**13 May 2019**

**Victrex plc – Interim Results 2019**

**'H1 as expected; improved run-rate in second half but slower than anticipated'**

Victrex plc, an innovative world leader in high performance polymer solutions, today announces its interim results for the 6 months ended 31 March 2019.

| | **H1 2019** | H1 2018 | % change (reported) | % change (constant currency)[1] |
|---|---|---|---|---|
| Group sales volumes | **1,899 tonnes** | 2,256 tonnes | -16% | - |
| Group revenue | **£145.7m** | £166.6m | -13% | -12% |
| Gross profit | **£87.4m** | £106.3m | -18% | -13% |
| Gross margin | **60.0%** | 63.8% | -380 bps | |
| Underlying profit before tax (before exceptional items[1]) | **£52.4m** | £63.3m | -17% | -9% |
| Profit before tax (PBT) | **£50.2m** | £63.3m | -21% | -13% |
| EPS | **51.4p** | 64.7p | -21% | - |
| Dividend per share | **13.42p** | 13.42p | 0% | - |

**Highlights:**

- **H1 impacted by Automotive, Electronics, VAR & Consumer Electronics contract**
  - *H1 Group sales volumes down 16% on weaker Auto, VAR, Consumer Electronics contract*
  - *Improving trend in Q2, with Auto stabilising*
  - *Solid performance in Medical, revenue +1% and +2% in constant currency*
  - *Underlying PBT in constant currency down 9%, reflecting weaker trading and opex investment*

- **Good progress in 'mega-programmes'; new Aerospace alliance**
  - *Second PEEK Gears contract close*
  - *New 'Clean Sky 2' development alliance signed with Airbus*
  - *Patient recruitment imminent for PEEK Knee clinical trial*
  - *Investments in Surface Generation and Bond 3D; further downstream manufacturing capability*

- **Cash generation drives investment & shareholder return**
  - *Operating cash conversion[1] of 65%, impacted by Brexit stock build, giving available cash[1] of £49.4m*
  - *Interim dividend held at 13.42p/share*
  - *Reviewing new capacity options; potential for first investment in FY 2019/2020*
  - *Debottlenecking opportunity commencing in FY 2019/2020*

Jakob Sigurdsson, Chief Executive of Victrex, said: "As expected, Victrex saw a much weaker first half year, driven principally by Automotive, the associated impact on Value Added Resellers, the expected headwinds in Consumer Electronics, together with the impact of adverse currency, cost inflation and investment phasing.

"Our second quarter showed some signs of improvement, with Automotive starting to stabilise. We also saw a continuation of the improving trend in Medical, where revenues were ahead for the first half, including growth in our HA-Enhanced product. Actions taken to improve manufacturing efficiency and reduce cost also started to take effect.

"In our mega-programmes, we continue to deliver positive milestones, with our second major PEEK Gears project. We also signed a notable development alliance with Airbus for the 'Clean Sky 2' programme, supporting the long-term development of composite solutions for the Aerospace industry."

"Looking towards the second half, headwinds in the form of currency and cost inflation will be broadly neutral, and incremental operating investment will be limited. We will also benefit from no bonus accrual. However, with some of our key industrial markets remaining weak, our base assumption is that any improvement would be gradual and back end weighted.  Overall, our expectations are that it will now be challenging to achieve year-on-year growth in the second half, compared to the prior year period. We remain well placed for the medium to long term, with strong structural growth opportunities, a healthy new product pipeline and a highly cash generative business model."

[1] **Alternative performance measures are defined on page 11.**

**About Victrex:**

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 use products and applications which contain our materials – from smartphones, aeroplanes and cars to oil and gas operations and medical devices. With over 40 years' experience, we develop world leading solutions in PEEK and PAEK based polymers, semi-finished and finished parts which shape future performance for our customers and our markets, and drive value for our shareholders. Find out more at www.victrexplc.com or follow us on LinkedIn and Twitter @victrexir

*A presentation for investors and analysts will be held at 9.30am (GMT) this morning at JP Morgan, 1 John Carpenter Street, London EC4Y 0JP. A conference call facility will be available for analysts and investors who are unable to attend the presentation. To register, dial +44 (0) 3333 000804 and participant pin 10696340#. The presentation will be available to download from 9.00am (GMT) today on Victrex's website at www.victrexplc.com.*

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**Interim results statement for the 6 months ended 31 March 2019**

**'H1 as expected; improved run-rate in second half but slower than anticipated'**

## Group financial results

**H1 sales volume down 16% but improvement in Q2**
Group sales volume of 1,899 tonnes was 16% down on the prior year (H1 2018: 2,256 tonnes), principally reflecting the weakness in Automotive and the associated impact on our Value Added Resellers segment, together with some de-stocking, particularly in the first quarter. We also saw much tougher year on year comparatives for the large Consumer Electronics contract, where FY 2018 volumes were heavily first half weighted, compared to negligible volumes during this period. Excluding the effect of the large Consumer Electronics contract, sales volume was down 10% in the first half, with revenue down 9% .

After a decline of 22% for Q1 Group volume, Q2 saw some sequential improvement, with 1,077 tonnes which was 11% lower than Q2 2018, as several Industrial markets remained muted, partially offset by growth in the Oil & Gas sector of Energy. Automotive saw some signs of improvement through the second quarter, following a very weak first quarter. Q2 volumes in Automotive ended 5% down compared to the prior year.

**Revenue down 13%**
Group revenue was £145.7m, 13% down on the prior year (H1 2018: £166.6m), impacted by the weaker trading performance and adverse currency, but with an improved sales mix as Medical continued to show steady growth. Group revenue in constant currency[1] was 12% down on the prior year (H1 2018: £166.0m in constant currency).

**Solid performance in Medical, offset by Industrial**
Medical revenues were £27.9m, 1% ahead of the prior year (H1 2018: £27.6m) and 2% ahead in constant currency[1]. Medical saw low growth within the Spine market, continuing the trend from the second half of FY 2018. PEEK continues to be the material of choice in spinal fusion, although the challenge from titanium expandable cage applications remains, as well as 3D printed porous titanium cages. Pleasingly, progress outside of the US continues to be positive with 88% growth in Asia. Our non-Spine business sees our PEEK-OPTIMA™ implantable grade serving applications in Arthroscopy and Trauma. In our next generation PEEK-OPTIMA™ HA Enhanced product, we are on track to show growth over the year, with over 10,000 patients implanted with this product and opportunities from a new 'Hammertoe' application.

Our Industrial division reported revenues of £117.8m, 15% down on the prior year (H1 2018: £139.0m), impacted by weaker trading within the Automotive and associated Value Added Resellers sector, and Electronics. Excluding the large Consumer Electronics contract, Electronics was 11% down, whilst we saw growth in the Oil & Gas part of Energy & Other Industrial, and delivered a stable performance in Aerospace, which faced a much tougher first half year comparative.

**ASP ahead on improved mix**
Our Average Selling Price (ASP) of £76.7/kg was 4% better than the prior year (H1 2018: £73.8/kg), with the benefit of a stronger mix. With our assumptions of an improving trend for Industrial, we continue to expect a full year ASP slightly ahead of the prior year.

Pricing, excluding currency, in the core business[2] remains broadly stable, with product mix being an important driver. Whilst we have competition in our markets, our focus on differentiation and value added semi-finished products, with a higher price point, will be a key driver of ASP and margin percentage over the coming years.

**Losses on foreign currency net hedging**
Following adoption of IFRS 9 on 1 October 2018, any fair value gains and losses on to foreign currency contracts, where net hedging is applied on cash flow hedges, are required to be separately disclosed within gross margin in the Income Statement. In H1 2019, a loss of £2.9m has been recognised accordingly, largely

from USD contracts where the deal rate obtained (placed up to 12 months in advance in accordance with the Group's hedging policy) was adverse to the average exchange rate prevailing at the date of the related transaction. In the comparative period, all corresponding gains and losses on foreign currency contracts were included within the line item of the underlying hedged transaction, in accordance with IAS 39.

**Gross margin impacted by currency, raw material and energy inflation**
Group gross margin of 60.0% (H1 2018: 63.8%) was materially lower than the prior year, impacted by adverse currency (including the presentational impact of adopting IFRS 9 which was approximately one-half of the margin decline), raw material and energy inflation, and weaker operating leverage, as volumes fell. With currency and inflation headwinds easing for the second half, we anticipate some improvement in gross margin.

As we develop differentiated downstream products to support our mega-programmes, we have the opportunity to build new markets for PEEK whilst capturing a higher absolute value share of each application. Whilst this may cause a slight softening of our gross margin percentage in the short term, we are confident that this strategy will increase absolute margin, as well as further differentiating our business and offering the potential of sustainable returns.

**Profit before tax down 21% and EPS 21% down**
Group profit before tax (PBT) of £50.2m was 21% down on the prior year (H1 2018: £63.3m), reflecting weaker trading, adverse currency, raw material and energy inflation and operating investment phased to the first half year. PBT in constant currency was down 13%.

Whilst we continue to invest in our "front-end" functions of Sales, Marketing and R&D, to support both core growth[2] and our mega-programmes, we anticipate a more moderate level of investment for FY 2019. First half year overheads also reflect that there was no accrual for the Group's employee bonus scheme – which is based on profit growth – compared to approximately £8.7m in the prior half year.

Basic earnings per share of 51.4p was 21% down (H1 2018: 64.7p per share). The Group's effective tax rate was 12.0%, in line with the first half of 2018 (H1 2018: 12.3%), reflecting the continued benefit of Patent Box along with a deferred tax benefit of increasing overseas inventory.

**Currency headwind for FY 2019**
Currency was adverse in the first half of 2019, including the £2.9m loss on foreign currency contracts. Including the effect of raw material and energy inflation, the Group saw an impact to profit of approximately £7m. For the second half year, currency is broadly neutral. For FY 2020, currency is currently indicating a small tailwind, although approximately two-thirds of hedging is still to be placed.

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

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

Whilst the Group awaits the outcome of the extension granted by the EU, Victrex has indicated previously that the principal risk is a sustained period when the Group may not be able to import certain raw materials or export finished goods through Customs, which could curtail sales if regional inventory levels were depleted. As part of our contingency plans, additional warehousing for finished goods stock has now been secured in mainland Europe (Germany) and China with a minimum of eight weeks of finished goods stock held outside the UK. Our German warehouse has been operational since February 2019, with capability to supply European customers. We have also secured additional raw material stocks. Group inventories will exceed £85m through FY19 as a consequence (FY 2018: £69.3m).

Whilst we note the political uncertainty, Victrex has attempted to assess the potential financial impact of a 'no deal' Brexit. Should standard WTO tariffs be applied, increased costs may be incurred in the short term through the application of duties to the import of certain raw materials and on the export of finished goods, prior to any potential benefit from weaker Sterling in the event of 'no deal'. As the only current manufacturer of PEEK products in the EU, we would also seek to exploit longer term tariff mitigation strategies that may be available to us.

**Investment to drive growth**
Investment for growth is primarily in our "front-end" Sales, Marketing, Technical Service and R&D capabilities that are critical to our ongoing success. A focus on quality is also essential, as is continuous improvement in our operations.

Operating overheads, pre-exceptional items of £2.2m, were down 18% to £35.5m (H1 2018: £43.3m). Excluding the impact of the all employee bonus scheme, operating overheads increased by 3%, the majority of which was in our "front-end" facing functions of R&D, marketing and sales. Exceptional items of £2.2m relate to GMP equalisation and acquisition related costs. Research & Development investment is measured on a full year basis and is currently tracking at around 5-6% of revenues.

For the full year, we anticipate "front-end" overhead investment will be moderately ahead of the prior year, supporting both core growth and our mega-programmes. This also includes some initial investment to explore multiple new capacity options, with the impact being offset by no accrual for bonus, which reflects consensus expectations of no profit growth. As a consequence, we anticipate total overheads will be up to 10% lower on a full year basis.

**Manufacturing investment supports downstream strategy**
Capital expenditure was £8.8m (H1 2018: £4.0m) and our guidance for Group capital expenditure over the medium-term cycle remains at approximately £25m, or around 6% of sales.

Further enhancing our downstream manufacturing capability remains key for Victrex. During the first half, we completed commissioning of our TxV Aero Composites manufacturing facility, which is a joint venture between Victrex and Tri-Mack Plastics, enabling us to manufacture, at scale, differentiated Loaded Brackets and composite parts for the Aerospace market. We have already secured prototype orders for composite parts, based on our AE™250 polymer grade, which has pre-qualification with the major aerospace manufacturers.

We also announced two small investments during the period, supporting development of our Polymer & Parts strategy. £5.9m has been invested in the half year, with the total investment likely to be up to £20m based on a number of performance criteria and milestones being met. A small equity investment was made in UK-based Surface Generation Limited, to form a partnership utilising potentially state of the art manufacturing processes, which will support Victrex's mega programmes. The PtFS (Production to Functional Specification) technology offers the potential for enhanced manufacturing effectiveness beyond standard moulding technology, including driving reductions in energy consumption and cycle times required to process the most complex material and part combinations.

The Group has also invested in Bond 3D High Performance Technology BV, a Dutch company developing unique, protectable 3D printing (Additive Manufacturing) processes which are capable of producing high strength parts from existing grades of PEEK and PAEK polymers. The investment offers the potential of utilising this technology to help accelerate the market adoption of 3D printed PEEK parts, with particular emphasis on the Medical market.

**New polymer capacity options explored; potential first investment in FY 2020**
In FY 2018, we announced that we would need to have new polymer manufacturing capacity available to us during the next five years, in line with our strategic plan. This reflects Victrex's historical trend of investing ahead of demand and reflects the potential from high volume downstream applications, and an assessment of our effective capacity.

Multiple options are currently being reviewed, beyond traditional plant build. These include new build and other options, with the potential for both a single stage investment – similar to Victrex's historical capacity investments – and a two-stage investment where capacity to support geographic penetration could be followed by secondary capacity elsewhere. Subject to recommendations being presented to the Board during FY 2019, we anticipate that investment may start in FY 2019/2020. Additionally, a focus on 'debottlenecking' of existing facilities will start during FY 2019, which would enable us to secure additional capacity headroom, close to our 'nameplate' capacity of 7,150 tonnes. We would anticipate 'debottlenecking' investment could cost up to £20m over two years, which would be incremental to current capital expenditure guidance and could require a longer than normal period of maintenance during FY 2020, impacting overhead recovery.

**Further milestones achieved in our Mega-programmes**
The first half continued to see milestones delivered in our Mega-programmes.

**Gears** has made progress in the development of a second, and larger, supply agreement to a major global car manufacturer, with our PEEK Gears now 'on the road' following a first supply agreement in 2018. Thanks to the capabilities we acquired through the Kleiss Gears acquisition, we are able to design, develop and manufacture PEEK based gears, although partnerships for manufacturing will be the focus going forward, ensuring Victrex retains the IP but is able to help accelerate the market for PEEK Gears faster.

Our **Aerospace Loaded Brackets** programme will benefit from the completion of our TxV Aero Composites manufacturing facility in the US, which gives us the capability to manufacture parts that fly from 2019. The initial focus will be on revenue earning prototype parts with all major airframe manufacturers, given the typically longer lead times for specification of parts within Aerospace.

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

In Energy, our **Pipe** programme with Magma is expected to see a lower level of revenue for FY19 as a whole. TechnipFMC continue to focus on the potential within the Libra field development in Brazil, building on other potential opportunities with Equinor (formerly Statoil) over the next 1-2 years.

In Medical, our focus to grow our non-Spine business in **Dental** has been slightly slower than we anticipated, where we signed a customer agreement with Straumann Dental in 2018, though it will help to enhance market access and improve the global reach for our Invibio Dental product (Juvora™). Nevertheless, the medium to long term opportunity remains attractive and we secured additional distribution agreements in Europe.

In **Trauma**, we are seeking to build on the collaboration agreement with a top 5 player and through our partner Maxx, saw the clinical trial for our **Knee** programme progress well, with patient recruitment imminent. We are now focusing on securing a second OEM partner in this programme.

**Strong balance sheet**
With a strong balance sheet, we are able to support growth investment and provide security of supply to our customers. Net assets at 31 March 2019 totalled £423.3m (H1 2018: £444.2m). With our Brexit contingency

plans, inventories increased to £85.3m (H1 2018: £62.8m), as we saw stock build in Europe and globally. Subject to no disruption to ports and supply routes, we would expect to unwind this inventory position through FY 2020, reflecting the Brexit extension, where we will need to retain higher inventories beyond the current financial year.

**Robust cash generation**
Cash generated from operations was £32.5m (H1 2018: £66.5m) representing an operating cash conversion[1] of 65% (H1 2018: 106%) reflecting the increased inventory and unwind of the FY18 bonus accrual. Available cash (with no debt) at 31 March 2019 was £49.4m (H1 2018: £91.8m), based on available cash[1], which includes cash held on deposit. In February 2019 we paid the 2018 full year final dividend of 46.14p/share and the special dividend of 82.68p/share. Combined, dividend payments in H1 2019 totalled £110.8m (H1 2018 dividends paid: £94.0m).

**Taxation**
The Group's effective tax rate reflects the associated benefit from Victrex filing patents as part of its unique chemistry and IP, through the UK government's 'Patent Box' scheme. The effective tax rate of 12.0% for H1 2019 (H1 2018: 12.3%), also reflects the benefit from building overseas inventory.

**Dividends**
Retaining the flexibility to invest in support of our growth remains our top priority, whether that is through capital expenditure, M&A, joint ventures or partnerships. The Group is also progressing towards an investment decision for new or additional polymer manufacturing capacity over the next 6-12 months. The Board assessed several distribution options for future shareholder returns during FY 2018, whilst noting these investment needs, and concluded that our current capital allocation policy should be retained, which is to grow the regular dividend broadly in line with earnings, whilst maintaining dividend cover[1] around 2x.

The Group will also retain the threshold for payment of a special dividend at 50p/share subject to no additional investment requirements. Opportunities for special returns to shareholders remain attractive on a medium-term basis, whilst noting weaker trading in the current financial year, the Brexit linked inventory build, in addition to any forthcoming investment requirements for new or additional polymer manufacturing capacity, which could accelerate during the remainder of the second half year.

With the Group delivering a weaker performance in H1 2019 and some key industrial markets remaining weak, the interim dividend will be flat at 13.42p/share (H1 2018: 13.42p/share).

## Outlook
Looking towards the second half, headwinds in the form of currency and cost inflation will be broadly neutral, and incremental operating investment will be limited. We will also benefit from no bonus accrual. However, with some of our key industrial markets remaining weak, our base assumption is that any improvement would be gradual and back end weighted. Overall, our expectations are that it will now be challenging to achieve year-on-year growth in the second half, compared to the prior year period. We remain well placed for the medium to long term, with strong structural growth opportunities, a healthy new product pipeline and a highly cash generative business model.

**Jakob Sigurdsson**
Chief Executive
13 May 2019

**[1] Alternative performance measures are defined on page 11.**

**[2] Core business and core growth excludes Consumer Electronics and sales from mega-programmes.**

## DIVISIONAL REVIEW

### Industrial

| | 6 months Ended 31 Mar 2019 £m | 6 months ended 31 Mar 2018 £m | % Change (reported) | % Change (constant currency) |
|---|---|---|---|---|
| Revenue | 117.8 | 139.0 | -15% | -15% |
| Gross profit | 64.2 | 81.7 | -21% | -17% |

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

Our Industrial business delivered revenue of £117.8m (H1 2018: £139.0m), 15% lower than the prior year, reflecting the weaker Automotive and Value Added Resellers markets, and the year on year comparative from negligible volumes as part of the large Consumer Electronics contract. Revenue in constant currency is also down 15%, reflecting the offsetting impact of Euro and US Dollar exchange rate movements in the period. Gross margin fell to 54.5% (H1 2018: 58.8%), reflecting the impact of currency (primarily the change in presentation of gains and losses on foreign currency contracts), raw material and energy inflation, and weaker operating leverage as volumes fell.

**Energy & Other Industrial**

Energy & Other Industrial (which includes Manufacturing & Engineering) reported sales volume of 333 tonnes, which was flat on the prior year (H1 2018: 334 tonnes), with Oil & Gas up 9% overall. Forecasts for rig count in 2019 continue to be supportive. In our Magma oil & gas mega-programme, the long-term opportunity offshore in Brazil with TechnipFMC continues to support the proposition and we are exploring other opportunities with Equinor over the next 1-2 years. Magma will see a decline in revenue for FY 2019 as opportunities push out into FY 2020.

Manufacturing & Engineering (M&E) remains a relatively new area for Victrex and is becoming a meaningful contributor to our Energy & Other Industrial business. M&E is focused on new or incremental applications in fluid handling, food contact materials and manufacturing equipment applications, where metal replacement requirements are increasing. After a slower start to the year, M&E saw a slightly improving trend in the second quarter and we are building on opportunities from FY 2018, including the introduction of Victrex™ FG, a food grade product.

**Value Added Resellers**

Value Added Resellers (VAR) combines a mix of long term 'Channels' business, where processors or compounders are using our PEEK materials for part or component manufacturing specified by end users and OEMs, together with more variable demand requirements as the "pull" from Industrial markets using Victrex™ PEEK continues to grow. Because of the fragmented nature of the industrial supply chain, once PEEK has been specified by end users, full clarity on the exact route to market for all of our polymer business is not always possible. Sales volume of 733 tonnes was 15% lower than last year (H1 2018: 867 tonnes), principally reflecting the impact of business being supplied into the Automotive market, together with some destocking. This market continues to be challenging.

**Transport**

Megatrends including lightweighting, CO2 reduction, durability, comfort and heat resistance continue to support the long-term outlook for Transport markets. Sales volume declined 8% to 480 tonnes (H1 2018: 523

tonnes), primarily driven by the impact of the World Light Vehicle Testing Programme (WLTP) on Automotive, offset by a steady performance in Aerospace, against a tough first half comparative.

***Automotive***

In line with other suppliers to the Automotive industry, the ongoing emissions testing regime and weaker demand impacted sales into this market. First half volumes fell by 13%, primarily reflecting a very weak first quarter, where volumes were down 23%, prior to some signs of improvement in Q2. Market indicators suggest the opportunity for some underlying improvement as we move into the second half although we have yet to see any sustained momentum.

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

Following our PEEK Gears "on the road" deployment in 2018, we are progressing towards a second major agreement with a US manufacturer. This agreement, which we expect to commence by the end of our financial year, builds on two other smaller contracts. PEEK gears based on Victrex™ HPG PEEK can offer a 50% performance and noise vibration and harshness (NVH) benefit compared to metal gears, as well as contributing to the trend for minimising CO2 emissions through weight & inertia reduction, and quicker manufacturing compared to metal. To help scale this opportunity further, we will partner with manufacturing companies to support a wider roll-out, whilst retaining the development know-how. A PEEK Gear offers the potential of approximately 20 grams per application.

***Aerospace***

Trends in Aerospace continue to be supportive, although we saw a much tougher first half comparative, with overall volumes flat. Brackets, fasteners and other applications continue to offer incremental translation opportunities. Medium term growth prospects look positive as build rates and the use of composites and differentiated products increase. Light-weighting and the ability to reduce manufacturing cycle time by up to 40% is a key selling point for our PEEK and PAEK polymers. Beyond this, our differentiated polymer grades, such as our AE™250 (low-melt) version continue to progress, alongside our focus on product forms and parts, such as film and our Aerospace Loaded Brackets opportunity.

Our new TxV US manufacturing facility in Rhode Island, US, completed its commissioning during the period and can initially manufacture approximately 150 tonnes of composite parts per year, which will be as prototypes. Our development alliance with Airbus as part of their 'Clean Sky 2' programme will also offer opportunities in primary and secondary structures. With projections of around 37,000 new or replacement aircraft required by 2037 (source: Airbus), the long-term opportunities in this market, particularly in lightweight composite parts, remain strong.

**Electronics**

Electronics volumes fell 42% to 251 tonnes (H1 2018: 432 tonnes), principally reflecting negligible volumes from the large Consumer Electronics order – compared to a strong H1 2018 – and a phasing of volumes for an emerging consumer application to the second half year. Performance in other sub-sectors of Electronics was mixed, including a decline in Semiconductor, weaker Small Space Acoustics – in line with smartphone market indicators – with some growth in Home Appliances. For the second half year, we expect further progress in Home Appliances. Visibility for volumes from an emerging consumer device application, subject to qualifications, remains limited, with any opportunity likely to be weighted towards the end of the second half.

**Regional trends**

Regional trends show Europe was down 8%, with 1,026 tonnes (H1 2018: 1,120 tonnes), reflecting the weakness in Automotive and Value Added Resellers specifically, and slower Industrial markets more generally. Asia-Pacific was down 35% to 478 tonnes (H1 2018: 732 tonnes) principally from Electronics, whilst US volumes were 2% down at 395 tonnes (H1 2018: 404 tonnes).

## Medical

| | 6 months Ended 31 Mar 2019 £m | 6 months ended 31 Mar 2018 £m | % Change (reported) | % Change (constant currency) |
|---|---|---|---|---|
| Revenue | 27.9 | 27.6 | 1% | 2% |
| Gross profit | 23.2 | 24.6 | -6% | 0% |

Medical revenue was up 1% at £27.9m (H1 2018: £27.6m). In constant currency, Medical revenue was 2% ahead, continuing the stable trend seen during FY 2018 as share within the US Spine market stabilises. Medical sales are heavily US Dollar denominated, with the average spot rate in the current period impacting us, reflecting rates being adverse to the effective rate in H1 2018, which benefited from deals placed in the FY 2017 financial year. Gross profit was £23.2m (H1 2018: £24.6m) and gross margin was lower at 83.2% (H1 2018: 89.1%). This partly reflected sales mix, with the remaining impact being due to currency, including the presentational impact of adopting IFRS 9, which accounts for approximately half of the margin decline.

Revenue outside of the US continues to remain positive, with Asia-Pacific growing by 88%, offset by a decline in Europe of 8%.  Asia-Pacific growth principally reflects some non-Spine areas such as Cranio Maxio-Facial (CMF) and Arthroscopy.

**Medical market overview**

Despite the recent challenge to PEEK in the spine market from Titanium based expandable spinal cages and 3D printed porous cages, PEEK market share has stabilised to around 66% in spinal fusion.

Our medium-term focus is to diversify our Medical business into non-Spine areas, as well as seeking growth in Spine through emerging geographies, and new innovative products. Our premium and differentiated PEEK-OPTIMA™ HA Enhanced product – to drive next generation Spine procedures – is one part of our strategy to grow our Medical business. Having delivered over £1m of revenue in 2018, we expect to see growth in FY 2019, where we now have over 10,000 patient implants.  We also saw this product used in a new 'Hammertoe' application outside of the Spine market.

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

**Mega-programmes**

Following last year's customer agreement with Straumann Dental, one of the world's leading dental companies, we are focused on increasing market penetration of our Invibio Dental (Juvora™) branded products. The agreement will help to improve global reach – our sales resource by virtue of Straumann will increase significantly – building on PEEK-OPTIMA™'s clinical performance and existing European and US regulatory approvals. Progress in FY 2019 has been slower than anticipated and we expect that additional agreements will be needed to help market penetration.  The medium term opportunity remains attractive for Dental and our assumptions are for meaningful revenue of £1m to be achieved within the next 1-2 years.

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

Our Trauma manufacturing facility has the ability to meet initial demand and we will be further developing our capacity capabilities over the next 12 months. Our PEEK composite Trauma plates offer the potential for 50 times better fatigue resistance compared to a metal plate. They also offer the opportunity for enhanced healing. The awareness of composites as a viable metal alternative is growing and we successfully signed a collaboration agreement with a top 5 Trauma player last year. We are also continuing to work with smaller innovative players through development agreements.

In Knee, our PEEK based solutions offer potential in this $6 billion global market. With 1 in 5 patients dissatisfied with their knee surgery, typically those using metal based solutions, patient demand for alternatives is growing. The Knee clinical trial commenced in late 2018, with the lead investigator appointed in Italy, ethics approval and approximately 30 patients being recruited.  We are also focused on securing an OEM partner in addition to our existing partnership with Maxx Orthopedics.

**Alternative performance measures:**

- Operating profit before exceptional items and Profit before exceptional items and tax – referred to as Underlying profit before tax – are based on operating profit and PBT before the impact of exceptional items. These metrics are used by the Board to assess the underlying performance of the business excluding items that are, in aggregate, material in size and / or unusual or infrequent in nature. Exceptional items for H1 2019 are £2.2m relating to GMP equalisation and acquisition related costs. Further details are disclosed in note 6;
- Constant currency metrics are used by the Board to assess the year on year underlying performance of the business excluding the impact of foreign currency rates, which can by nature be volatile. Constant currency metrics are reached by applying current year (H1 2019) weighted average spot rates to prior year (H1 2018) transactions. In the current period, gains and losses on foreign currency net hedging are shown separately in the Income Statement, following adoption of IFRS 9 and are excluded from the constant currency calculation;
- Operating cash conversion is used by the Board to assess the business's ability to convert operating profit to cash effectively, excluding the impact of investing and financing activities. Operating cash conversion is cash generated from operations / operating profit;
- Available cash is used to enable the Board to understand the true cash position of the business when determining the use of cash under the capital allocation policy.  Available cash is cash and cash equivalents plus other financial assets (cash invested in term deposits greater than three months in duration); and
- Dividend cover is used by the Board to measure the affordability and sustainability of the regular dividend. Dividend cover is earnings per share/total dividend per share. This excludes the special dividend.

## Consolidated Income Statement

| | Note | Unaudited Six months ended 31 March 2019 £m | Unaudited Six months ended 31 March 2018 £m | Audited Year ended 30 September 2018 £m |
|---|---|---|---|---|
| **Revenue** | 5 | **145.7** | 166.6 | 326.0 |
| Losses on foreign currency net hedging[1] | | **(2.9)** | - | - |
| Cost of sales | | **(55.4)** | (60.3) | (118.0) |
| **Gross profit** | | **87.4** | 106.3 | 208.0 |
| Sales, marketing and administrative expenses | 5 | **(37.7)** | (43.3) | (81.1) |
| Operating profit before exceptional items | | **51.9** | 63.0 | 126.9 |
| Exceptional items | 6 | **(2.2)** | - | - |
| **Operating profit** | 5 | **49.7** | 63.0 | 126.9 |
| Financial income | | **0.5** | 0.3 | 0.6 |
| Profit before tax and exceptional items | | **52.4** | 63.3 | 127.5 |
| Exceptional items | 6 | **(2.2)** | - | - |
| **Profit before tax** | | **50.2** | 63.3 | 127.5 |
| Income tax expense[2] | 7 | **(6.0)** | (7.8) | (16.9) |
| **Profit for the period attributable to owners of the parent** | | **44.2** | 55.5 | 110.6 |
| **Earnings per share** | | | | |
| Basic | 8 | **51.4p** | 64.7p | 128.8p |
| Diluted | 8 | **51.2p** | 64.4p | 128.2p |

| | | | | |
|---|---|---|---|---|
| **Dividends** | | | | |
| Year ended 30 September 2017: | | | | |
| Final dividend paid February 2018 at 41.60p per share | | **-** | 35.7 | 35.7 |
| Special dividend paid February 2018 at 68.00p per share | | **-** | 58.3 | 58.3 |
| Year ended 30 September 2018: | | | | |
| Interim dividend paid July 2018 at 13.42p per share | | **-** | - | 11.6 |
| Final dividend paid February 2019 at 46.14p per share | | **39.7** | - | - |
| Special dividend paid February 2019 at 82.68p per share | | **71.1** | - | - |
| | | **110.8** | 94.0 | 105.6 |

An interim dividend of 13.42p per share will be paid on 28 June 2019 to shareholders on the register at the close of business on 7 June 2019. This dividend will be recognised in the period in which it is approved.

1 Losses on foreign currency contracts, when net hedging is applied on cash flow hedges, are disclosed separately within gross margin on adoption of IFRS 9.

2 Taxation on exceptional items in the current year has reduced the charge by £0.2m (2018: £nil).

## Consolidated Statement of Comprehensive Income

| | **Unaudited Six months ended 31 March 2019 £m** | Unaudited Six months ended 31 March 2018 £m | Audited Year ended 30 September 2018 £m |
|---|---|---|---|
| Profit for the period | **44.2** | 55.5 | 110.6 |
| **Items that will not be reclassified to profit or loss** | | | |
| Defined benefit pension schemes' actuarial (losses)/gains | **(6.1)** | 0.5 | 5.6 |
| Income tax on items that will not be reclassified to profit or loss | **0.1** | (0.1) | (0.9) |
| | **(6.0)** | 0.4 | 4.7 |
| **Items that may be subsequently reclassified to profit or loss** | | | |
| Currency translation differences for foreign operations | **(0.1)** | (1.3) | 1.1 |
| Effective portion of changes in fair value of cash flow hedges | **1.1** | 5.0 | (4.6) |
| Net change in fair value of cash flow hedges transferred to profit or loss | **2.9** | (4.3) | (4.3) |
| Income tax on items that may be reclassified to profit or loss | **(0.7)** | (0.1) | 2.0 |
| | **3.2** | (0.7) | (5.8) |
| **Total other comprehensive expense for the period** | **(2.8)** | (0.3) | (1.1) |
| **Total comprehensive income for the period attributable to owners of the parent** | **41.4** | 55.2 | 109.5 |

## Consolidated Balance Sheet

| | Note | Unaudited 31 March 2019 £m | Unaudited 31 March 2018 £m | Audited 30 September 2018 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | **254.1** | 254.7 | 253.4 |
| Intangible assets | | **26.8** | 29.4 | 27.6 |
| Financial assets held at fair value through profit and loss | 9 | **10.5** | 10.0 | 4.5 |
| Deferred tax assets | | **7.5** | 5.7 | 7.2 |
| Retirement benefit asset | | **7.5** | 5.4 | 13.5 |
| | | **306.4** | 305.2 | 306.2 |
| **Current assets** | | | | |
| Inventories | | **85.3** | 62.8 | 69.3 |
| Current income tax assets | | **0.7** | 1.2 | 0.1 |
| Trade and other receivables | | **42.3** | 40.3 | 42.7 |
| Derivative financial instruments | 10 | **2.7** | 7.6 | 1.1 |
| Other financial assets | 11 | **0.3** | 27.0 | 73.2 |
| Cash and cash equivalents | | **49.1** | 64.8 | 71.2 |
| | | **180.4** | 203.7 | 257.6 |
| **Total assets** | | **486.8** | 508.9 | 563.8 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | | **(21.6)** | (18.9) | (22.5) |
| | | **(21.6)** | (18.9) | (22.5) |
| **Current liabilities** | | | | |
| Derivative financial instruments | 10 | **(7.0)** | (3.3) | (9.3) |
| Current income tax liabilities | | **(9.2)** | (9.7) | (5.3) |
| Trade and other payables | | **(25.7)** | (32.8) | (36.8) |
| | | **(41.9)** | (45.8) | (51.4) |
| **Total liabilities** | | **(63.5)** | (64.7) | (73.9) |
| **Net assets** | | **423.3** | 444.2 | 489.9 |
| **Equity** | | | | |
| Share capital | | **0.9** | 0.9 | 0.9 |
| Share premium | | **49.3** | 46.0 | 48.0 |
| Translation reserve | | **3.7** | 1.4 | 3.8 |
| Hedging reserve | | **(0.1)** | 4.4 | (3.4) |
| Retained earnings | | **369.5** | 391.5 | 440.6 |
| **Total equity attributable to owners of the parent** | | **423.3** | 444.2 | 489.9 |

## Consolidated Cash Flow Statement

| | Note | Unaudited Six months ended 31 March 2019 £m | Unaudited Six months ended 31 March 2018 £m | Audited Year ended 30 September 2018 £m |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash generated from operations | 13 | **32.5** | 66.5 | 135.8 |
| Net financing interest received | | **0.5** | 0.3 | 0.6 |
| Tax (paid)/repayment | | **(3.8)** | 0.9 | (7.4) |
| **Net cash flow from operating activities** | | **29.2** | 67.7 | 129.0 |
| **Cash flows from investing activities** | | | | |
| Acquisition of property, plant and equipment and intangible assets | | **(8.8)** | (4.4) | (9.9) |
| Decrease/(increase) in other financial assets | | **72.9** | (27.0) | (73.2) |
| Cash consideration of acquisitions | | **(5.9)** | - | - |
| Cash received from investments | | **-** | - | 5.5 |
| **Net cash flow from investing activities** | | **58.2** | (31.4) | (77.6) |
| **Cash flows from financing activities** | | | | |
| Premium on issue of ordinary shares exercised under option | | **1.3** | 3.0 | 5.0 |
| Dividends paid | | **(110.8)** | (94.0) | (105.6) |
| **Net cash flow from financing activities** | | **(109.5)** | (91.0) | (100.6) |
| **Net decrease in cash and cash equivalents** | | **(22.1)** | (54.7) | (49.2) |
| Effect of exchange rate fluctuations on cash held | | **-** | (0.6) | 0.3 |
| Cash and cash equivalents at beginning of period | | **71.2** | 120.1 | 120.1 |
| **Cash and cash equivalents at end of period** | | **49.1** | 64.8 | 71.2 |

## Consolidated Statement of Changes in Equity

| | Share capital £m | Share premium £m | Translation reserve £m | Hedging reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|
| **Equity at 1 October 2018 (Audited)** | 0.9 | 48.0 | 3.8 | (3.4) | 440.6 | 489.9 |
| **Total comprehensive income for the period** | | | | | | |
| Profit for the period | - | - | - | - | 44.2 | 44.2 |
| **Other comprehensive (expense)/income** | | | | | | |
| Currency translation differences for foreign operations | - | - | (0.1) | - | - | (0.1) |
| Effective portion of changes in fair value of cash flow hedges | - | - | - | 1.1 | - | 1.1 |
| Net change in fair value of cash flow hedges transferred to profit or loss | - | - | - | 2.9 | - | 2.9 |
| Defined benefit pension schemes' actuarial losses | - | - | - | - | (6.1) | (6.1) |
| Tax on other comprehensive (expense)/income | - | - | - | (0.7) | 0.1 | (0.6) |
| **Total other comprehensive (expense)/income for the period** | - | - | (0.1) | 3.3 | (6.0) | (2.8) |
| **Total comprehensive (expense)/income for the period** | - | - | (0.1) | 3.3 | 38.2 | 41.4 |
| **Contributions by and distributions to owners of the Company** | | | | | | |
| Share options exercised | - | 1.3 | - | - | - | 1.3 |
| Equity-settled share-based payment transactions | - | - | - | - | 1.5 | 1.5 |
| Dividends to shareholders | - | - | - | - | (110.8) | (110.8) |
| **Equity at 31 March 2019 (Unaudited)** | 0.9 | 49.3 | 3.7 | (0.1) | 369.5 | 423.3 |

| | Share capital £m | Share premium £m | Translation reserve £m | Hedging reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|
| **Equity at 1 October 2017 (Audited)** | 0.9 | 43.0 | 2.7 | 3.8 | 428.0 | 478.4 |
| **Total comprehensive income for the period** | | | | | | |
| Profit for the period | - | - | - | - | 55.5 | 55.5 |
| **Other comprehensive (expense)/income** | | | | | | |
| Currency translation differences for foreign operations | - | - | (1.3) | - | - | (1.3) |
| Effective portion of changes in fair value of cash flow hedges | - | - | - | 5.0 | - | 5.0 |
| Net change in fair value of cash flow hedges transferred to profit or loss | - | - | - | (4.3) | - | (4.3) |
| Defined benefit pension schemes' actuarial gains | - | - | - | - | 0.5 | 0.5 |
| Tax on other comprehensive (expense)/income | - | - | - | (0.1) | (0.1) | (0.2) |
| **Total other comprehensive (expense)/income for the period** | - | - | (1.3) | 0.6 | 0.4 | (0.3) |
| **Total comprehensive (expense)/income for the period** | - | - | (1.3) | 0.6 | 55.9 | 55.2 |
| **Contributions by and distributions to owners of the Company** | | | | | | |
| Share options exercised | - | 3.0 | - | - | - | 3.0 |
| Equity-settled share-based payment transactions | - | - | - | - | 1.6 | 1.6 |
| Dividends to shareholders | - | - | - | - | (94.0) | (94.0) |
| **Equity at 31 March 2018 (Unaudited)** | 0.9 | 46.0 | 1.4 | 4.4 | 391.5 | 444.2 |

## Notes to the Financial Report

### 1. Reporting entity

Victrex plc (the 'Company') is a limited liability company incorporated and domiciled in the United Kingdom. The address of the Registered Office is Victrex Technology Centre, Hillhouse International, Thornton Cleveleys, Lancashire, FY5 4QD, United Kingdom. The Company is listed on the London Stock Exchange.

This Half-yearly Financial Report is an interim management report as required by DTR 4.2.3 of the Disclosure and Transparency Rules of the UK Financial Conduct Authority.

These condensed consolidated interim financial statements as at and for the six months ended 31 March 2019 comprise those of the Company and its subsidiaries (together referred to as the 'Group').

The comparative figures for the financial year ended 30 September 2018 are extracted from the Group's statutory financial statements for that year. Those financial statements have been reported on by the Group's auditor, filed with the Registrar of Companies and are available on request from the Group's Registered Office or to download from www.victrexplc.com. The auditor's report on those financial statements was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain any statement under sections 498 (2) or (3) of the Companies Act 2006.

These condensed consolidated interim financial statements are unaudited, but have been reviewed by PricewaterhouseCoopers LLP and its report is set out on page 26-27.

### 2. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ('IAS') 34 – Interim Financial Reporting as adopted by the European Union. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 September 2018. The Group's 2018 Annual Report and Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('endorsed IFRS') at the reporting date and with Companies Act 2006 applicable to companies reporting under IFRS.

This Half-yearly Financial Report was approved by the Board of Directors on 13 May 2019.

Risks and uncertainties

The principal risks and uncertainties which could impact the Group's long-term performance remain those detailed on pages 23, 24, and 25 and 106 of the Group's 2018 Annual Report and Financial Statements, a copy of which is available on the Group's website, www.victrexplc.com. No new risks have been identified. These risks remain valid as regards their potential to impact the Group during the second half of the current financial year. The Group has a comprehensive system of risk management installed within all parts of its business to mitigate these risks as far as is possible.

Use of Judgements and estimation uncertainty

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the Group's 2018 Annual Report and Financial Statements, detailed on page 106.

### 3. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied in the Group's published consolidated financial statements for the year ended 30 September 2018 except for the application of relevant new standards.

A number of new standards and amendments to existing standards are effective for the financial year ending 30 September 2019. These include:

IFRS 9 – Financial Instruments: this standard was adopted by the Group on 1 October 2018. This standard replaces IAS 39 'Recognition and measurement'. The main impacts of adopting IFRS 9 have been:

1) The Groups approach to currency hedging meets the criteria to be net hedged under IFRS 9. In accordance with IFRS 9, this has resulted in a presentational change on the face on the income statement in the period, with the fair value gains and losses recognised on cash flow hedges being disclosed separately within gross margin, rather than included within the line item of the underlying hedged transaction. Revenue, cost of sales and sales, marketing and administration expenses have, therefore, been recognised at the average exchange rate prevailing at the date of the transaction. For the 6 months ended 31 March 2019, a loss of £2.9m has been recognised separately and note 12 provides the average exchange rates applied. This revised presentation, as expected has resulted in an increase in gross margin percentage volatility.

   The Group has applied this change prospectively and used the practical expedient allowed to de-designate the old IAS 39 hedging relationships in existence on 1 October 2018 and start a new hedging relationship under the new IFRS 9 model. Accordingly, no adjustment to the comparative is required.

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

There has been no significant changes required in classification or measurement base in the transition to IFRS 9 for Victrex's financial assets.

IFRS 15 – Revenue from Contracts with Customers: this standard was adopted by the Group on 1 October 2018. IFRS 15 provides a principles-based approach for revenue recognition, and as previously reported based on the detailed assessment performed, there has been no impact on the timing and recognition of revenue for the sale of goods, which are recognised in line with Incoterms (either on dispatch or delivery).

IFRS 15 does result in an element of variable consideration in relation to Medical Unit Payments ("MUP"), which is determined and contingent on onward sale of a medical device, made from Group material, by the customer. Under IFRS 15 the Group must now recognize when the performance obligation is satisfied and therefore revenue recognition will now be at the point when the material is sold by the Group for all new MUP contracts. For existing MUP contracts in place on 1 October 2018, due to the material to which the MUP relates not being disclosed by the customer until there is an onward sale, any assessment of the value of revenue to be accelerated on adoption is judgemental. Consequently following a detailed assessment, the Directors concluded that, based on the judgements made, the amount which would be accelerated is not material and therefore for existing MUP contracts no modified retrospective adjustment to the opening balance sheet as at 1 October 2018 has been made and no revenue has been accelerated.

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

IFRS 16 – Leases: this standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 October 2019. As set out in note 1 of the Group's 2018 Financial Statements, the Directors have assessed the likely impact on the reported results and financial position of the Group on the basis that it will use the modified retrospective approach. This will result in the recognition of a right-of-use asset and liability at the present value of remaining lease payments, discounted using the incremental borrowing rate at the date of adoption. The existing obligations under operating lease agreements at 30 September 2018 were £7.6m, which primarily relate to buildings. If the Group had adopted IFRS 16 on 1 October 2018, an asset and corresponding lease liability of approximately £6.5m would have be recognised. The income statement for the year ending 30 September 2019 would be adversely impacted at a profit before tax level of approximately £0.1m. No new significant operating leases have been acquired in H1 2019 to change this guidance.

Going concern

The Directors have performed a robust assessment, including review of the forecast for the year ending September 2019 and longer term strategic forecasts and plans, including consideration of the principal risks faced by the Group and the company, as detailed in the Group's Annual Report 2018. Following this review the Directors are satisfied that the Company and the Group have adequate resources to continue to operate and meet its liabilities as they fall due for the foreseeable future, a period considered to be at least 12 months from the date of signing these financial statements. For this reason they continue to adopt the going concern basis for preparing the interim financial statements.

## 4. Estimates

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those detailed on page 106 of the Group's 2018 Financial Statements.

## 5. Segment reporting

The Group's business is strategically organised as two business units: Industrial, which focuses on our Transport, Electronics, Energy & Other Industrial and Value Added Resellers markets; and Medical, which focuses on providing specialist solutions for medical device manufacturers.

| | **Unaudited Six months ended 31 March 2019** | | | Unaudited Six months ended 31 March 2018 | | | Audited Year ended 30 September 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Industrial £m** | **Medical £m** | **Group £m** | Industrial £m | Medical £m | Group £m | Industrial £m | Medical £m | Group £m |
| **Revenue from external sales** | **117.8** | **27.9** | **145.7** | 139.0 | 27.6 | 166.6 | 270.4 | 55.6 | 326.0 |
| **Segment gross profit** | **64.2** | **23.2** | **87.4** | 81.7 | 24.6 | 106.3 | 158.6 | 49.4 | 208.0 |
| Sales, marketing and administrative expenses | | | **(37.7)** | | | (43.3) | | | (81.1) |
| Operating profit before exceptional items | | | **51.9** | | | 63.0 | | | 126.9 |
| Exceptional items | | | **(2.2)** | | | - | | | - |
| **Operating profit** | | | **49.7** | | | 63.0 | | | 126.9 |
| Net financing income | | | **0.5** | | | 0.3 | | | 0.6 |
| Profit before tax and exceptional items | | | **52.4** | | | 63.3 | | | 127.5 |
| Exceptional items | | | **(2.2)** | | | - | | | - |
| **Profit before tax** | | | **50.2** | | | 63.3 | | | 127.5 |
| Income tax expense | | | **(6.0)** | | | (7.8) | | | (16.9) |
| **Profit for the period attributable to owners of the parent** | | | **44.2** | | | 55.5 | | | 110.6 |

## 6. Exceptional items

Items that are, in aggregate, material in size and / or unusual or infrequent in nature, are included within operating profit and disclosed separately as exceptional items in the Consolidated Income Statement.

The separate reporting of exceptional items, which are presented as exceptional within the relevant category in the Consolidated Income Statement, helps provide an indication of the underlying performance of the Group.

| | **Unaudited Six months ended 31 March 2019 £m** | Unaudited Six months ended 31 March 2018 £m | Audited Year ended 30 September 2018 £m |
|---|---|---|---|
| **Included within sales, marketing and administrative expenses** | | | |
| GMP equalisation[1] | **1.1** | - | - |
| Acquisition related costs[2] | **1.1** | - | - |
| **Exceptional items before tax** | **2.2** | - | - |
| Tax on exceptional items | **(0.2)** | - | - |
| **Exceptional items** | **2.0** | - | - |

[1] The Lloyds Banking Group's high court ruling during October 2018 confirmed the requirement on defined benefit pension schemes, including Victrex's UK pension scheme, to equalise benefits between men and women to allow for differences in Guaranteed Minimum Pensions ("GMP") for those who contracted out of the State Earnings Related Pension Scheme.  The impact of this equalisation will increase the scheme liabilities and to reflect this a charge of £1.1m has been recognised in the period as a past service cost.

The charge, made in consultation with Independent actuaries, is the Group's best estimate of the non-cash cost, with the detailed calculation to be performed in the second half of this financial year as part of the upcoming Triennial valuation. Any true up to the estimate will be included in the full year results, but is not expected to be significant.

[2] Acquisition related costs comprise legal and other non-recurring costs the Group has incurred directly in the course of acquisition activity (see note 9). These costs are largely non-deductible expenses for tax purposes.

The cash outflow in H1 2019 associated with exceptional items was £0.2m, with £0.9m expected in H2 2019. GMP equalisation is a non-cash cost.

## 7. Income tax expense

Taxation of profit before tax in respect of the six months ended 31 March 2019 has been provided at the estimated effective rates chargeable for the full year in the respective jurisdiction.

| | **Unaudited Six months ended 31 March 2019 £m** | Unaudited Six months ended 31 March 2018 £m | Audited Year ended 30 September 2018 £m |
|---|---|---|---|
| UK corporation tax | **5.9** | 6.6 | 13.0 |
| Overseas tax | **1.0** | 1.2 | 3.1 |
| Deferred tax | **(0.9)** | 0.6 | 2.0 |
| Tax adjustments relating to prior years | **-** | (0.6) | (1.2) |
| **Total tax expense in income statement** | **6.0** | 7.8 | 16.9 |
| Effective tax rate | **12.0%** | 12.3% | 13.3% |

Deferred tax assets/liabilities have been measured at the rate they are expected to reverse. For UK assets/liabilities this is 17% (31 March 2018: 17%, 30 September 2018: 17%), being the UK tax rate effective from 1 April 2020. For overseas assets/liabilities the corresponding overseas tax rate has been applied.

## 8. Earnings per share

| | | **Unaudited Six months ended 31 March 2019** | Unaudited Six months ended 31 March 2018 | Audited Year ended 30 September 2018 |
|---|---|---|---|---|
| **Earnings per share** | – basic | **51.4p** | 64.7p | 128.8p |
| | – diluted | **51.2p** | 64.4p | 128.2p |
| **Profit for the financial period (£m)** | | **44.2** | 55.5 | 110.6 |
| **Weighted average number of shares used** | – basic | **86,021,256** | 85,732,071 | 85,857,265 |
| | – diluted | **86,354,184** | 86,150,979 | 86,299,646 |

## 9. Financial assets held at fair value through profit and loss

**Surface Generation Limited**

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

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

**Bond 3D High Performance Technology BV**

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

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

Following successful completion of technical milestones, the Group made a further convertible loan of €1.175 million on 1 April 2019. By 30 September 2019, on the basis Technical Validation has been achieved, these loans are expected to have been converted into equity, along with a further investment of €5.5 million having been made. Additional investment is anticipated over the subsequent two years totalling €7.3 million based on a number of performance conditions and milestones being met.

## 10. Derivative financial instruments

The notional contract amount, carrying amount and fair value of the Group's forward exchange contracts are as follows:

| | **Unaudited As at 31 March 2019** | | Unaudited As at 31 March 2018 | | Audited As at 30 September 2018 | |
|---|---|---|---|---|---|---|
| | **Notional contract amount** | **Carrying amount and fair value** | Notional contract amount | Carrying amount and fair value | Notional contract amount | Carrying amount and fair value |
| | **£m** | **£m** | £m | £m | £m | £m |
| Current assets | **82.8** | **2.7** | 188.6 | 7.6 | 39.0 | 1.1 |
| Current liabilities | **130.4** | **(4.0)** | 12.9 | (0.5) | 180.5 | (6.2) |
| | **213.2** | **(1.3)** | 201.5 | 7.1 | 219.5 | (5.1) |

The fair values have been calculated by applying (where relevant), for equivalent maturity profiles, the rate at which forward currency contracts with the same principal amounts could be acquired on the balance sheet date. These are categorised as Level 2 within the fair value hierarchy under IFRS 7. Fair value losses on foreign currency contracts of £2.9m has been recognised in the period.

In addition to the above, £3.0m is included in current liabilities in respect of the fair value of the derivative instruments associated with TxV. These are categorised as Level 2 within the fair value hierarchy under IFRS 7.

## 11. Other financial assets

| | Unaudited Six months ended 31 March 2019 £m | Unaudited Six months ended 31 March 2018 £m | Audited Year ended 30 September 2018 £m |
|---|---|---|---|
| Other financial assets | **0.3** | 27.0 | 73.2 |
| | **0.3** | 27.0 | 73.2 |

Other financial assets comprise cash invested in term deposits greater than three months in duration. These do not meet the criteria to be classified as cash and cash equivalents and have accordingly been presented within Other financial assets, which are classified and measured at Amortised cost in accordance with IFRS 9.

## 12. Exchange rates

The most significant Sterling exchange rates used in the financial statements under the Group's accounting policies are:

| | Unaudited Six months ended 31 March 2019 | | Unaudited Six months ended 31 March 2018 | | Audited Year ended 30 September 2018 | |
|---|---|---|---|---|---|---|
| | **Average spot** | **Closing** | Average | Closing | Average | Closing |
| US Dollar | **1.30** | **1.30** | 1.26 | 1.42 | 1.30 | 1.30 |
| Euro | **1.13** | **1.15** | 1.13 | 1.14 | 1.13 | 1.11 |
| Yen | **144** | **144** | 143 | 151 | 144 | 149 |

The average exchange rates in the above table for the six months ended 31 March 2019 are the weighted average spot rates applied to foreign currency transactions, excluding the impact of foreign currency contracts. Following adoption of IFRS 9 on 1 October 2018, any gains and losses on foreign currency contracts, where net hedging has been applied for cash flow hedges, have been separately disclosed in the income statement as required. For the prior periods, the average exchange rates in the above table take into account the impact of gains and losses on foreign currency contracts.

## 13. Reconciliation of profit to cash generated from operations

| | Unaudited Six months ended 31 March 2019 £m | Unaudited Six months ended 31 March 2018 £m | Audited Year ended 30 September 2018 £m |
|---|---|---|---|
| Profit after tax for the period | **44.2** | 55.5 | 110.6 |
| Income tax expense | **6.0** | 7.8 | 16.9 |
| Net financing income | **(0.5)** | (0.3) | (0.6) |
| Operating profit | **49.7** | 63.0 | 126.9 |
| Adjustments for: | | | |
| Depreciation | **7.2** | 7.6 | 15.3 |
| Amortisation | **1.2** | 1.4 | 2.7 |
| Loss on disposal of non-current assets | **0.1** | 0.1 | 0.7 |
| Increase in inventories | **(16.3)** | (2.1) | (7.1) |
| Increase in trade and other receivables | **(0.3)** | (3.4) | (5.6) |
| (Decrease)/increase in trade and other payables | **(10.7)** | (0.7) | 1.9 |
| Equity-settled share-based payment transactions | **1.5** | 1.6 | 2.6 |
| Losses on derivatives recognised in income statement that have not yet settled | **0.2** | 0.1 | 2.6 |
| Retirement benefit obligations charge less contributions | **(0.1)** | (1.1) | (4.2) |
| **Cash generated from operations** | **32.5** | 66.5 | 135.8 |

## 14. Related party transactions

The Group's related parties are as disclosed in the Annual Report and Financial Statements 2018. There were no material differences in related parties or related party transactions in the six months ended 31 March 2019 except for transactions with key management personnel. The most significant of these was on 10 December 2018, under the 2009 Long Term Incentive Plan ('LTIP'), when 29,586, 15,634, 13,195 and 12,972 share option awards were granted to J O Sigurdsson, R J Armitage, T J Cooper and M L Court respectively at an option price of nil p per share when the market price was 2,302.6p per share.

## 15. Subsequent events

**Bond 3D High Performance Technology BV**
Following successful completion of technical milestones, the Group made a further convertible loan of €1.175 million on 1 April 2019.

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

(i) an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

(ii) material related party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report.

During the period since the approval of the Victrex plc Annual Report for the year ended 30 September 2018, there have been no changes in the directorate.

The Directors of Victrex plc are detailed on our group website www.victrexplc.com.

By order of the Board

| | |
|---|---|
| **Jakob Sigurdsson** | **Richard Armitage** |
| Chief Executive | Chief Financial Officer |
| 13 May 2019 | 13 May 2019 |

## Forward-looking Statements

Sections of this Half-yearly Financial Report may contain forward-looking statements, including statements relating to: certain of the Group's plans and expectations relating to its future performance, results, strategic initiatives and objectives, future demand and markets for the Group's products and services; research and development relating to new products and services; and financial position, including its liquidity and capital resources. These forward-looking statements are not guarantees of future performance. By their nature, all forward looking statements involve risks and uncertainties because they relate to events that may or may not occur in the future, and are or may be beyond the Group's control, including: changes in interest and exchange rates; changes in global, political, economic, business, competitive and market forces; changes in raw material pricing and availability; changes to legislation and tax rates; future business combinations or disposals; relations with customers and customer credit risk; events affecting international security, including global health issues and terrorism; the impact of, and changes in, legislation or the regulatory environment (including tax); and the outcome of litigation. Accordingly, the Group's actual results and financial condition may differ materially from those expressed or implied in any forward looking statements. Forward-looking statements in this Half-yearly Financial Report are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this press release shall be construed as a profit forecast.

# *Independent review report to Victrex plc*

## Report on the consolidated interim financial statements

### Our conclusion

We have reviewed Victrex plc's consolidated interim financial statements (the "interim financial statements") in the Interim Results 2019 of Victrex plc for the 6 month period ended 31 March 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

### What we have reviewed

The interim financial statements comprise:

- the Consolidated Balance Sheet as at 31 March 2019;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Cash Flow Statement for the period then ended;
- the Consolidated Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Results 2019 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## Responsibilities for the interim financial statements and the review

### Our responsibilities and those of the directors

The Interim Results 2019, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Results 2019 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Results 2019 based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Results 2019 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Manchester
May 2019

## Shareholder Information

Victrex's Annual Reports and Half-yearly Financial Reports are available on request from the Company's Registered Office or to download from our corporate website, www.victrexplc.com.

**Financial calendar**

| | |
|---|---|
| Ex-dividend date for interim dividend | 6 June 2019 |
| Record date for interim dividend# | 7 June 2019 |
| Payment of interim dividend | 28 June 2019 |
| 2019 year end | 30 September 2019 |
| Announcement of 2019 full year results | 5 December 2019 |
| Annual General Meeting | February 2020 |
| Payment of final dividend | February 2020 |

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

**Victrex plc**
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Number 2793780

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