017 and her fee increased to £60,000 per year from that point.

Annual bonus

The maximum bonus potential for the year ending 30 September 2018 will remain at 125% of salary for the Chief Executive and 100% of basic salary for the other executive Directors. Awards will be determined based on a combination of Group profit before tax (weighted at 50%), strategic objectives (weighted at 30%) and an executive's personal performance achievement level (weighted at 20%). The Company believes that this combination of financial, strategic and personal performance objectives reflects the strategic focus on Group profit while maintaining a measurement of progression against strategic milestones and personal contribution across key operational goals for the business. The Committee will continue to run a thorough annual review of strategic and personal objectives to ensure they are measurable, robust and aligned with overall Group-wide objectives. The Committee considers certain of the performance targets for the annual bonus to be commercially sensitive and, as such, they will be disclosed either at the end of the performance period or when they are no longer commercially sensitive. The bonus for personal and/or strategic performance is payable only if, in the opinion of the Committee, underlying financial and operating performance of the business is sufficient in that year to warrant payment. 25% of all paid bonuses will be deferred into shares for a period, under normal circumstances, of three years.

Long-term incentives

The extent to which LTIP awards to be granted for the 2018 financial year will vest, will be dependent on two independent performance conditions: 25% determined by reference to the Company's total shareholder return ('TSR') and 75% determined by reference to the Group's earnings per share ('EPS'), as follows:

- the TSR element of an award will vest in full if the TSR ranks in the upper quartile, as measured over the three-year period, relative to the constituents of the FTSE 250 Index excluding investment trusts at the beginning of that period. This element of the award is reduced to 25% on a pro-rata basis for median performance and is reduced to nil for below median performance; and
- the EPS element of an award will vest in full if cumulative EPS exceeds 440p over the three-year period. This element of the award is reduced to 20% on a pro-rata basis if cumulative EPS is 382p over the three-year period and is reduced to nil if cumulative EPS over the period fails to exceed 382p.

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

Directors' remuneration report continued

Annual Report on Remuneration continued

Statement of Directors' shareholdings and share interests (audited)

Director	Beneficially owned at 1 October 2016	Beneficially owned at 30 September 2017 ¹	Outstanding LTIP awards at 30 September 2017	Outstanding deferred share awards	Outstanding share awards under all-employee share plans	Shareholding as a % of salary at 30 September 2017
D R Hummel	3,014,895	3,014,895	105,474	—	—	12,436%
L S Burdett	—	—	51,278	—	—	—
T J Cooper	7,589	7,667	44,441	—	710	60%
M L Court	791	869	42,233	—	710	7%
L C Pentz	4,000	4,000	—	—	—	n/a
P J Kirby	3,000	3,000	—	—	—	n/a
P J M De Smedt	2,000	2,000	—	—	—	n/a
A J H Dougal	1,000	1,000	—	—	—	n/a
J E Toogood	—	—	—	—	—	n/a

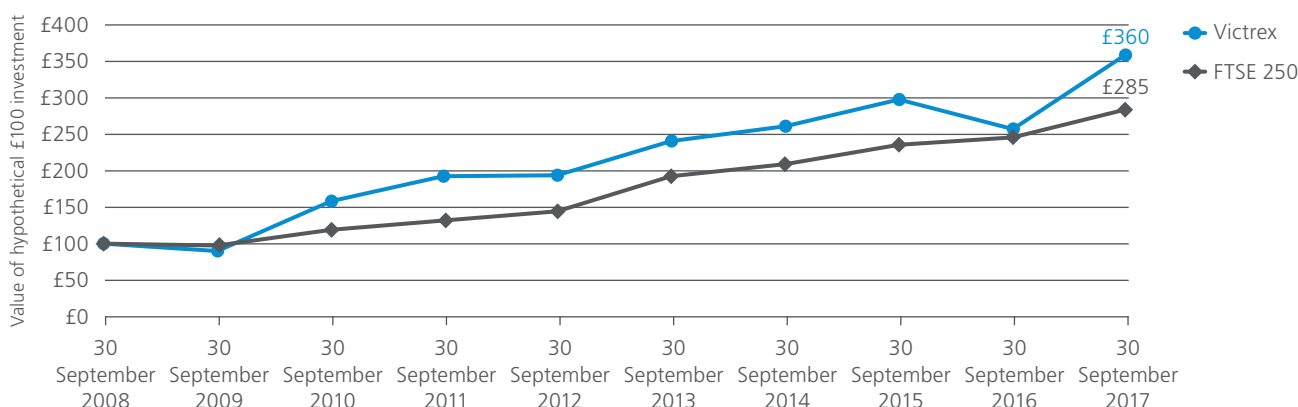
1 The table above includes the holdings of persons connected with each of the Directors. The holdings stated represent shares beneficially held and excludes share options held with the Company.

T J Cooper and M L Court acquired an additional ten shares each during the period from 1 October 2017 to the date of this report through their participation in the All-Employee Share Ownership Scheme.

Executive Directors are required to hold shares in the Company worth 100% of salary and must retain 50% of the net of tax value of any vested LTIP shares until the guideline is met. The shareholding as a percentage shown above is based on the average share price during September 2017 of £23.10.

Total shareholder return graph

The following graph shows the cumulative total shareholder return of the Company over the last nine financial years relative to the FTSE 250 Index. The FTSE 250 Index has been selected for consistency as it is the index against which the Company's total shareholder return is measured for the purposes of the LTIP. In addition, the Company is a constituent of the Index. TSR is a measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends. Data is averaged over three months at the end of each financial year.



CEO total remuneration

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

Year ended 30 September	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total remuneration	£1,462,274	£668,211	£735,103	£832,147	£709,288	£1,532,239	£2,382,086	£1,357,393	£598,306
Annual bonus (% of maximum)	97%	—	22.5%	53.1%	— ¹	17.3%	71.5%	81.3%	—
LTIP vesting (% of maximum)	22.1%	—	—	—	16.56%	100%	100%	91.23%	23.68%

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

Annual Report on Remuneration continued

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 2016 and 30 September 2017, compared to that of the total amounts for all UK employees of the Group for each of these elements of pay.

	2017	2016	% change
Salary			
Chief Executive (\$000)	746	746	—
UK employee average (£000)	46	49	(6.0)
Benefits			
Chief Executive (\$000)	8	8	—
UK employee average (£000)	1	1	—
Annual bonus			
Chief Executive (\$000)	724	—	100.0
UK employee average (£000)	6	—	100.0
Average number of UK employees	582	605	(3.8)

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:

	2017 £m	2016 £m	% change
Staff costs	62.1	53.6	16
Dividends ¹	46.1	39.9	16
Tax	11.5	17.8	(35)
Profits for the year attributable to owners of the Parent	99.5	82.5	21

1 2017 includes a proposed final dividend of 41.60p. The proposed special dividend of 68.00p has not been included to allow for the comparison of regular dividends.

£3.5m (2016: £1.8m) of the staff costs figures relate to pay for the Directors, of which £1.2m relates to the highest paid Director (2016: £0.5m). Total pension contributions were £0.3m (2016: £0.3m) and for the highest paid Director were £0.1m (2016: £0.1m).

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

Consideration by the Directors of matters relating to Directors' remuneration

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

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

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

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

The fees paid to WillisTowersWatson for providing advice in relation to executive remuneration over the financial year under review were £28,891.

Directors' remuneration report continued

Annual Report on Remuneration continued

Statement of voting at general meeting

At the 2017 AGM, the following votes were received from shareholders:

	Remuneration Report		Remuneration Policy	
Votes cast in favour ¹	60,681,340	98.78%	63,964,084	96.22%
Votes cast against	747,431	1.22%	2,511,229	3.78%
Total votes cast	61,428,771	100%	66,475,313	100%
Abstentions	5,050,803		4,260	

¹ Includes Chairman's discretionary votes.

Executive Director changes

As announced on 19 April 2017, Jakob Sigurdsson was appointed CEO designate with effect from 1 September 2017 and succeeded David Hummel as CEO on 1 October 2017. Jakob Sigurdsson was appointed with a base salary of £500,000 p.a. with benefits and incentive opportunities in accordance with approved policy.

To ensure a smooth transition, whilst standing down as CEO from 1 October 2017, David Hummel remains an executive Director up until the 2018 AGM. He will retire as an employee on 31 March 2018. Accordingly, he receives a commensurate reduction in base salary to reflect the reduced responsibilities during this period. The Committee has determined that he will not be eligible to receive a bonus in respect of time served in the financial year ended 30 September 2018 nor will he be eligible to receive an LTIP award. In respect of the bonus payable for financial year ending 30 September 2017, the Committee has determined that the full amount due will be payable in cash with no requirement to defer into shares as permitted by the Policy. Mr Hummel currently holds over 12,000% of his salary in shares. In accordance with both Policy and the rules governing LTIP awards, subsisting LTIP awards made to Mr Hummel will vest to the extent the Committee determines, taking into account the shortened elapsed period from the date of grant up to the date of retirement and using relevant information available to assess achievement of the EPS and TSR performance condition. Pro-rating will apply.

A summary of these elements is provided below:

J O Sigurdsson – remuneration at hire

Element	Value	Note
Base pay	£500,000	From 1 September 2017
Bonus FY 2018 max %	125%	
LTIP grant	125%	
Pension	UK DC Plan per policy and HMRC limits	
Car	£21,000	
Benefits	Healthcare and life assurance in line with UK provision	
Relocation	£35,000	One-off benefit, reimbursed against receipted expenditure

D R Hummel – remuneration at retirement

Element	Value	Note
Base pay	\$375,000	From 1 October 2017 until 31 March 2018
Bonus FY 2017	\$723,930	No deferral will apply
Bonus FY 2018	Nil	Not eligible to participate
LTIP December 2014	Partial vest of 22.1%	The first tranche of vested shares will be transferred to Mr Hummel upon the normal vesting date, the balance at retirement
LTIP December 2015	}	Performance testing will be conducted at the date of retirement with any vested shares transferred shortly after and subject to pro-rating for the elapsed time since the date of grant having been applied
LTIP December 2016		
Pension	US 401(k)	Membership continues until 31 March 2018
Car	\$12,718	Lease value, which will transition to D R Hummel following retirement
Benefits	Current provision is maintained until 31 March 2018	

Approved by the Board on 5 December 2017

Patrick De Smedt

Chairman of Remuneration Committee

Directors' report – other statutory information

The Directors present the Annual Report and financial statements to shareholders for the year ended 30 September 2017.

Principal activity

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

Strategic report

The Strategic report required by the Companies Act 2006 can be found on pages 2 to 39. The report sets out the business model, strategy and likely future developments, contains a review of the business and describes the development and performance of the Group's business during the financial year and the position at the end of the financial year. It also contains a description of the principal risks and uncertainties facing the Group. Such information is incorporated into this report by reference and is deemed to form part of this report.

Research and Development

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

Results and dividends

Group profit after tax for the year was £111.0m (2016: £82.5m).

The Directors recommend the payment of a final dividend of 41.60p per ordinary share that, subject to shareholder approval at the Company's Annual General Meeting being held on 9 February 2018, will be paid on 16 February 2018 to all shareholders on the register of members as at 6pm on 2 February 2018. Together with the interim dividend paid in July 2017, this makes a total regular dividend of 53.80p per ordinary share for the year (2016: 46.82p per ordinary share).

In addition to the final dividend, the Directors are recommending the payment of a special dividend of 68.00p per ordinary share that, subject to shareholder approval at the Company's Annual General Meeting being held on 9 February 2018, will be paid on 16 February 2018 to all shareholders on the register of members as at 6pm on 2 February 2018. The proposal to pay a special dividend reflects exceeding the trigger point set by the Company under the capital allocation policy.

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

Post balance sheet events

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

Related party transactions

During the year ended 30 September 2017, the Company did not have any material transactions or transactions of an unusual nature with, and did not make loans to, related parties in which any Director has or had a material interest.

Share capital

The Company has a single class of shares in the form of ordinary shares with a nominal value of 1 pence per share which are listed on the premium segment of the Official List maintained by the UK Listing Authority. Details of the Company's share capital and reserves for own shares are given in note 18 to the financial

statements. During the year 345,704 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 17 and 18 to the financial statements is incorporated into this report by reference and is deemed to form part of this report.

Rights and obligations attaching to shares

The holders of ordinary shares are entitled to receive dividends when declared, to receive the Company's Annual Report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

There are no restrictions on transfer or limitations on the holding of ordinary shares and no requirements to obtain prior approval to any transfer except where the Company has exercised its right to suspend their voting rights, withhold a dividend or prohibit their transfer following failure by the member or any other person appearing to be interested in the shares to provide the Company with information requested under section 793 of the Companies Act 2006. The Directors may, in certain circumstances, also refuse to register the transfer of a share in certified form which is not fully paid up, where the instrument of transfer does not comply with the requirements of the Articles of Association, or if entitled to do so under the Uncertificated Securities Regulations 2001. No shares carry any special rights with regard to control of the Company and there are no restrictions on voting rights except that a shareholder has no right to vote in respect of a share unless all sums due in respect of that share are fully paid and except also where the Company suspends voting rights as referred to above in the event of non-disclosure of an interest as permitted by the Articles of Association. There are no known agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights and no known arrangements under which financial rights are held by a person other than the holder of the shares.

Shares acquired by employees under employee share schemes rank equally with the other shares in issue and have no special rights.

Own shares held

As at the date of this report, the Company does not hold any shares as treasury shares. Details of the Company's share capital are given in note 18 to the financial statements. A summary of the Directors' powers in relation to buying back shares is set out below in the paragraph entitled 'Powers of the Directors in relation to share capital'. As part of routine resolutions which are proposed to shareholders, the Directors will be seeking to renew the authority allowing the Company to purchase its own shares, which is set out in Resolution 22 of the Notice of Annual General Meeting ('AGM') and which can be found on page 107.

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

A total of 222,070 ordinary shares are held by the EBTs in order to satisfy the exercise of options by Directors under the Company's 2009 Long Term Incentive Plan ('LTIP'). No shares were purchased by the EBTs in the financial year to 30 September 2017. The Directors are beneficiaries of the EBTs.

AGM

The Notice of the 2018 AGM of the Company and explanatory notes are given on pages 107 to 115.

Directors' report – other statutory information continued

Major interests in shares

The following information has been disclosed to the Company on request, in respect of interests in the Company's issued share capital as at 1 December 2017.

	Number of ordinary shares held	Percentage
Mondrian Investment Partners Limited ¹	4,577,677	5.33%
Threadneedle Asset Management Limited ¹	4,505,563	5.25%
Prudential plc group of companies	4,061,840	4.72%
T. Rowe Price Associates, Inc. and its affiliates ¹	3,863,134	4.50%
Baillie Gifford & Co ¹	3,334,938	3.88%
BlackRock, Inc. ¹	3,291,728	3.83%
D R Hummel	3,014,895	3.51%
Janus Henderson Group plc	2,844,486	3.31%
Legal & General Investment Management Limited ¹	2,596,214	3.02%

¹ 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 1 December 2017.

Directors

The following served as Directors during the financial year:

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

Details of the Directors of the Company are given on pages 42 and 43. Details of Directors' interests in shares are provided in the Directors' remuneration report on page 64.

Mr Hummel and Mr De Smedt are standing down from the Board at the AGM and therefore will not be seeking re-election. Mr Sigurdsson has been appointed to the Board since the last AGM and therefore will be seeking election at the forthcoming AGM. It is proposed that Ms Ashdown and Mr Connolly are appointed to the Board as non-executive Directors and therefore offer themselves for election at the forthcoming AGM. The re-election of the remaining Directors of the Board will be sought at the AGM. Each election or re-election is in compliance with the Company's Articles of Association and reflects the provisions of the UK Corporate Governance Code.

Appointment and replacement of Directors

The Articles of Association of the Company limit the number of Directors to ten. This maximum can be changed by Ordinary Resolution of the shareholders. A resolution will be proposed at the forthcoming AGM, to increase the maximum permitted number of Directors to twelve. The details of the resolution and explanation for this change is set out in the notes to Resolution 15 on page 112 of the Notice of the Annual General Meeting.

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 2017 to allot shares in the Company or to grant rights to subscribe for or to convert any securities into shares in the Company up to (a) a maximum aggregate nominal amount of £285,223 (being approximately one-third of the issued share capital prior to that AGM) and (b) a further maximum aggregate nominal amount of £285,223 (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 2018 AGM. At the 2018 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 19 on page 107 of the Notice of Annual General Meeting.

The Directors were empowered at the 2017 AGM to make non-pre-emptive issues for cash up to a maximum aggregate nominal amount of £42,783 (being approximately 5% of the issued share capital prior to that AGM). This power is also due to lapse at the 2018 AGM and shareholders will be asked to grant a similar power (Resolution 20 of the Notice of Annual General Meeting on page 107).

Resolution 21 is in addition to Resolution 20. As supported by the Pre-Emption Group's Statement of Principles, as updated in March 2015, Resolution 21 will enable the Directors to allot shares for cash or sell shares out of treasury up to a further nominal amount of £42,937, representing approximately 5% of the issued ordinary share capital as at 4 December 2017 (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 21, 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 19 to 21 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 2017 AGM under a Special Resolution to make market purchases of the Company's own ordinary shares up to a maximum aggregate number of 8,556,691 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 2018 AGM when it is proposed that shareholders grant a similar authority.

The authority contained in Resolution 22 will expire at the earlier of 9 May 2019, or the conclusion of the 2019 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 22, 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's 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 2017 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 23 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.

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 28 to 36. Such information is incorporated into this report by reference and is deemed to form part of this report.

Directors' indemnities

The Company has granted indemnities in favour of all of its Directors under Deeds of Indemnity ('Deeds'). These Deeds were in force during the year ended 30 September 2017 and remain in force as at the date of this report. The Deeds and the Company's Articles of Association are available for inspection during normal business hours on Monday to Friday (excluding public holidays) at the Company's registered office and will also be available at the Company's AGM from at least 15 minutes before the meeting until it ends.

Change of control

None of the Directors' or employees' service contracts contain provisions providing for compensation for loss of office or employment that occurs because of a takeover bid. The rules of the Company's employee share plans set out the consequences of a change in control of the Company on participants' rights under the plans.

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

Employment policies

The Group's policies as regards the employment of disabled persons and a description of actions the Group has taken to encourage greater employee involvement in the business are set out on pages 38 and 39. Such information is incorporated into this report by reference and is deemed to form part of this report.

Directors' report – other statutory information continued

UK Corporate Governance Code

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 41 to 71. The Corporate Governance Report forms part of this report and is incorporated into it by reference.

Financial instruments

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

Branches

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

Donations

The Group made no political donations in the UK or European Union (EU) during the year ended 30 September 2017 (2016: £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 67 to 70 and pages 2 to 39 together comprise the 'management report'.

Information required by LR 9.8.4R

There is no information required to be disclosed under LR 9.8.4R save in respect of allotments of equity securities for cash and dividend waivers, which can be found on page 67 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 explanation of the audit tender process which was undertaken during 2017 can be found on pages 52 and 53 of the Audit Committee's report. The Board has decided to recommend to shareholders that PricewaterhouseCoopers LLP ('PwC') be appointed as external auditor to the Company and PwC has expressed their willingness to be appointed. Accordingly a resolution concerning their appointment is proposed at the 2018 AGM.

By order of the Board

Brett Gladden

Group Company Secretary

5 December 2017

Statement of Directors' responsibilities

In respect of the Annual Report and the financial statements

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which comprises the Directors' Report and the Strategic Report, includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

By order of the Board

Louisa Burdett
Group Finance Director
5 December 2017

Independent auditor’s report

to the members of Victrex plc only

1. Our opinion is unmodified

We have audited the financial statements of Victrex plc (“the Company”) for the year ended 30 September 2017 which comprise the consolidated income statement, the consolidated statement of other comprehensive income, the group and company balance sheets, the group and company cash flow statements, the consolidated and company statements of changes in equity, and the notes to the financial statements.

In our opinion:

- the financial statements give a true and fair view of the state of the group’s and of the parent company’s affairs as at 30 September 2017 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the directors for the 1993 year end. The period of total uninterrupted engagement is for the 24 financial years ended 30 September 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole		£5.5m (2016:£5.0m)
	5.0% (2016: 5.0%) of the Group's profit before tax	
Coverage	100% of the Group's profit before tax (2016: 97%).	
Risks of material misstatement		vs 2016
Recurring risks	Valuation of inventories	◀▶
	Valuation of the UK defined benefit pension scheme obligations	◀▶
	Parent company recoverable amount of investment in subsidiary undertakings	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters unchanged from 2016 in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Valuation of inventories (£61.5m; 2016: £61.8m) Refer to page 52 (Audit Committee Report) and page 93 (for accounting policy and financial disclosures).	Subjective estimate: A number of estimates are involved in arriving at the valuation of inventories: → Fully absorbed manufacturing cost (FAMC) value: is used to value WIP and finished goods. This involves estimation of the normal level of production and judgement with regard to whether variances arising compared to FAMC should be attributed or not to the closing inventory valuation. → Non conforming and slow moving inventory provisions: judgements are made with regard to the categorisation of stock as non conforming and/or slow moving/obsolete, and therefore whether items should be considered for provision. → Estimation is then involved in arriving at a provision against cost in respect of non conforming product and/or slow moving inventories so that inventory is carried at the lower of cost and net realisable value.	Our procedures included: → Tests of detail: Challenging the Group's assessment of the normal levels of production for FAMC purposes by comparing actual and budgeted levels of production over the past two years; and understanding and corroborating the impact of manufacturing variances in relation to production output. → Comparing inventory levels to historical sales data to challenge whether slow moving and obsolete inventories have been appropriately identified. → Year-end inventory count attendance at main UK manufacturing facility to gain understanding of management of and control over identification of non conforming and obsolete or slow moving product. → Historical comparisons: Considering realisations of inventories categorised as non conforming and obsolete or slow moving at the prior year end and comparing actual recoveries in the year to the Group's expected recoveries. Our results → We found the estimates made in the valuation of inventory to be acceptable.
Valuation of the UK defined benefit pension scheme obligations (£69.9m; 2016: £78.5m) Refer to page 52 (Audit Committee Report), page 97 (accounting policy) and pages 97 to 99 (financial disclosures).	Subjective estimate: Significant assumptions are made in valuing the UK's defined benefit pension scheme obligations (before deducting scheme assets) including in particular the discount rate, inflation rates and the average life expectancy. Small changes in the assumptions used could have a significant effect on the financial position of the group.	Our procedures included: → Benchmarking assumptions: Challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data and internally developed benchmarks; and → Assessing transparency: Considering the adequacy of the group's disclosures in respect of the sensitivity of the deficit to these assumptions. Our results → We found the assumptions made in the valuation of the UK defined benefit pension scheme obligations to be acceptable.

Independent auditor’s report continued

to the members of Victrex plc only

2. Key audit matters: our assessment of risks of material misstatement continued

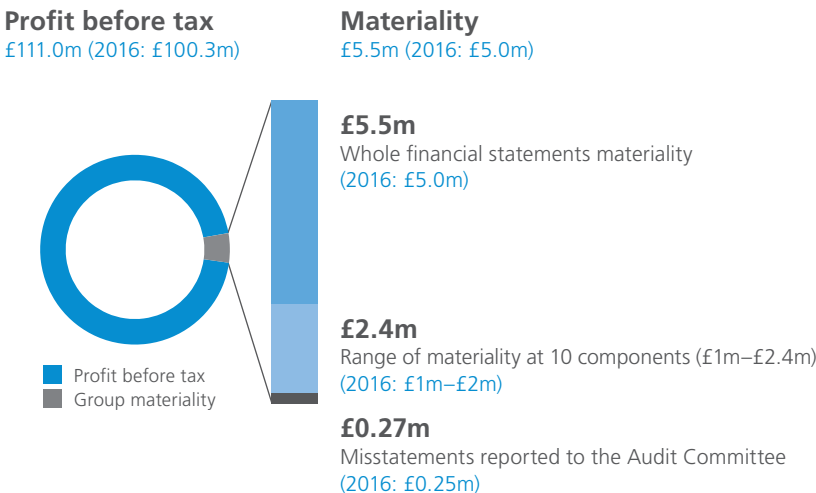
	The risk	Our response
Parent company: recoverable amount of investment in subsidiary undertakings (£111.6 million; 2016: £111.6 million) Refer to pages 92 and 93 (for accounting policy and financial disclosures).	Low risk, high value The carrying amount of the parent company’s investments in subsidiaries represents 59% (2016: 92%) of the company’s total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	<p>Our procedures included:</p> <ul style="list-style-type: none">→ Test of detail: comparing the carrying amount of 100% of investments with the relevant subsidiaries’ draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.→ Assessing subsidiary audits: Assessing the work performed by the subsidiary audit team on a sample of those subsidiaries and considering the results of that work, on those subsidiaries’ profits and net assets.→ Test of detail: for the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on its value in use. <p>Our results</p> <ul style="list-style-type: none">→ We found the group’s assessment of the recoverability of the investment in subsidiaries to be acceptable.

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

The materiality for the Group financial statements as a whole was set at £5.5m (2016: £5.0m), determined with reference to a benchmark of Group profit before tax of £111.0m (2016: £100.3m), of which it represents 5.0% (2016: 5.0%).

Materiality for the parent company financial statements as a whole was set at £3.0m (2016: £2.5m), determined with reference to a benchmark of company total assets, of which it represents 2% (2016: 2%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.27m (2016: £0.25m), in addition to other identified misstatements that warranted reporting on qualitative grounds.



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

Of the Group's 21 reporting components we subjected eight to audits for Group reporting purposes, and two to specified risk focused audit procedures, over revenue, trade receivables and third party stock confirmation. (2016: 18 reporting components of which seven were subjected to audits for Group reporting purposes and one component to a review of financial information, including enquiry).

The components for which we performed specified risk-focused procedures were not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed.

For the 10 remaining components (2016: 10 remaining components), we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The components within the scope of our work accounted for the percentages illustrated opposite.

The Group audit team carried out the work on all the components at the Group's offices in Thornton Cleveleys, Lancashire other than on one component in Japan where the work, specified audit procedures (2016: one component in Japan review of financial information, including enquiry), was carried out by our Tokyo office (2016: same). Component materialities ranged between £1m and £3m (2016: between £1m and £2m).

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 27 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

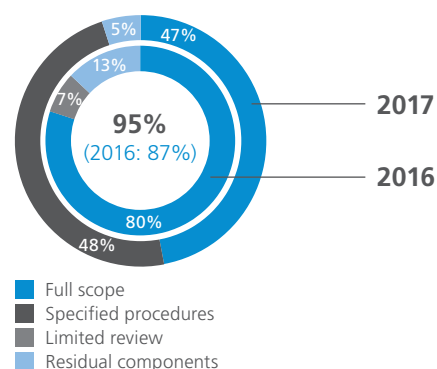
Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

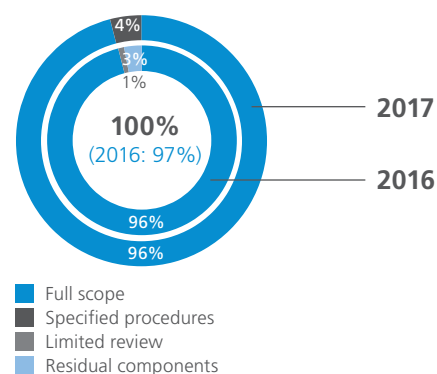
Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

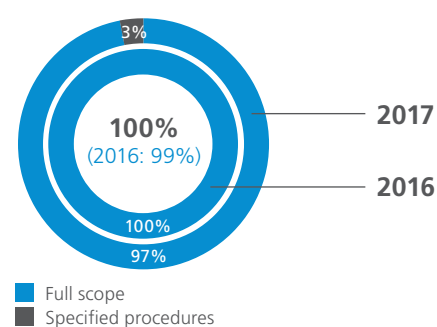
Group revenue



Group profit before tax



Group total assets



Independent auditor's report continued

to the members of Victrex plc only

5. We have nothing to report on the other information in the Annual Report continued

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the going concern and viability statement page 27 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 and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered 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.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

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

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

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

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

→ certain disclosures of directors' remuneration specified by law are not made; or

→ we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 71, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Group and parent 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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart Burdass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
5 December 2017



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Consolidated income statement

for the year ended 30 September

	Note	2017 £m	2016 £m
Revenue	2	290.2	252.3
Cost of sales	3	(106.4)	(93.6)
Gross profit		183.8	158.7
Sales, marketing and administrative expenses	3	(72.7)	(58.4)
Operating profit	2	111.1	100.3
Financial income		0.3	0.3
Financial expenses		(0.4)	(0.3)
Profit before tax		111.0	100.3
Income tax expense	5	(11.5)	(17.8)
Profit for the year attributable to owners of the Parent		99.5	82.5
Earnings per share			
Basic	6	116.4p	96.8p
Diluted	6	116.2p	96.7p
Dividend per ordinary share			
Interim	18	12.20p	11.73p
Final	18	41.60p	35.09p
Special	18	68.00p	—
	18	121.80p	46.82p

A final dividend in respect of 2017 of 41.60p and a special dividend of 68.00p per ordinary share has been recommended by the Directors for approval at the Annual General Meeting in February 2018.

Consolidated statement of comprehensive income

for the year ended 30 September

	Note	2017 £m	2016 £m
Profit for the year		99.5	82.5
Items that will not be reclassified to profit or loss			
Defined benefit pension schemes' actuarial gains/(losses)	15	13.6	(11.6)
Income tax on items that will not be reclassified to profit or loss	5	(2.3)	2.0
		11.3	(9.6)
Items that may be reclassified subsequently to profit or loss			
Currency translation differences for foreign operations		(1.5)	2.5
Effective portion of changes in fair value of cash flow hedges		2.9	(23.8)
Net change in fair value of cash flow hedges transferred to profit or loss		13.3	14.3
Income tax on items that may be reclassified to profit or loss	5	(3.3)	1.7
		11.4	(5.3)
Total other comprehensive income/(expense) for the year		22.7	(14.9)
Total comprehensive income for the year attributable to owners of the Parent		122.2	67.6

Balance sheets

as at 30 September

		Group		Company	
	Note	2017 £m	2016 £m	2017 £m	2016 £m
Assets					
Non-current assets					
Property, plant and equipment	8	258.6	255.5	—	—
Intangible assets	9	30.6	23.5	—	—
Investments	10	10.0	10.0	111.6	111.6
Deferred tax assets	11	5.6	8.9	—	—
Retirement benefit asset	15	3.8	—	—	—
		308.6	297.9	111.6	111.6
Current assets					
Inventories	12	61.5	61.8	—	—
Current income tax assets		2.4	—	—	—
Trade and other receivables	13	37.9	46.9	76.1	9.4
Derivative financial instruments	14	7.6	2.1	—	—
Cash and cash equivalents		120.1	64.0	—	—
		229.5	174.8	76.1	9.4
Total assets		538.1	472.7	187.7	121.0
Liabilities					
Non-current liabilities					
Deferred tax liabilities	11	(18.4)	(19.2)	—	—
Retirement benefit obligations	15	—	(10.6)	—	—
		(18.4)	(29.8)	—	—
Current liabilities					
Derivative financial instruments	14	(4.2)	(19.5)	—	—
Current income tax liabilities		(3.0)	(5.4)	—	—
Trade and other payables	16	(34.1)	(28.9)	(8.6)	(8.5)
		(41.3)	(53.8)	(8.6)	(8.5)
Total liabilities		(59.7)	(83.6)	(8.6)	(8.5)
Net assets		478.4	389.1	179.1	112.5
Equity					
Share capital	18	0.9	0.9	0.9	0.9
Share premium	18	43.0	37.8	43.0	37.8
Translation reserve	18	2.7	4.2	—	—
Hedging reserve	18	3.8	(9.2)	—	—
Retained earnings	18	428.0	355.4	135.2	73.8
Total equity attributable to owners of the Parent		478.4	389.1	179.1	112.5

These financial statements of Victrex plc, registered number 2793780, were approved by the Board of Directors on 5 December 2017 and were signed on its behalf by:

J O Sigurdsson **L S Burdett**
Chief Executive Group Finance Director

Cash flow statements

for the year ended 30 September

	Note	Group		Company	
		2017 £m	2016 £m	2017 £m	2016 £m
Profit after tax for the year		99.5	82.5	99.5	49.6
Income tax expense	5	11.5	17.8	—	—
Net financing expense		0.1	—	—	—
Dividends received from subsidiaries		—	—	(100.0)	(50.0)
Operating profit		111.1	100.3	(0.5)	(0.4)
Adjustments for:					
Depreciation	8	15.3	14.8	—	—
Amortisation	9	2.3	0.8	—	—
Loss on disposal of non-current assets	8	—	—	—	—
Decrease/(increase) in inventories		0.2	(3.4)	—	—
Decrease/(increase) in receivables		8.9	(13.4)	(64.3)	1.5
Increase/(decrease) in payables		5.6	(3.3)	—	(13.3)
Equity-settled share-based payment transactions	17	2.3	1.8	—	—
(Gains)/losses on derivatives recognised in income statement that have not yet settled	14	(7.5)	5.4	—	—
Retirement benefit obligations charge less contributions		(0.8)	(7.0)	—	—
Cash generated from operations		137.4	96.0	(64.8)	(12.2)
Net financing interest received		—	0.1	—	—
Tax paid		(19.8)	(12.7)	—	(0.2)
Net cash flow from operating activities		117.6	83.4	(64.8)	(12.4)
Cash flows from investing activities					
Acquisition of investments		—	(10.0)	—	—
Acquisition of property, plant and equipment and intangible assets		(16.7)	(25.9)	—	—
Dividends received		—	—	100.0	50.0
Cash consideration of acquisitions		(9.9)	—	—	—
Cash acquired with acquisitions		0.9	—	—	—
Net cash flow from investing activities		(25.7)	(35.9)	100.0	50.0
Cash flows from financing activities					
Proceeds from issue of ordinary shares exercised under option	18	5.2	1.0	5.2	1.0
Dividends paid	18	(40.4)	(39.9)	(40.4)	(39.9)
Net cash flow from financing activities		(35.2)	(38.9)	(35.2)	(38.9)
Net increase/(decrease) in cash and cash equivalents		56.7	8.6	—	(1.3)
Effect of exchange rate fluctuations on cash held		(0.6)	1.6	—	—
Cash and cash equivalents at beginning of year		64.0	53.8	—	1.3
Cash and cash equivalents at end of year		120.1	64.0	—	—

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 2015		0.9	36.8	1.7	(1.6)	320.8	358.6
Total comprehensive income for the year							
Profit		—	—	—	—	82.5	82.5
Other comprehensive income/(expense)							
Currency translation differences for foreign operations		—	—	2.5	—	—	2.5
Effective portion of changes in fair value of cash flow hedges		—	—	—	(23.8)	—	(23.8)
Net change in fair value of cash flow hedges transferred to profit or loss		—	—	—	14.3	—	14.3
Defined benefit pension schemes' actuarial losses	15	—	—	—	—	(11.6)	(11.6)
Tax on other comprehensive income	5	—	—	—	1.9	1.8	3.7
Total other comprehensive income/(expense) for the year		—	—	2.5	(7.6)	(9.8)	(14.9)
Total comprehensive income/(expense) for the year		—	—	2.5	(7.6)	72.7	67.6
Contributions by and distributions to owners of the Company							
Share options exercised	18	—	1.0	—	—	—	1.0
Equity-settled share-based payment transactions	17	—	—	—	—	1.8	1.8
Dividends to shareholders	18	—	—	—	—	(39.9)	(39.9)
Equity at 30 September 2016		0.9	37.8	4.2	(9.2)	355.4	389.1
Total comprehensive income for the year							
Profit		—	—	—	—	99.5	99.5
Other comprehensive (expense)/income							
Currency translation differences for foreign operations		—	—	(1.5)	—	—	(1.5)
Effective portion of changes in fair value of cash flow hedges		—	—	—	2.9	—	2.9
Net change in fair value of cash flow hedges transferred to profit or loss		—	—	—	13.3	—	13.3
Defined benefit pension schemes' actuarial losses	15	—	—	—	—	13.6	13.6
Tax on other comprehensive income	5	—	—	—	(3.2)	(2.4)	(5.6)
Total other comprehensive (expense)/income for the year		—	—	(1.5)	13.0	11.2	22.7
Total comprehensive (expense)/income for the year		—	—	(1.5)	13.0	110.7	122.2
Contributions by and distributions to owners of the Company							
Share options exercised	18	—	5.2	—	—	—	5.2
Equity-settled share-based payment transactions	17	—	—	—	—	2.3	2.3
Dividends to shareholders	18	—	—	—	—	(40.4)	(40.4)
Equity at 30 September 2017		0.9	43.0	2.7	3.8	428.0	478.4

Company statement of changes in equity

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total £m
Equity at 1 October 2015		0.9	36.8	62.3	100.0
Total comprehensive income for the year					
Profit (includes dividends from subsidiaries of £50.0m)		—	—	49.6	49.6
Contributions by and distributions to owners of the Company					
Share options exercised	18	—	1.0	—	1.0
Equity-settled share-based payment transactions	17	—	—	1.8	1.8
Dividends to shareholders	18	—	—	(39.9)	(39.9)
Equity at 30 September 2016		0.9	37.8	73.8	112.5
Total comprehensive income for the year					
Profit (includes dividends from subsidiaries of £100.0m)		—	—	99.5	99.5
Contributions by and distributions to owners of the Company					
Share options exercised	18	—	5.2	—	5.2
Equity-settled share-based payment transactions	17	—	—	2.3	2.3
Dividends to shareholders	18	—	—	(40.4)	(40.4)
Equity at 30 September 2017		0.9	43.0	135.2	179.1

Notes to the financial statements

1. Basis of preparation

General information

Victrex plc (the 'Company') is a limited liability company incorporated and domiciled in the United Kingdom. The address of its registered office is Victrex Technology Centre, Hillhouse International, Thornton Cleveleys, Lancashire FY5 4QD, United Kingdom.

The consolidated financial statements of the Company for the year ended 30 September 2017 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 2017.

Basis of preparation

Both the consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('endorsed IFRS') and on the historical cost basis except that derivative financial instruments and investments are measured at their fair value.

The Group's business activities, together with factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 1 to 39. In addition, note 14 on financial risk management details the Group's exposure to a variety of financial risks, including currency and credit risk.

The Group has significant positive cash balances and has a multi-currency revolving credit facility of £40m (£20m committed and £20m accordion) which expires in June 2022. This facility was undrawn at 30 September 2017 and remained undrawn at 5 December 2017 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 2018 and longer-term strategic forecasts and plans including consideration of the principal risks faced by the Company, as detailed on pages 24 to 26. Following this review the Directors are satisfied that the Company and the Group have adequate resources to continue to operate and meet their liabilities as they fall due for a period of at least twelve months from the date of signing these financial statements. For this reason they continue to adopt the going concern basis for preparing the financial statements. Details of the Group's policy on liquidity risk and capital management are included in note 14 to the financial statements.

On publishing the Company financial statements here together with the consolidated financial statements, the Company is taking advantage of section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of the approved financial statements.

The preparation of financial statements in conformity with endorsed IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Details of significant estimates and assumptions are set out in note 20.

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

The accounting policies have been consistently applied by Group entities.

A number of new standards and amendments to existing standards were effective for the financial year ending 30 September 2017, which included:

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Annual Improvements to IFRSs – 2012–2014 Cycle
- Disclosure Initiative (Amendments to IAS 1)

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

A number of standards, amendments and interpretations have been issued and endorsed by the EU but are not yet effective and, accordingly, the Group has not yet adopted them. These include:

- IFRS 9 – Financial Instruments: the standard is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Group on 1 October 2018. The Group is in the process of assessing the impact of this standard, focused on cash flow hedging for forward exchange contracts and the measurement of unquoted equity investments, which is currently not considered likely to have a material impact on the Group's current accounting treatment or hedging activities.
- IFRS 15 – Revenue from Contracts with Customers: the standard is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Group on 1 October 2018. Based on a preliminary review of the impact of these changes it is expected that for the vast majority of revenue, which is currently recognised in line with Incoterms (either on dispatch or delivery), there will be no impact on the timing and recognition of revenue. The preliminary review does indicate that there is likely to be a one-off acceleration of revenue recognised in relation to unit payments, which will become recognisable at the point when the material sale is made rather than when the onward sale has been made. The Group will recognise the cumulative effect, the one-off acceleration, of initially applying the revenue standard as an adjustment to the opening balance of retained earnings in the year ending 30 September 2019. Comparative prior year periods will not be adjusted due to the immaterial size of this adjustment.

Notes to the financial statements continued

1. Basis of preparation continued

Basis of preparation continued

→ IFRS 16 – Leases: the standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 October 2019. The effect on the reported results and financial position of the Group is still being evaluated with adoption of this standard likely to result in an increase in gross assets and gross liabilities. The Group will make an assessment of the full impact in due course, but based on the current level of operating leases held by the Group, it is not anticipated that the changes will have a material impact. The current obligations under operating lease agreements at 30 September 2017 are £5.9m. Further details of the Group's current lease arrangements are included in note 8.

The cumulative impact of the adoption of all other standards is not expected to be significant.

2. Segment reporting

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

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

	Industrial 2017 £m	Medical 2017 £m	Group 2017 £m	Industrial 2016 £m	Medical 2016 £m	Group 2016 £m
Revenue from external sales	236.3	53.9	290.2	201.5	50.8	252.3
Segment gross profit	135.5	48.3	183.8	114.2	44.5	158.7
Sales, marketing and administrative expenses			(72.7)			(58.4)
Operating profit			111.1			100.3
Net financing expense			(0.1)			—
Profit before tax			111.0			100.3
Income tax			(11.5)			(17.8)
Profit for the year attributable to owners of the Parent			99.5			82.5

Entity-wide disclosures

Revenue recognition

Revenue comprises the amounts receivable for the sale of goods, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, which is when the goods are dispatched or delivered in line with Incoterms. Unit payments, contingent on onward sale, are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group. This is typically the period the customer confirms the onward sale and the amount can be measured reliably.

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

Volume rebates are recognised as a deduction from gross sales as qualifying sales are made throughout the period. These rebates are accrued based on the maximum amount due to customers based on annualised sales, unless it is clear that maximum rebate conditions will not be met in a particular period.

Information about products

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

Information about geographical areas

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

	Revenue from external sales	
	2017 £m	2016 £m
United Kingdom	5.8	7.6
Europe, the Middle East and Africa ('EMEA')	126.8	104.0
Americas	89.5	71.3
Asia-Pacific	68.1	69.4
	290.2	252.3

Information about major customers

In the current year one customer contributed more than 10% to Group revenue (2016: one customer). The one customer was in the Industrial (Victrex Polymer Solutions) operating segment (2016: same segment).

3. Expenses by nature

	Note	2017 £m	2016 £m
Staff costs	4	62.1	53.6
Depreciation of property, plant and equipment	8	15.3	14.8
Operating lease rentals	8	1.3	1.5
Amortisation of intangibles	9	2.3	0.8
Other costs of manufacture		73.5	59.4
Other sales, marketing and administrative expenses		24.6	21.9
		179.1	152.0

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

Exceptional items were as follows:

	2017 £m	2016 £m
Included within sales, marketing and administrative expenses:		
Pension curtailment gain	—	2.6
Costs of pension change	—	(1.5)
Restructuring costs	(2.0)	(1.6)
Exceptional items before tax	(2.0)	(0.5)
Tax on exceptional items	0.4	0.1
Exceptional items	(1.6)	(0.4)

Restructuring costs

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

Closure of defined benefit section of the pension scheme

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

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

Auditor's remuneration was as follows:

	2017 £000	2016 £000
Audit services relating to:		
– Victrex plc Annual Report	49	45
– The Company's subsidiaries, pursuant to legislation	104	101
	153	146
Interim review	14	14
Pension advisory services	—	25
Other services	15	13
	29	52
	182	198

4. Staff costs

	Note	2017 £m	2016 £m
Wages and salaries		50.2	43.1
Social security costs		5.3	4.4
Defined contribution pension schemes		4.0	6.0
Defined benefit pension schemes	15	0.3	(1.7)
Equity-settled share-based payment transactions	17	2.3	1.8
		62.1	53.6

Notes to the financial statements continued

4. Staff costs continued

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

	2017	2016
Make	410	416
Develop, Market and Sell	232	232
Support	121	117
	763	765

5. Income tax expense

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income or equity as appropriate.

Current tax is the expected tax payable on the taxable income for the current and prior years, using tax rates (and tax laws) enacted or substantively enacted at the balance sheet date.

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries except to the extent that they will probably reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

	Note	2017 £m	2016 £m
Current tax			
UK corporation tax on profits for the year		7.7	16.8
Overseas tax on profits for the year		2.2	1.7
		9.9	18.5
Deferred tax			
Origination and reversal of temporary differences	11	0.7	2.2
Reduction in tax rate	11	—	(1.9)
		0.7	0.3
Tax adjustments relating to prior years		0.9	(1.0)
Total tax expense in income statement		11.5	17.8

Reconciliation of effective tax rate

	2017		2016	
	%	£m	%	£m
Profit before tax		111.0		100.3
Tax expense at UK corporation tax rate	19.5	21.6	20.0	20.1
Effects of:				
– Expenses not deductible for tax purposes		0.5		0.5
– Higher rates of tax on overseas earnings		0.9		0.6
– UK research and development tax credits and other allowances		(0.4)		(0.2)
– Tax adjustments relating to prior years		0.9		(1.0)
– Difference in rates between deferred tax and corporation tax		(0.1)		(0.3)
– Restatement of opening deferred tax balances from 20% to 17%		—		(1.9)
– Patent box deduction		(11.9)		—
Effective tax rate	10.4	11.5	17.7	17.8

The deferred tax assets/liabilities at 30 September 2017 have been calculated at a rate of 17% (2016: 17%), being the UK tax rate effective from 1 April 2020, which is the period after which the majority of the temporary differences are expected to be reversed.

5. Income tax expense continued

Tax (charge)/credit recognised in other comprehensive income

	2017 £m	2016 £m
Cash flow hedges	(3.2)	1.9
Defined benefit pension schemes	(2.3)	2.0
Equity-settled transactions	(0.1)	(0.2)
	(5.6)	3.7

6. Earnings per share

Earnings per share is based on the Group's profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year, excluding own shares held (see note 18).

	2017	2016
Earnings per share		
– basic	116.4p	96.8p
– diluted	116.2p	96.7p
Profit for the financial year	£99.5m	£82.5m
Weighted average number of shares used:		
– Issued ordinary shares at beginning of year	85,518,764	85,441,991
– Effect of own shares held	(222,070)	(222,839)
– Effect of shares issued during the year	209,223	39,703
Basic weighted average number of shares	85,505,917	85,258,855
Effect of share options	190,685	84,335
Diluted weighted average number of shares	85,696,602	85,343,190

7. Acquisition

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

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

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

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

TxV Aerospace Composites ('TxV')

On 10 January 2017 Victrex established a Joint Venture with Tri-Mack Plastics which will focus on developing a new supply chain, with the capability to manufacture, at scale, unique and differentiated Loaded Brackets, blending new PEEK and PAEK polymer grades and composite materials. The results and financial position of TxV are consolidated into the Group income statement and Group balance sheet respectively based on the level of control Victrex exerts over TxV. Victrex's investment in TxV amounts to \$14m.

Under the terms of the Joint Venture Agreement both parties have access to financial derivatives 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 is \$4m (£3.0m). Where a financial liability is recognised, the anticipated level of potential ownership on exercise of the derivative is taken into account in determining that a non-controlling interest should not be recognised.

Acquisition related costs of £0.1m have been recognised as an expense within sales, marketing and administrative expenses in the Consolidated income statement.

Included in the year ended 30 September 2017 is revenue of £nil and a loss before tax of £0.7m, in respect of TxV Aerospace Composites.

Notes to the financial statements continued

7. Acquisition continued

Acquisition of Zyex Group Limited ('Zyex')

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

Zyex is a UK-based manufacturer of PEEK based fibres, and like Victrex was formed out of ICI. The acquisition is in line with Victrex's strategy of moving further downstream and investing in semi-finished and differentiated products, based on PEEK and PAEK polymers.

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

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

Acquisition related costs of £0.1m have been recognised as an expense within sales, marketing and administrative expenses in the Consolidated income statement.

Included in the year ended 30 September 2017 is revenue of £4.2m and a profit before tax of £1.2m in respect of Zyex.

Had the acquisition of Zyex been effective at 1 October 2016, the revenue and profit before tax of the Group for the current year would have been £294.4m and £111.7m respectively.

8. Property, plant and equipment

Owned assets

All owned items of property, plant and equipment are stated at historical cost less accumulated depreciation and provision for impairment. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation

Depreciation is charged to the income statement on a straight line basis over the estimated useful economic lives as follows:

Buildings	30–50 years
Plant and machinery	10–30 years
Fixtures, fittings, tools and equipment	5–10 years
Computers and motor vehicles	3–5 years

Freehold land is not depreciated.

The residual values and useful lives of assets are reviewed annually for continued appropriateness and indications of impairment, and adjusted if appropriate.

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

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

8. Property, plant and equipment continued

	Land and buildings £m	Plant and machinery £m	Computers and motor vehicles £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Cost						
At 1 October 2015	51.8	279.8	6.6	2.9	5.2	346.3
Exchange differences	0.3	0.6	0.1	0.5	—	1.5
Additions	0.7	5.0	0.7	0.1	11.7	18.2
Disposals	—	—	(0.1)	—	—	(0.1)
Reclassification	1.1	1.3	—	—	(2.4)	—
At 30 September 2016	53.9	286.7	7.3	3.5	14.5	365.9
Exchange differences	—	(0.1)	—	(0.1)	—	(0.2)
Additions	0.2	4.4	0.1	0.1	10.1	14.9
Acquisitions (see note 7)	—	3.3	0.1	0.1	—	3.5
Disposals	—	(0.1)	(0.1)	—	—	(0.2)
Reclassification	2.4	15.8	0.1	—	(18.3)	—
At 30 September 2017	56.5	310.0	7.5	3.6	6.3	383.9
Depreciation						
At 1 October 2015	6.5	82.8	4.1	1.6	—	95.0
Exchange differences	0.1	0.2	0.1	0.3	—	0.7
Disposals	—	—	(0.1)	—	—	(0.1)
Depreciation charge	1.4	11.8	1.2	0.4	—	14.8
At 30 September 2016	8.0	94.8	5.3	2.3	—	110.4
Exchange differences	—	(0.1)	—	(0.1)	—	(0.2)
Disposals	—	(0.1)	(0.1)	—	—	(0.2)
Depreciation charge	1.5	12.4	0.9	0.5	—	15.3
At 30 September 2017	9.5	107.0	6.1	2.7	—	125.3
Carrying amounts						
At 30 September 2017	47.0	203.0	1.4	0.9	6.3	258.6
At 30 September 2016	45.9	191.9	2.0	1.2	14.5	255.5
At 1 October 2015	45.3	197.0	2.5	1.3	5.2	251.3

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

The Company has no property, plant or equipment.

Leased assets

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

Non-cancellable operating lease rentals are payables as follows:

As at 30 September	2017 £m	2016 £m
Not later than one year	1.1	1.4
Later than one year but not later than five years	2.3	1.5
Later than five years	2.5	2.3
	5.9	5.2

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

Operating lease rentals of £1.3m (2016: £1.5m) relating to the lease of property, plant and equipment are included in the income statement (see note 3).

Notes to the financial statements continued

9. Intangible assets

	Goodwill £m	Computer software £m	Customer relationships £m	Brand name £m	Assets in course of construction £m	Total £m
Cost						
At 1 October 2015	11.7	3.2	0.3	—	5.6	20.8
Additions	—	—	—	—	3.9	3.9
Reclassification	—	9.5	—	—	(9.5)	—
At 30 September 2016	11.7	12.7	0.3	—	—	24.7
Additions	—	1.2	—	—	—	1.2
Acquisitions	2.6	—	1.7	0.7	3.0	8.0
Exchange differences	—	—	—	—	0.2	0.2
At 30 September 2017	14.3	13.9	2.0	0.7	3.2	34.1
Amortisation						
At 1 October 2015	—	0.4	—	—	—	0.4
Amortisation charge	—	0.7	0.1	—	—	0.8
At 30 September 2016	—	1.1	0.1	—	—	1.2
Amortisation charge	—	1.9	0.3	0.1	—	2.3
At 30 September 2017	—	3.0	0.4	0.1	—	3.5
Carrying amounts						
At 30 September 2017	14.3	10.9	1.6	0.6	3.2	30.6
At 30 September 2016	11.7	11.6	0.2	—	—	23.5
At 1 October 2015	11.7	2.8	0.3	—	5.6	20.4

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment. Any impairment provisions that arose during impairment testing would not be reversed.

In respect of acquisitions prior to 1 October 2004, goodwill is included on the basis of its deemed cost, which represents the net amount recorded previously under UK GAAP. In prior years the amortisation element of the deemed cost at 30 September 2004 was shown separately; in the current year this has been deducted from gross cost. In respect of acquisitions that have occurred since 1 October 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the assets, liabilities and contingent liabilities acquired.

Goodwill is tested annually for impairment by reference to the estimated future cash flows of the relevant cash-generating unit ('CGU'), discounted to their present value using risk adjusted discount factors to give its value in use. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

Impairment losses are recognised if the carrying amount of the CGU to which goodwill has been allocated exceeds its value in use and are recognised in the income statement.

Goodwill recognised is measured against discounted future cash flow projections for the relevant CGU. Management has prepared cash flow projections for a five-year period derived from the approved budget for the 2018 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.

£2.6m of goodwill was recognised in the current period on the acquisition of Zyex. This element of goodwill is measured against the discounted future cash flow projections of the Zyex business. The long-term average growth rate used was 2.0% and the risk adjusted discount rate was 11.0%. Based on the impairment results, it has been determined to be unlikely that any reasonably possible changes in any of the key assumptions would result in an impairment of goodwill.

The remaining goodwill of £11.7m relates to acquisitions associated with the supply of our key raw material BDF in 1999 and 2005 (£7.4m), the Japanese acquisition in 2007 (£2.7m) and the acquisition of Kleiss Gears in 2015 (£1.6m). The £11.7m of goodwill is measured against the discounted future cash flow projections of the Industrial (excluding Zyex and TxV) and Medical divisions, which are the smallest identifiable independent groups of assets that generate cash flows, due to these acquisitions being fully integrated. For example, the goodwill acquired in both Japan and Kleiss Gears is employed to generate revenue across Industrial and the goodwill associated with BDF is used in the majority of both Medical and Industrial products. The long-term average growth rate used was 2.0% (2016: 2.0%) and the risk adjusted discount rate was 8.0% (2016: 8.0%). The impairment test results in more than 100% headroom and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

9. Intangible assets continued

Other intangible assets

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

Amortisation

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

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

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

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised within the income statement as an expense as incurred.

Development expenditure is recognised in the income statement as an expense as incurred unless it meets all the criteria to be capitalised under IAS 38 – Intangible Assets.

Research and development expenditure of £14.5m (2016: £14.1m) was expensed to the income statement in the year within sales, marketing and administrative expenses.

10. Investments

Investments

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

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

Interests in joint arrangements

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

Joint operations

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

Joint ventures

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

Basis of consolidation

Subsidiaries

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

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

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Notes to the financial statements continued

10. Investments continued**Investment in Magma Global**

In the prior year, on 23 September 2016, the Group acquired a minority equity interest in its joint development partner, Magma Global Limited ('Magma'), for a cash consideration of £10m which is considered to be the fair value at 30 September 2017.

This strategic investment is in line with Victrex's strategy to invest further in selected downstream semi-finished or finished products and accelerate or underpin its portfolio of 'mega-programmes'. Magma, which in partnership with Victrex, has developed m-pipe®, a PEEK and carbon fibre high performance pipe for the Oil & Gas industry, is one of Victrex's 'mega-programmes'.

Group

	Investments £m
Cost and carrying value	
At 1 October 2015	—
Investment in Magma Global Limited – year ended 30 September 2016	10.0
At 30 September 2016 and 30 September 2017	10.0

Company

	Shares in Group undertakings £m
Cost and carrying value	
At 30 September 2015, 30 September 2016 and 30 September 2017	111.6

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

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

¹ Directly held by Victrex plc.

² Invio GmbH merged into Victrex Europa GmbH on 21 April 2017.

³ TxV Aerospace Composites was established on 10 January 2017. See note 7 for further details.

⁴ 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.

10. Investments continued

Company continued

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

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

11. Deferred tax assets and liabilities

	As at 30 September 2017					As at 30 September 2016				
	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	—	0.5	3.7	1.4	5.6	—	2.9	4.0	2.0	8.9
Deferred tax liabilities	(18.0)	—	—	(0.4)	(18.4)	(19.2)	—	—	—	(19.2)
Net deferred tax (liabilities)/assets	(18.0)	0.5	3.7	1.0	(12.8)	(19.2)	2.9	4.0	2.0	(10.3)
	Note	Property, plant and equipment £m	Employee benefits £m	Inventories £m	Other £m	Total £m				
Movement in net provision										
At 1 October 2015		(19.2)	1.8	4.1	0.8	(12.5)				
Prior period adjustment		(0.3)	—	—	—	(0.3)				
Reclassification from current income tax liabilities		—	—	—	1.0	1.0				
Change in rate on opening balance from 20% to 17%	5	2.9	(0.3)	(0.6)	(0.1)	1.9				
Recognised in income statement	5	(2.6)	(0.4)	0.5	0.3	(2.2)				
Recognised in other comprehensive income	5	—	1.8	—	—	1.8				
At 30 September 2016		(19.2)	2.9	4.0	2.0	(10.3)				
Prior period adjustment		1.6	(0.1)	—	(0.1)	1.4				
Acquisitions	7	(0.4)	—	—	(0.4)	(0.8)				
Recognised in income statement	5	—	0.1	(0.3)	(0.5)	(0.7)				
Recognised in other comprehensive income	5	—	(2.4)	—	—	(2.4)				
At 30 September 2017		(18.0)	0.5	3.7	1.0	(12.8)				

12. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Further details on inventory valuation and provisions are included in note 20.

As at 30 September	2017 £m	2016 £m
Raw materials and consumables	18.1	23.7
Work in progress	5.7	5.1
Finished goods	37.7	33.0
	61.5	61.8

The amount of inventory expensed in the period is £96.5m (2016: £80.8m).

13. Trade and other receivables

	Group		Company	
As at 30 September	2017 £m	2016 £m	2017 £m	2016 £m
Trade receivables	32.4	37.7	—	—
Amounts owed by subsidiary undertakings	—	—	76.1	9.4
Prepayments	4.5	7.7	—	—
Other	1.0	1.5	—	—
	37.9	46.9	76.1	9.4

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

Notes to the financial statements continued

14. Financial risk management

Group

Currency risk

Currently, the Group exports 98% of sales from the UK and also makes raw material purchases overseas.

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

Group hedging policy is to defer the impact on profits of currency movements by hedging:

- a minimum of 90% and a maximum of 100% of projected transaction exposures arising from trading in the forthcoming six-month period; and
- a minimum of 75% and a maximum of 100% of projected transaction exposures arising in the following six-month period.

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

In addition, the Group includes a number of foreign subsidiaries. As a result of these factors, the Group's financial statements are exposed to currency fluctuations. The currencies giving rise to this risk are primarily US Dollar, Euro and Yen.

The impact of a 5% movement in the average Sterling/US Dollar, Sterling/Euro and Sterling/Yen rates on profit for 2017 is £5.9m, £4.5m and £1.0m (2016: £5.0m, £3.3m and £0.7m) respectively. The impact of a 5% movement in the average Sterling/US Dollar, Sterling/Euro and Sterling/Yen rates on equity for 2017 is £2.6m, £0.3m and £0.3m (2016: £2.8m, £0.4m and £0.6m) respectively.

Derivative financial instruments and hedging activities

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

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

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

Cash flow hedges

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in cash flows of hedged items.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective portion of changes in fair value is recognised in equity via the statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Any cumulative gain or loss existing in equity at the time when the forecast transaction occurs, or when a hedge no longer meets the criteria for hedge accounting, is recognised in the income statement in the corresponding line that the hedged item goes through being revenue, cost of sales or sales, marketing and administrative expenses. The timing of the gain or loss impacting the income statement is aligned to the timing of the hedged transaction impacting the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Other derivative financial instruments

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

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

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

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 2017		As at 30 September 2016	
	Notional contract amount £m	Carrying amount and fair value £m	Notional contract amount £m	Carrying amount and fair value £m
Current assets	181.2	7.6	(22.1)	2.1
Current liabilities	18.0	(1.2)	196.9	(19.5)
	199.2	6.4	174.8	(17.4)

14. Financial risk management continued

Group continued

Currency risk continued

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 2017				As at 30 September 2016			
	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	181.2	95.9	84.2	1.1	(22.1)	(24.3)	1.1	1.1
– Liabilities	18.0	7.8	3.5	6.7	196.9	122.4	68.3	6.2
	199.2	103.7	87.7	7.8	174.8	98.1	69.4	7.3

Gains and losses deferred in the hedging reserve in equity on forward foreign exchange contracts at 30 September 2017 will be recognised in the income statement during the period in which the hedged forecast transaction affects the income statement, which is typically 1-2 months prior to the cash flow occurring. At 30 September 2017, 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, gains of £1.7m (2016: losses of £5.8m) relating to forward exchange contracts on the balance sheet at 30 September 2016 were released to the income statement.

Gains and losses recognised in the income statement on contracts which are yet to settle are adjusted as a non-cash movement on the Cash flow statements. This equated to a gain of £7.5m in the year (2016: loss of £5.4m).

Credit risk

The Group manages exposure to credit risk at many levels ranging from Executive Leadership Team approval being required for the credit limits of larger customers, to the use of letters of credit and cash in advance where appropriate. Internal procedures require regular due consideration of credit ratings, payment history, aged items and proactive debt collection. All customers are assigned a credit limit which is subject to annual review.

Trade receivables can be analysed as follows:

As at 30 September	2017 £m	2016 £m
Amounts neither past due nor impaired	26.0	35.2
Amounts past due but not impaired:		
– Less than 30 days	2.8	2.3
– 30–60 days	1.5	0.2
– More than 60 days ¹	2.1	—
Total past due but not impaired	6.4	2.5
Amounts impaired (all more than 60 days past due)	0.5	0.5
Impairment allowances	(0.5)	(0.5)
Carrying amount of impaired receivables	—	—
Trade receivables net of allowances	32.4	37.7

1 This past due receivable has been fully recovered by 5 December 2017.

Trade receivables are considered to be impaired when the amount is in dispute, when customers are believed to be in financial difficulty or if any other reason exists which implies that there is a doubt over the recoverability of the debt. No provision has been made in respect of the amounts shown as past due but not impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable in full.

Movements in the allowance for impairments were:

	2017 £m	2016 £m
At beginning of year	0.5	0.5
Charge in the year	—	—
Release of allowance	—	—
At end of year	0.5	0.5

The credit risk in respect of cash and cash equivalents and derivative financial instruments is limited because the counterparties with significant balances are established international banks whose credit ratings are monitored on an ongoing basis.

Notes to the financial statements continued

14. Financial risk management continued

Group continued

Credit risk continued

Cash and cash equivalents

Cash and cash equivalents comprises cash balances, call deposits and other short-term deposits with original maturities typically of three months or less.

As at 30 September 2017, the maximum exposure with a single bank for deposits was £31.1m (2016: £28.0m) for the Group. As at 30 September 2017, the largest mark to market exposure for gains on forward foreign exchange contracts to a single bank was £3.0m (2016: £1.0m). The amounts on deposit at the year end represent the Group's maximum exposure to credit risk on cash and deposits.

Liquidity risk

The Group's objective in terms of funding capacity is to ensure that it always has sufficient short-term and long-term funding available, either in the form of the Group's cash resources or committed bank facilities. The Group has sufficient funds available to meet its current funding requirements for both revenue and capital expenditure. In order to further manage liquidity risk to an acceptable level, the Group has a bank facility of £40m (£20m committed and £20m accordion), all of which was undrawn at the year end. This two bank facility expires in June 2022 and replaced the Group's previous single bank facility which was due to expire in September 2017.

As at 30 September 2017, the Group had a cash and cash equivalents balance of £120.1m.

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 2018, 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	2017 £m	2016 £m
Total equity	478.4	389.1
Total assets	538.1	472.7
Equity ratio	89%	82%

Summary of categories of financial assets and liabilities

As at 30 September	Note	Carrying amount and fair value 2017 £m	Carrying amount and fair value 2016 £m
Financial assets			
Derivative instruments in designated hedge accounting relationships		7.6	2.1
Designated as fair value through the income statement – Investments	10	10.0	10.0
<i>Loans and receivables</i>			
Trade and other receivables	13	33.4	39.2
Cash and cash equivalents		120.1	64.0
Financial liabilities			
Derivative instruments in designated hedge accounting relationships		(1.2)	(19.5)
Other derivative instruments	7	(3.0)	—
<i>Other financial liabilities</i>			
Trade and other payables	16	(6.2)	(5.8)

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 95.

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

Company

The only trade receivables of the Company are amounts owed by UK subsidiary undertakings, which are financial assets designated as loans and receivables.

15. Retirement benefit obligations

Employee benefits

Defined contribution pension schemes

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

Defined benefit pension schemes

The Group's net obligation in respect of defined benefit pension schemes recognised in the balance sheet is the present value of the future benefits that employees have earned in return for their service in the current and prior periods, less the fair value of plan assets. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating to the terms of the related pension liability.

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

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

The Group operates a number of pension schemes for its employees throughout the world. Outside the UK, the Company operates defined contribution pension schemes.

The principal scheme operated by the Group is a funded UK pension scheme in which employees of UK subsidiary undertakings participate. The scheme has two sections. One section provides benefits on a defined benefit basis with benefits related to final pensionable pay. The defined benefit section was closed to new members from 31 December 2001. From this date new employees have been invited to join the second section that provides benefits on a defined contribution basis.

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

The latest triennial valuation was performed to 31 March 2016 and showed a scheme surplus of £773,000. The surplus position means the Company has no current obligation to make further contributions to the scheme, although this may change following future valuations. Contribution rates prior to the closure of the scheme were based on the triennial valuation as at 31 March 2013.

Where the IAS 19 revised 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 Company is entitled to any assets that remain in the scheme after the settlement of all pension liabilities.

IAS 19 disclosures relating to defined benefits are as follows:

Principal actuarial assumptions

As at 30 September	2017	2016
Discount rate	2.80%	2.40%
RPI inflation	3.50%	3.50%
CPI inflation	2.50%	2.50%
Future pension increases	3.30%	3.30%
Mortality tables	S2NA CMI 2016 (1.25%)	S2NA CMI 2015 (1.25%)
Life expectancy from age 62 of current pensioners:		
– Male	25.1 yrs¹	25.3 yrs ²
– Female	27.2 yrs¹	27.5 yrs ²
Life expectancy from age 62 of active and deferred members:		
– Male	26.4 yrs³	26.8 yrs ⁴
– Female	28.5 yrs³	29.1 yrs ⁴

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

2 Life expectancy from age 62 for members aged 62 in 2016.

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

4 Life expectancy from age 62 for members aged 45 in 2016.

The average duration of the benefit obligation at the end of the reporting period is 23 years (2016: 23 years).

Notes to the financial statements continued

15. Retirement benefit obligations continued**Principal actuarial assumptions continued**

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

Change in assumption	Increase in fund deficit as at 30 September 2017	Increase in fund deficit as at 30 September 2016
Reduce discount rate by 1% p.a.	£18.4m	£22.7m
Increase inflation expectations by 1% p.a.	£15.2m	£18.6m
Increase life expectancy by 1 year	£2.2m	£2.7m

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

Amounts recognised in the Balance sheet

As at 30 September	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Present value of funded obligations	(73.6)	(82.4)	(60.4)	(60.2)	(51.4)
Fair value of schemes' assets	77.4	71.8	54.6	52.4	47.8
Net asset/(liability) before deferred taxation	3.8	(10.6)	(5.8)	(7.8)	(3.6)
Related deferred taxation asset	(0.6)	1.8	1.2	1.6	0.7
Net asset/(liability) after deferred taxation	3.2	(8.8)	(4.6)	(6.2)	(2.9)
Change in assumptions and experience adjustments arising on schemes' liabilities	9.4	(22.2)	1.1	(6.3)	(2.7)
Experience adjustments arising on schemes' assets	4.2	10.6	0.3	1.1	2.0

Changes in the present value of the funded obligation

	2017 £m	2016 £m
Defined benefit obligation at beginning of year	(82.4)	(60.4)
Exchange difference	(0.1)	(0.4)
Service cost	—	(0.8)
Past service cost	—	2.6
Interest cost	(2.0)	(2.4)
Actuarial gains/(losses)	9.4	(22.2)
Benefits paid	1.5	1.2
Defined benefit obligation at end of year	(73.6)	(82.4)

Changes in the fair value of the schemes' assets

	2017 £m	2016 £m
Fair value of schemes' assets at beginning of year	71.8	54.6
Exchange difference	0.1	0.2
Interest income on assets	1.7	2.2
Actuarial gains	4.2	10.6
Contributions by employer	1.1	5.3
Contributions by employee	—	0.1
Benefits paid	(1.5)	(1.2)
Fair value of schemes' assets at end of year	77.4	71.8

Major categories of schemes' assets

As at 30 September	2017 £m	2016 £m
UK equities	0.9	1.6
Non-UK equities	15.6	26.8
Diversified growth and absolute return funds ¹	26.3	7.8
Liability-driven instruments ²	11.2	—
Debt instruments	20.8	29.1
Cash	0.7	4.8
Insurance policies	1.9	1.7
Fair value of schemes' assets at end of year	77.4	71.8

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.

15. Retirement benefit obligations continued

Amounts recognised in the income statement

	Note	2017 £m	2016 £m
Current service cost		—	(0.8)
Past service cost		—	2.6
Contributions by employees		—	0.1
Interest on liabilities		(2.0)	(2.4)
Interest income on assets		1.7	2.2
Total included in 'staff costs'	4	(0.3)	1.7

Of the total included in staff costs, £nil is included within cost of sales (2016: £0.7m) and £0.3m is included within sales, marketing and administrative expenses (2016: £(2.4m)).

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

	2017 £m	2016 £m
Cumulative amount at beginning of year	(26.6)	(15.0)
Movement in year	13.6	(11.6)
Cumulative amount at end of year	(13.0)	(26.6)

16. Trade and other payables

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
As at 30 September				
Trade payables	3.4	3.9	—	—
Amounts owed to Group undertakings	—	—	8.5	8.5
Accruals	27.9	23.1	—	—
Other	2.8	1.9	0.1	—
	34.1	28.9	8.6	8.5

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

17. Share-based payments

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

Victrex 2005/2015 Executive Share Option Plan ('ESOP')

All employees are eligible to participate. The Remuneration Committee currently excludes executive Directors from participating in this plan. Option awards are based on a percentage of basic salary, not exceeding 100% of salary in each financial year. The exercise price of the options is equal to the market price of the shares on the date of grant. ESOP options are conditional on the employee completing three years' service (the vesting period) and achieving the performance condition where applicable. The level of awards vesting will vary depending on EPS growth. In order for awards to reach the threshold level of vesting, the EPS growth of the Group must exceed 2% per annum with some awards requiring this growth to be above the Retail Price Index. For awards over 33% of salary, the threshold increases to 3%, and then to 4% for awards over 66%. Straight line vesting will occur to the extent that EPS growth falls between these annual EPS growth targets. These options are exercisable from the date of vesting to the ten-year anniversary of the grant date.

Victrex 2005/2015 Sharesave Plan

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

Victrex 2005/2015 Employee Stock Purchase Plan

US-based employees (including executive Directors) are eligible to participate. The price payable for each ordinary share shall be a price determined by the Board, provided that it shall not be less than 85% of the lower of the market value of an ordinary share on the date of grant or the date of purchase.

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

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

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

Details of the 2009 LTIP can be found within the Directors' remuneration report on page 56.

Notes to the financial statements continued

17. Share-based payments continued

Number and weighted average exercise prices of share options

	ESOP		Sharesave Plan		Stock Purchase Plan		LTIP	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at 1 October 2015	1,648p	821,789	1,511p	319,121	—	—	nil p	276,525
Granted during the year	1,770p	289,357	1,266p	348,712	1,319	10,833	nil p	98,942
Forfeited during the year	1,726p	(40,635)	1,552p	(210,821)	—	—	nil p	(93,534)
Exercised during the year	1,198p	(28,135)	1,301p	(37,805)	1,319	(10,833)	nil p	(3,498)
Outstanding at 30 September 2016	1,691p	1,042,376	1,305p	419,207	—	—	nil p	278,435
Granted during the year	1,887p	310,496	1,555p	60,982	1,319	10,934	nil p	95,448
Forfeited during the year	1,760p	(56,833)	1,356p	(53,110)	—	—	nil p	(59,326)
Exercised during the year	1,541p	(285,475)	1,293p	(48,834)	1,319	(10,934)	nil p	—
Outstanding at 30 September 2017	1,790p	1,010,564	1,340p	378,245	—	—	nil p	314,557
Range of exercise prices								
2017	752.0p–2,052p		1,266p–1,633p				nil p	
2016	434.3p–2,052p		906p–1,633p				nil p	
Weighted average contractual life (years)								
2017	7.7		2.5		0.4		8.0	
2016	7.5		2.3		0.4		8.0	
Exercisable at end of year								
2017	1,474p	206,153	—	—	—	—	—	—
2016	1,407p	284,871	—	—	—	—	—	—

Fair value of share options and assumptions

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

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in equity. Share-based payment transactions are recharged from the Company to those subsidiaries benefiting from the service of the employees to whom options are granted.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest and include employee service periods and performance targets which are not related to the Company's share price, such as earnings per share growth. The fair value of the options is measured by the Stochastic model, taking into account the terms and conditions upon which the instruments were granted. At each balance sheet date the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity over the remaining vesting period.

Any failure to meet market conditions, which includes performance targets such as share price or total shareholder return, would not result in a reversal of original estimates in the income statement.

The proceeds received, net of any directly attributable costs, are credited to share capital (nominal value) and share premium when the options are exercised.

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

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

17. Share-based payments continued

Fair value of share options and assumptions continued

Fair value of share options and weighted average assumptions

	As at 30 September 2017				As at 30 September 2016			
	ESOP	Sharesave Plan	Stock Purchase Plan	LTIP	ESOP	Sharesave Plan	Stock Purchase Plan	LTIP
Fair value at measurement date	414p	299p	346p	963p	427p	306p	424p	1,339p
Share price at grant	1,801p	1,553p	1,552p	1,837p	1,694p	1,518p	1,890p	1,808p
Exercise price	1,789p	1,340p	n/a	nil p	1,690p	1,305p	n/a	nil p
Expected volatility	31%	26%	27%	25%	33%	26%	26%	25%
Expected dividends	2.5%	3.0%	3.0%	2.5%	2.4%	3.0%	2.4%	2.5%
Risk-free interest rate	1.3%	0.7%	0.2%	0.8%	1.6%	0.8%	0.4%	1.1%

The expected volatility is based on historic volatility over the period prior to grant equal to the expected term.

All share options are granted under a service condition and, for 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	2017 £m	2016 £m
ESOP		0.9	1.0
Sharesave Plan		0.6	0.5
LTIP		0.8	0.3
	4	2.3	1.8

18. Share capital and reserves

Share capital

	2017		2016	
	Number	£m	Number	£m
Allotted, called up and fully paid shares of 1p each				
At beginning of year	85,518,764	0.9	85,441,991	0.9
Issued for cash	345,704	—	76,773	—
At end of year	85,864,468	0.9	85,518,764	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 345,704 (2016: 76,773) shares were issued for cash, resulting in an increase in share premium of £5.2m (2016: £1.0m).

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 2017 was 222,070 (2016: 222,070). Distribution of shares from the trusts is at the discretion of the trustees. Dividends attaching to these shares have been waived.

The Company's distributable amount contained within retained earnings is £132.1m (2016: £72.2m).

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 hedged transactions that have not yet occurred.

Notes to the financial statements continued

18. Share capital and reserves continued**Dividends****Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

	2017 £m	2016 £m
Year ended 30 September 2015		
– Final dividend paid February 2016 at 35.09p per ordinary share	—	29.9
Year ended 30 September 2016		
– Interim dividend paid July 2016 at 11.73p per ordinary share	—	10.0
– Final dividend paid February 2017 at 35.09p per ordinary share	30.0	—
Year ended 30 September 2017		
– Interim dividend paid July 2017 at 12.20p per ordinary share	10.4	—
	40.4	39.9

A final dividend in respect of 2017 of £35.7m (41.60p per ordinary share) and a special dividend of £58.3m (68.00p per ordinary share) have been recommended by the Directors for approval at the Annual General Meeting in February 2018. These financial statements do not reflect this dividend.

19. Related party transactions**Identity of related parties**

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and so are only disclosed for the Company's financial statements.

	Company	
	2017 £m	2016 £m
Trading transactions with subsidiaries		
Administrative expenses paid on Company's behalf by subsidiaries	0.5	0.4
Management charge to subsidiaries	2.3	1.9
Amounts receivable from subsidiaries	76.1	9.4
Amounts owed to Group undertakings	8.5	8.5
Financing transactions with subsidiaries		
Dividends received from subsidiaries	100.0	50.0
Cash transfers received from subsidiaries	40.4	40.1
Cash transfers made to subsidiaries	105.1	52.2

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

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

Transactions with key management personnel

The key management of the Group and Company consists of the Board of Directors. Details of Directors' remuneration, including non-cash benefits and contributions to post-employment defined benefit plans, are given in the Directors' remuneration report on pages 54 to 66.

Directors of the Company control 3.53% of the voting shares of the Company, details of which are given on page 64.

Details of Directors' indemnities are given on page 69.

20. Critical judgements and key sources of estimation uncertainty

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key sources of estimation uncertainty that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Management has discussed these with the Audit Committee. These should be read in conjunction with the significant accounting policies provided in the notes to the financial statements.

Judgements made in applying accounting policies

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

Sources of estimation uncertainty

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

Inventory valuation

The valuation of inventory, detailed in note 12, requires the use of estimates, with judgement required both in identification of directly attributable costs, to be absorbed into inventory valuation, and the level of normal production over which these costs are absorbed.

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

Inventory provisions are put in place for slow moving and potentially obsolete inventory as well as damaged and/or out of specification product where cost is considered to be higher than net realisable value. The level of provisioning is an estimate, with judgement required on ageing, customer order profiles, alternative routes to market and the option to re-process.

Pension scheme

The valuation of pension scheme liabilities is calculated in accordance with Group policy. The valuation is prepared by independent qualified actuaries but significant estimates are required in relation to the assumptions for pension increases, inflation, the discount rate applied, investment returns and member longevity, which underpin the valuations. Note 15 contains information about the assumptions relating to retirement benefit obligations and also the sensitivity of the pension liability to movements in these assumptions.

Property, plant and equipment

Property, plant and equipment of the Group is £258.6m (2016: £255.5m) which represents 48% (2016: 54%) of the Group's total assets. In relation to an asset, the depreciation charge is derived using estimates of its useful economic lives and residual value, which is based on historical experience in addition to other relevant assumptions, for instance speed of technological change and level of forecast utilisation. Assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to a change in the useful economic life or residual value.

Tax provisioning

The Group operates in a number of geographies and different tax jurisdictions. There is an inherent ambiguity in some of these jurisdictions with the tax calculation involving estimation in respect of matters where the tax impact is only known when a conclusion is reached with the relevant tax authority. Management use their experience of each geography along with that of their advisors in estimating the tax charge for the period and any provision required for previous periods. Based on recently-granted UK patents and following discussions with Her Majesty's Revenue & Customs (HMRC) about the UK's patent box legislation, management has assessed the acceptance of patent box to be more likely than not and has therefore included an estimation of the benefit in the calculation of the current year tax charge. The impact of this is shown in note 5.

Management will reassess this position on a continuous basis in with any changes in the legislation and further discussions with HMRC.

Notes to the financial statements continued

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:

	2017		2016	
	Average	Closing	Average	Closing
US Dollar	1.37	1.34	1.54	1.31
Euro	1.23	1.14	1.35	1.18
Yen	150	151	179	135

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

Five-year financial summary

for the year ended 30 September

	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m
Results					
Revenue	221.9	252.6	263.5	252.3	290.2
Profit before tax	94.6	102.7	106.4	100.3	111.0
Balance sheet					
Property, plant, equipment and intangible assets	185.8	237.7	271.7	279.0	289.2
Investments	—	—	—	10.0	10.0
Inventories	51.1	44.2	57.4	61.8	61.5
Net cash	91.6	89.6	53.8	64.0	120.1
Trade receivables and other assets	39.1	44.8	43.6	57.9	53.5
Retirement benefit obligations	(3.6)	(7.8)	(5.8)	(10.6)	3.8
Trade payables and other liabilities	(50.3)	(55.1)	(62.1)	(73.0)	(59.7)
Equity shareholders' funds	313.7	353.4	358.6	389.1	478.4
Cash flow					
Net cash flow from operating activities	80.0	97.8	87.6	83.4	117.6
Capital expenditure	(40.7)	(65.6)	(41.2)	(25.9)	(16.7)
Acquisition	—	—	(4.0)	(10.0)	(9.0)
Dividends and other items	(31.4)	(34.1)	(78.8)	(38.9)	(35.2)
Net increase/(decrease) in cash and cash equivalents	7.9	(1.9)	(36.4)	8.6	56.7
Ratios					
Earnings per ordinary share – basic	86.5p	94.6p	98.1p	96.8p	116.4p
Full-year dividend per ordinary share	43.0p	45.15p	46.82p	46.82p	53.80p
Special dividend per ordinary share	—	50.00p	—	—	68.00p
Sales volume					
Tonnes	2,920	3,551	4,217	3,952	3,992

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 24 to 26.

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

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

Notice of Annual General Meeting

Notice is hereby given that the twenty fifth Annual General Meeting ('AGM') of Victrex plc (the 'Company') will be held at 10am on 9 February 2018, at J.P. Morgan, 1 John Carpenter Street, London EC4Y 0JP, to transact the business set out below. Resolutions 1 to 19 will be proposed as Ordinary Resolutions and Resolutions 20 to 23 will be proposed as Special Resolutions.

Ordinary Resolutions

1. To receive the Company's audited financial statements and the Auditor's and Directors' reports for the year ended 30 September 2017.
2. To approve the Directors' Remuneration Report in the form set out in the Annual Report and Accounts for the year ended 30 September 2017.
3. To declare a final dividend of 41.60p per share on the Company's ordinary shares of par value 1p each in respect of the year ended 30 September 2017.
4. To declare a special dividend of 68.00p per share on the Company's ordinary shares of par value 1p each.
5. To re-elect Mr L C Pentz as a Director of the Company.
6. To re-elect Dr P J Kirby as a Director of the Company.
7. To re-elect Mr A J H Dougal as a Director of the Company.
8. To re-elect Ms J E Toogood as a Director of the Company.
9. To re-elect Mr T J Cooper as a Director of the Company.
10. To re-elect Ms L S Burdett as a Director of the Company.
11. To re-elect Dr M L Court as a Director of the Company.
12. To elect Mr J O Sigurdsson as a Director of the Company.
13. To elect Ms J E Ashdown as a Director of the Company.
14. To elect Mr B W D Connolly as a Director of the Company.
15. That the maximum number of Directors permitted under article 75 of the Company's Articles of Association be increased from ten to twelve.
16. To appoint PricewaterhouseCoopers LLP as auditor of the Company.
17. To authorise the Directors to determine the auditor's remuneration.
18. That, in accordance with sections 366 and 367 of the Companies Act 2006, the Company and all companies that are subsidiaries of the Company at any time during the period for which the resolution has effect, be and are hereby authorised, in aggregate, during the period beginning with the date of the passing of this resolution and ending on the conclusion of the annual general meeting of the Company in 2019 (unless such authority is previously renewed, varied or revoked by the Company in a general meeting), to:
 - (i) make political donations to political parties and/or independent election candidates not exceeding £12,500 in total;
 - (ii) make political donations to political organisations other than political parties not exceeding £12,500 in total; and
 - (iii) incur political expenditure not exceeding £12,500 in total,provided that the authorised sums referred to in paragraphs (i), (ii) and (iii) above may be comprised of one or more amounts in different currencies which, for the purposes of calculating that authorised sum, shall be converted into Pounds Sterling at such rate as the Board in its absolute discretion may determine to be appropriate.

For the purposes of this resolution the terms 'political donation', 'political parties', 'independent election candidates', 'political organisations' and 'political expenditure' shall have the meanings given by sections 363 to 365 of the Companies Act 2006.
19. That the Board be and is hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company:
 - a) up to a maximum aggregate nominal amount of £286,249; and
 - b) comprising equity securities (as defined in the Companies Act 2006) up to a further maximum aggregate nominal amount of £286,249 in connection with an offer by way of a rights issue:
 - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) to holders of other equity securities as required by the rights of those securities or as the Board otherwise considers necessary,and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter.

Such authority shall expire at the conclusion of the Company's next annual general meeting (or, if earlier, at the close of business on 9 May 2019) but, in each case, so that the Company may make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority expires and the Board may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not expired.

Notice of Annual General Meeting continued

Special Resolutions

20. That, conditional upon Resolution 19 in this Notice of Annual General Meeting being passed, the Board be and is hereby given power to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash under the authority given by that resolution (or by way of a sale of treasury shares), as if section 561(1) of the Companies Act 2006 did not apply to such allotment or sale, such power to be limited:

- a) to the allotment of equity securities and sale of treasury shares in connection with an offer of, or invitation to apply for, equity securities (but, in the case of the authority granted under paragraph (b) of Resolution 19, by way of a rights issue only):
 - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) to holders of other equity securities, as required by the rights of those securities or as the Board otherwise considers necessary, and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and
- b) to the allotment (otherwise than under paragraph (a) above) of equity securities or sale of treasury shares up to a maximum aggregate nominal amount of £42,937.

Such power to apply until the end of the Company's next annual general meeting (or, if earlier, at the close of business on 9 May 2019), save that the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted after the power ceases to have effect and the Board may allot equity securities under any such offer or agreement as if the power had not ceased to have effect.

21. That, conditional upon Resolution 19 in this Notice of Annual General Meeting being passed, the Board be and is hereby given power in addition to any authority granted under Resolution 20 to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash under the authority given by that resolution (or by way of a sale of treasury shares), as if section 561(1) of the Companies Act 2006 did not apply to such allotment or sale, such power to be:

- a) limited to the allotment of equity securities or sale of treasury shares up to a maximum aggregate nominal amount of £42,937; and
- b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Notice.

Such power to apply until the end of the Company's next annual general meeting (or, if earlier, at the close of business on 9 May 2019), save that the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted after the power ceases to have effect and the Board may allot equity securities under any such offer or agreement as if the power had not ceased to have effect.

22. 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 8,587,471 Ordinary Shares;
- b) by the condition that the maximum price, exclusive of expenses, which may be paid for an Ordinary Share contracted to be purchased on any day shall be the higher of:
 - (i) an amount equal to 105% of the average of the closing middle market quotation for an Ordinary Share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the day on which that Ordinary Share is contracted to be purchased; and
 - (ii) the higher of the price of the last independent trade and the highest current independent purchase bid on the London Stock Exchange at the time the purchase is carried out; and
- c) by the condition that the minimum price which may be paid for an Ordinary Share is 1p (exclusive of expenses).

Such authority shall expire at the conclusion of the Company's next annual general meeting (or, if earlier, at the close of business on 9 May 2019) but so that the Company may before such authority expires enter into a new contract under which a purchase of Ordinary Shares may be completed or executed wholly or partly after the authority expires and the Company may purchase Ordinary Shares in pursuance of such contract as if the authority had not expired.

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

By order of the Board

Brett Gladden

Group Company Secretary

5 December 2017

Registered Office:

Victrex Technology Centre

Hillhouse International

Thornton Cleveleys

Lancashire FY5 4QD

Registered in England and Wales 2793780

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 7 February 2018 (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 10am on 7 February 2018. 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 10am on 7 February 2018.
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 10am on 7 February 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
7. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
8. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statement of the rights of shareholders in relation to the appointment of proxies in note 1 above does not apply to Nominated Persons. Such rights can only be exercised by shareholders of the Company.
9. As at 4 December 2017 (being the last business day prior to the publication of this document) the Company's issued share capital consisted of 85,874,711 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 4 December 2017 were 85,874,711. There were no shares in treasury as at that date.

Notice of Annual General Meeting continued

Notes continued

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

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

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

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

12. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its power as a member provided that they do so in relation to the same shares. Representatives of shareholders that are corporations will have to produce evidence of their proper appointment when attending the AGM. Please contact our Registrar if you need any further guidance on this.
13. Except as provided above, members who have general queries about the meeting should use the following means of communication (no other methods of communication will be accepted): email the Group Company Secretary at 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.
14. Copies of the following documents will be available for inspection during normal business hours on Monday to Friday (excluding bank holidays) at the Registered Office of the Company from the date of this Notice of AGM until the close of the AGM and at the meeting location from at least 15 minutes before the meeting until it ends:
 - the executive Directors' service contracts;
 - the letters of appointment of the non-executive Directors; and
 - the Directors' Deeds of Indemnity.

Explanatory notes

Resolution 1 – Annual Report and Accounts

The Companies Act 2006 requires the directors of a public company to lay its Annual Report and Accounts before the company in general meeting, giving shareholders the opportunity to ask questions on the contents. The Annual Report and Accounts comprises the audited financial statements, the Auditor's 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.

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 2017. The Directors' remuneration report is set out on pages 54 to 66 of the Annual Report and Accounts. The vote on this resolution is advisory only and the Directors' entitlement to remuneration is not conditional on its being passed.

Resolution 3 – Declaration of final dividend

A final dividend of 41.60p per ordinary share has been recommended by the Directors for the year ended 30 September 2017. 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 16 February 2018 to shareholders on the register at 6pm on 2 February 2018.

Resolution 4 – Declaration of special dividend

In addition to the final dividend, the Board is proposing the payment of a special dividend of 68.00p per ordinary share. In accordance with the requirements of HM Revenue & Customs, all dividends are declared and paid net of income tax at the standard rate. If approved, the special dividend will be paid on 16 February 2018 to shareholders on the register at 6pm on 2 February 2018.

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

In accordance with the 2016 UK Corporate Governance Code, all Directors shall retire from office at the AGM. Mr Patrick De Smedt, a non-executive Director, and Mr David Hummel, an executive Director, are both retiring from the Board and therefore are not standing for re-election. The Chairman confirms that, following formal evaluation (as referred to on pages 46 and 47 of the Annual Report and Accounts), each Director standing for re-election continues to contribute effectively to the Board and to demonstrate commitment to the role (including commitment of time for Board and Board Committee meetings).

The Company's Articles of Association state that any director appointed by the Board during the year must stand at the next AGM following appointment. Mr Jakob Sigurdsson was appointed as an executive Director on 1 October 2017 and now stands for election by shareholders. It is proposed that Ms Janet Ashdown and Mr Brendan Connolly are appointed to the Board as non-executive Directors and therefore offer themselves for election at the AGM. Each of Resolutions 5 to 14 shall be proposed as an Ordinary Resolution.

The biographical details, skills and experience of each Director standing for re-election or election are set out below.

Mr Larry Pentz, Chairman

Larry Pentz was appointed to the Board in 2008 and became Chairman in 2014. Larry is Chairman of the Nominations Committee. Larry has over 30 years' service within multinational corporations in a variety of operational and general management positions, with extensive experience in developing strategy for and successfully leading international growth businesses. Larry has been instrumental in the acquisition and integration of multiple catalyst and chemical companies for Johnson Matthey Plc, and was formerly executive director responsible for Emission Control Technologies of Johnson Matthey Plc.

Larry retired as an executive director of Johnson Matthey Plc during 2016 where he held board-level responsibility for Johnson Matthey's Process Technologies and Fine Chemicals divisions. Larry is Non-Executive Chairman of Scapa Group plc.

Dr Pamela Kirby, Senior Independent Director

Pamela Kirby was appointed to the Board in 2011 and as Senior Independent Director in November 2014. Pamela has detailed knowledge of the international pharmaceutical industry, and was formerly CEO of Quintiles Transnational Corp. based in North Carolina, USA. Pamela has also held a number of other senior positions in the international pharmaceutical industry including at AstraZeneca PLC, where she was a regional director, and F. Hoffmann-La Roche Ltd, where she was director of strategic marketing and business development. She was previously non-executive chairman of Oxford Immunotec Limited and non-executive director of Novo Nordisk A/S and Smith & Nephew plc.

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

Mr Andrew Dougal, Non-executive Director

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

Andrew is a non-executive director and Chair of the Audit Committee at Carillion plc. He was previously a Non-Executive Director and Audit Committee Chair of Taylor Woodrow Plc, Taylor Wimpey Plc and Creston Plc and a Non-Executive Director of BPB Plc and Premier Farnell plc. Formerly, Andrew served as Chief Executive of Hanson plc, the international building materials group, following its demerger from Hanson, the Anglo-American conglomerate, where he was Finance Director, having previously held a number of senior roles in general management and finance. Andrew is a member of the Council of the Institute of Chartered Accountants of Scotland ('ICAS').

Explanatory notes continued

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

Ms Jane Toogood, Non-executive Director

Jane Toogood was appointed to the Board in September 2015. Jane has a wealth of experience across a number of business management, senior commercial and business development roles within the global chemical industry, including Borealis, ICI and Uniqema, and also held a Non-Executive Director role with NHS Harrogate and District Foundation Trust.

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

Jane is the Sector Chief Executive, Efficient Natural Resources at Johnson Matthey Plc.

Mr Tim Cooper, Executive Director

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

Ms Louisa Burdett, Group Finance Director

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

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

Louisa is Chairman of the Currency Committee. Louisa is a Non-Executive Director of Electrocomponents plc where she is Chair of the Audit Committee and a member of its Nomination and Remuneration Committees.

Dr Martin Court, Executive Director

Martin Court was appointed to the Board as an executive director in April 2015. Martin joined Victrex in February 2013 as Managing Director of Invibio, Victrex's medical business. Martin has significant proven international experience in the medical and high performance materials and chemicals industries, including with Cytec Industries, and in a number of senior roles at both ICI and UCB. He is an INSEAD alumni 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 Jakob Sigurdsson, Executive Director

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

Between September 2016 and June 2017, Jakob was Chief Executive Officer of VÍS, the largest Icelandic insurance and re-insurance company. Jakob holds a BSc in Chemistry from the University of Iceland and an MBA from Northwestern University in the US.

Ms Janet Ashdown, Non-executive Director

Janet Ashdown is proposed for election as a non-executive director. Janet has over 30 years' experience of the international energy sector in a variety of senior executive roles at BP plc, most recently as Director, BP Oil UK Limited, and Head of UK Retail and Commercial Fuels. Janet is currently Non-Executive Director and Senior Independent Director of Marshalls plc and is chair of its remuneration committee. Janet is also a Non-Executive Director of SIG Plc and a member of its Audit, Remuneration, Nomination and Governance Committees. Janet was appointed to the Board of the Nuclear Decommissioning Authority in 2015. Between September 2013 and April 2017, Janet served as a Non-Executive Director of Coventry Building Society and a member of its Audit and Remuneration Committees.

Mr Brendan Connolly, Non-executive Director

Brendan Connolly is proposed for election as a non-executive director. Brendan has over 35 years' experience in the international oil and 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 their Remuneration Committee and a member of their Audit and Nomination Committees. Brendan is also chairman of two private equity backed companies.

Resolution 15 – Increase in the maximum number of Directors permitted

Subject to the re-election and election of Directors under Resolutions 5 to 14, the Company will have ten Directors following the AGM. This is the current maximum number permitted under the Company's Articles of Association. Resolution 15 seeks shareholder approval to increase this number from ten to twelve to give the Company flexibility should it decide to appoint additional directors.

Resolutions 16 and 17 – Appointment of auditor/auditor's remuneration

At each meeting at which the Annual Report and Accounts are laid, the Company is required to appoint an auditor to serve until the next such meeting. As reported in the 2016 Annual Report, the Board agreed to tender the external audit contract for the Company during 2017. Following a detailed tender process, which is explained on pages 52 and 53 of the 2017 Annual Report, the Board is recommending to shareholders that PricewaterhouseCoopers LLP ('PwC') be appointed as auditor to the Company for the financial year ending 30 September 2018. It is proposed that PwC will succeed KPMG LLP, which has acted as auditor since 1993. Given the length of their tenure and having regard to regulatory requirements, it was decided that KPMG LLP would not participate in the tender process. PwC have indicated their willingness to be appointed as the Company's auditor. Accordingly, Resolution 16 proposes that PwC be appointed auditor of the Company.

As required by company law, KPMG LLP has given a statement of reasons in connection with their ceasing to hold office as auditor, which is set out on page 115 of the annual report.

Resolution 17 is an Ordinary Resolution giving the Directors discretion to determine the remuneration of PwC.

Resolution 18 – 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 2019.

As permitted by the Companies Act 2006, the resolution extends not only to the Company but also covers all companies which are subsidiaries of the Company at any time the authority is in place. The Company's policy remains that it does not, directly or through any subsidiary, make what are commonly regarded as donations to any political party, organisation or candidate, and the authority being requested from shareholders is not designed to change this policy. The authority is sought as a precaution to ensure that the Company's normal business activities are within the Companies Act 2006.

Resolution 19 – Authority to allot shares

The authority of shareholders is required to enable Directors to allot shares. The authority conferred on the Directors at the 2017 AGM to allot shares or grant rights to subscribe for or to convert any securities into shares in the Company expires at the conclusion of the forthcoming AGM. Accordingly, in line with the Company's usual procedure, which is also standard practice amongst other public companies, this Ordinary Resolution seeks authority for the Directors to allot shares or grant rights to subscribe for or to convert any securities into shares in the Company until the conclusion of the Company's next annual general meeting or 9 May 2019, 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 4 December 2017 (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 2017.

Resolutions 20 and 21 – Permission to allot a limited number of shares other than to existing shareholders

Under the Companies Act 2006, when shares are issued for cash, they normally have to be offered first to existing shareholders in proportion to their current shareholding.

Resolution 20 will enable the Directors to allot shares for cash and sell treasury shares: (i) in connection with a rights issue, open offer or other pre-emptive offer; or (ii) otherwise up to a nominal amount of £42,937, representing approximately 5% of the issued ordinary share capital as at 4 December 2017 (the latest practicable date before the publication of this Notice), other than to existing shareholders without first having to offer them to existing shareholders in proportion to their holdings in order to take advantage of opportunities as and when they arise. The Directors have no current intention of exercising this authority and confirm their intention that not more than 7.5% of the issued ordinary share capital will be allotted or treasury shares sold on a non-pre-emptive basis in any rolling three year period, other than with prior consultation with shareholders or in connection with an acquisition or specified capital investment as referred to below.

Explanatory notes continued

Resolutions 20 and 21 – Permission to allot a limited number of shares other than to existing shareholders continued

Resolution 21 is in addition to Resolution 20. As supported by the Pre-Emption Group's Statement of Principles, as updated in March 2015, Resolution 21 will enable the Directors to allot shares for cash or sell shares out of treasury up to a further nominal amount of £42,937, representing approximately 5% of the issued ordinary share capital as at 4 December 2017 (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 21, 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 20 and 21 will lapse at the earlier of the conclusion of the next annual general meeting of the Company or 9 May 2019, if sooner. These resolutions will be proposed as Special Resolutions, which require a 75% majority of the votes to be cast in favour.

Resolution 22 – Authority to purchase own shares

In certain circumstances, it might be advantageous to the Company to purchase its own shares. Resolution 22 specifies the maximum number of shares which may be acquired (approximately 10% of the Company's issued ordinary share capital as at 4 December 2017 (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 4 December 2017, options over a total of 1,353,906 Ordinary Shares were outstanding and not exercised. That number of Ordinary Shares represents 1.58% of the Company's issued Ordinary Share capital at 4 December 2017. It would represent 1.75% 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 22 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 9 May 2019, if sooner.

Resolution 23 – 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 23 seeks such approval. If given, the approval will be effective until the Company's next annual general meeting, when it is intended that a similar resolution will be proposed.

The Company notes the notice period provision in the 2016 UK Corporate Governance Code which recommends at least 14 working days' notice to be given for all general meetings (other than annual general meetings). Insofar as it is appropriate to do so, the Company intends to comply with this code provision in the same way that it currently complies with the 20 working days' notice provision applicable to annual general meetings.

The shorter notice period would not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

Recommendation

The Directors consider that all the proposed resolutions set out in the Notice of AGM are in the best interests of the Company and of its shareholders as a whole and they unanimously recommend that you vote in favour of them.

**Victrex plc**

Victrex Technology Centre
Hillhouse International
Thornton Cleveleys
Lancashire
FY5 4QD

5 December 2017

Dear Sir

Statement to Victrex plc (no. 2793780) on ceasing to hold office as auditors pursuant to section 519 of the Companies Act 2006

The reason connected with our ceasing to hold office is due to the mandatory rotation requirements of the EU Audit Regulation. As a result, Victrex plc (the "Company") held a competitive tender for the statutory audit in which we were not invited to participate.

There are no reasons or other matters connected with our ceasing to hold office as auditors of the Company that we consider need to be brought to the attention of the Company's members or creditors.

Yours faithfully,

KPMG LLP

Audit registration number: 9188307

Audit registration address:

15 Canada Square

Canary Wharf, London E14 5GL

Financial calendar and advisors

Ex-dividend date	1 February 2018
Record date ¹	2 February 2018
Annual General Meeting	9 February 2018
Payment of final dividend	16 February 2018
Announcement of 2018 half-yearly results	May 2018
Payment of interim dividend	July 2018

¹ The date by which shareholders must be recorded on the share register to receive the dividend.

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



Produced by

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This is the Annual Report of Victrex plc for the year ended 30 September 2017.

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 9 February 2018 is also included within the report commencing on page 107.

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 2017, 2016 and 2015 are to the financial years ended 30 September 2017 (for 2017), 30 September 2016 (for 2016) and 30 September 2015 (for 2015). Unless otherwise stated, all non-financial statistics are at 30 September 2017.

This Annual Report contains forward-looking statements with respect to the Group's financial condition, operating results and business strategy, plans and objectives. Please see the discussion of our principal risks and uncertainties in the sections entitled "Risk management", "Principal risks", and the section entitled "Cautionary note regarding forward-looking statements".

This Annual Report contains references to Victrex's website. These references are for convenience only – we are not incorporating by reference any information posted on www.victrexplc.com.

This Annual Report has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

The Directors' report – Strategic report has been prepared to inform the Company's shareholders and help them assess how the Directors have performed their duty to promote the success of the Company for the benefit of the Company's shareholders as a whole. It should not be relied upon by anyone, including the Company's shareholders, for any other reason. The Directors' report – Strategic report contains a fair review of the business of the Group and a description of the principal risks and uncertainties that the Group faces. As a consequence, the Directors' report – Strategic report only focuses on material issues and facts.

This Annual Report does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Victrex plc shares.

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