5 December 2019

Victrex plc – Preliminary Results 2019

'Full year in-line with expectations; cyclical weakness offsetting growth markets'

Victrex plc, an innovative world leader in high performance polymer solutions, today announces its preliminary results for the 12 months ended 30 September 2019.

	FY 2019	FY 2018	% change (reported)	% change (constant currency)[1]
Group sales volume	**3,751 tonnes**	4,407 tonnes	-15%	-
Group revenue	**£294.0m**	£326.0m	-10%	-11%
Gross profit	**£176.3m**	£208.0m	-15%	-14%
Gross margin	**60.0%**	63.8%	-380 bps	n/a
Underlying profit before tax (before exceptional items[1])	**£106.2m**	£127.5m	-17%	-14%
Profit before tax (PBT)	**£104.7m**	£127.5m	-18%	-15%
EPS	**107.2p**	128.8p	-17%	-
Dividend per share (regular & special dividends)	**59.56p**	142.24p	-58%	-

Highlights:

- **Good growth in Aerospace, Energy & Medical offset by Auto & Electronics cyclicality**
  - *FY19 Group sales volumes down 15% impacted by Auto, Electronics & Value Added Resellers*
  - *Run rate stabilising in Q4, with sequential improvement*
  - *Good performance in Medical, revenue +4% with strong growth in Asia*
  - *Underlying PBT down 17%*

- **Further progress to commercialise 'mega-programme' pipeline**
  - *First commercial order for Aerospace composite parts, new US facility operational*
  - *New Aerospace Structures mega-programme (long-term development alliance with Airbus)*
  - *>10 development programmes for PEEK Gears*
  - *Double-digit revenue growth in next generation PEEK-OPTIMA™ HA Enhanced Spine product*
  - *PEEK Knee clinical trial underway*

- **Cash generation impacted by Brexit & debottlenecking inventory build**
  - *Operating cash conversion[1] of 87%, impacted by stock build; available cash[1] of £72.8m*
  - *Final dividend held at 46.14p/share*
  - *Investments to support 3D printing and moulding technology*
  - *Two-year £15m debottlenecking investment underway, unlocking incremental capacity*

Jakob Sigurdsson, Chief Executive of Victrex, said: "Our full year performance was in line with expectations, with good growth in Aerospace, Energy and Medical being offset by a deterioration during the second half in Automotive, Electronics and Value Added Resellers (VAR), although these end markets are gradually stabilising.

"Pleasingly, we saw further progress in our new product pipeline and mega-programmes. We secured our first commercial order for Aerospace composite parts, we signed a new long-term development alliance with Airbus to support larger Primary and Secondary structures, and we saw strong growth in our next generation

PEEK-OPTIMA™ HA Enhanced product for the Spine market. In PEEK Gears, our value proposition is strong and we have multiple development programmes underway, as well as gears on the road.

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

[1] Alternative performance measures are defined on page 12.

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 12149504#. The presentation will be available to download from 9.00am (GMT) today on Victrex's website at www.victrexplc.com.

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Preliminary results statement for the 12 months ended 30 September 2019

'Full year in-line with expectations; cyclical weakness offsetting growth markets'

Group financial results

FY sales volume down 15%, stabilising in Q4
Group sales volume of 3,751 tonnes was 15% down on the prior year (FY 2018: 4,407 tonnes), principally reflecting the cyclicality in Automotive and the associated impact on our Value Added Resellers segment, together with some de-stocking, with supply chain inventories running very low. We also saw an impact from the weaker Electronics market, with both Semiconductor and smartphone markets down, as well as a tough year on year comparative for the large Consumer Electronics contract, with negligible volumes in FY 2019. Excluding the effect of the large Consumer Electronics contract, sales volume was down 12%, with revenue down 8%.

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

Revenue down 10%
Group revenue was £294.0m, 10% down on the prior year (FY 2018: £326.0m), impacted by the weaker trading performance, but with an improved sales mix as Medical continued to show some growth. Group revenue in constant currency[1] was 11% down on the prior year (FY 2018: £331.8m in constant currency).

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

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

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

Whilst we have competition in our markets, our focus on differentiation and value added semi-finished products, with a higher price point, will be a key driver of ASP and margin percentage over the coming years.

Losses on foreign currency net hedging
Following adoption of IFRS 9 on 1 October 2018, any fair value gains and losses on foreign currency contracts, where net hedging is applied on cash flow hedges, are required to be separately disclosed on the face of the Income Statement. In FY 2019, a loss of £5.9m has been recognised accordingly, largely from USD contracts where the deal rate obtained (placed up to 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 hedged transactions. In

the comparative period, all corresponding gains and losses on foreign currency contracts were included within the line item of the underlying hedged transaction and totalled a net gain of £4.3m.

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

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

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

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

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

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

Our hedging policy seeks to substantially protect our cash flows from currency volatility on a rolling twelve-month basis. The policy requires that at least 80% (previously 90%) of our cash flow exposure is hedged for the first six months, then at least 75% for the second six months of any twelve-month period. The implementation of the policy is overseen by an Executive Currency Committee which approves all transactions and monitors the policy's effectiveness. During FY 2020, the Group expects to review the ongoing effectiveness of the policy.

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

Victrex has indicated previously that the principal risk is a sustained period when the Group may not be able to import certain raw materials or export finished goods through Customs, which could curtail sales if regional inventory levels were depleted. As part of our contingency plans, additional warehousing for finished goods stock was secured in mainland Europe (Germany) and China with a minimum of eight weeks of finished goods stock held outside the UK. Our German warehouse has been operational since February 2019, with capability to supply European customers. We also secured additional raw material stocks. Group inventories reached £92.2m in FY 2019 as a consequence (FY 2018: £69.3m) and with continued uncertainty over Brexit, as well as reduced production availability in our polymer assets due to debottlenecking, we anticipate maintaining a continued higher level of inventory through FY 2020.

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

Investment to drive growth
Our "front-end" Sales, Marketing, Technical Service and R&D capabilities are critical to our ongoing success and are the focus of our investment to support growth, alongside the appropriate Quality resource.

Operating overheads, before exceptional items of £1.5m and profit related remuneration (bonus, LTIP and share options) of £1.1m, increased by 5% to £69.6m (FY 2018: £66.6m) reflecting further investment in the "front-end" activities noted above. Profit related remuneration reduced by £13.4m, primarily reflecting a zero accrual for the all employee bonus scheme. Exceptional items of £1.5m relate to acquisition costs. Research & Development investment was £18.0m (FY 2018: £17.4m) representing approximately 6% of revenues[1].

For FY 2020, we expect operating overheads (excluding bonus) to be slightly ahead of FY 2019, although we will focus on cost efficiencies that will be reinvested in support of growth where possible. Based on market expectations of profit growth in FY 2020, the Group will also accrue for the all employee bonus scheme, which is based on underlying PBT growth. As a consequence, we anticipate total overheads will be modestly ahead of FY 2019. As noted below, the Group will embark on a major de-bottlenecking project at its Hillhouse site in FY 2020. This is likely to lead to an extended shutdown and a period of under-recovered overheads, which we anticipate treating as an exceptional item. Together with anticipated M&A costs, the exceptional charge in FY20 is expected to be £10m - £12m.

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

We made two investments during the period in support development of our Polymer & Parts strategy, which once fully invested, will have a combined potential investment value of up to £20m. A small equity investment was made in UK-based Surface Generation Limited, to form a partnership utilising potentially state of the art manufacturing processes, which will support Victrex's mega programmes. The 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 also invested in Bond 3D High Performance Technology BV, a Dutch company developing unique, IP protectable 3D printing (Additive Manufacturing) processes which are capable of producing high strength parts from existing grades of PEEK and PAEK polymers. The investment offers the potential of utilising this technology to help accelerate the market adoption of 3D printed PEEK parts, with particular emphasis on the

Medical market. Good progress has already been made, particularly in the opportunity for porous PEEK cages.

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

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

Our PEEK **Gears** are now 'on the road' following a first supply agreement in 2018. Thanks to the capabilities we acquired through the Kleiss Gears acquisition, we are able to design, develop and manufacture PEEK based gears, although partnerships for manufacturing will be the focus going forward, ensuring Victrex retains the Intellectual Property (IP) but is able to help accelerate the market for PEEK Gears. We now have several contracts in place, as well as over 10 development programmes with major car manufacturers. We had also noted in July that a contract with a major OEM had been secured, which was the first of several programmes with this customer. This has now been rescoped although our technical standing with that OEM remains strong and we are excited about the potential for a broader range of developments with them.

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

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

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

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

With a collaboration agreement in **Trauma** – with a top 5 player – we continue to use clinical data and marketing awareness through trade shows and key opinion leaders to support this programme. In **Knee**, and through our partner Maxx, the clinical trial in Italy is now underway. The trial is expected to run for a minimum of 18 months, with 30 patients. We are also focusing on securing a second OEM partner in this programme.

Strong balance sheet

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

Robust cash generation

Cash generated from operations was £90.3m (FY 2018: £135.8m) representing an operating cash conversion[1] of 87% (FY 2018: 107%) reflecting the increased inventory and unwind of the FY18 bonus accrual. Available cash (with no debt) at 30 September 2019 was £72.8m (FY 2018: £144.4m), 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, whilst in July 2019 we paid the interim dividend of 13.42p/share. Combined, dividend payments in FY 2019 totalled £122.4m (FY 2018 dividends paid: £105.6m).

Taxation

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

Dividends

Retaining the flexibility to invest in support of our growth remains our top priority, whether that is through capital expenditure, M&A, joint arrangements or partnerships. Whilst an investment decision for any organic multi-year polymer manufacturing capacity has been deferred for a number of years, a range of options continue to be assessed, both organic and inorganic. The Board assessed several distribution options for future shareholder returns during FY 2018, whilst noting these investment needs. As a result, our capital allocation policy has been retained, which is to grow the regular dividend broadly in line with earnings, whilst maintaining dividend cover[1] around 2x, and retain the threshold for payment of a special dividend at 50p/share subject to no additional investment requirements.

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

Outlook

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

Jakob Sigurdsson
Chief Executive
5 December 2019

[1] **Alternative performance measures are defined on page 12.**

DIVISIONAL REVIEW

Industrial

	12 months ended 30 Sep 2019 £m	12 months ended 30 Sep 2018 £m	% Change (reported)	% Change (constant currency)
Revenue	236.3	270.4	-13%	-14%
Gross profit	128.2	158.6	-19%	-18%

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

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

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

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

Value Added Resellers
Value Added Resellers (VAR) combines a mix of long term 'Channels' business, where processors or compounders are using our PEEK materials for part or component manufacturing specified by end users and OEMs, together with more variable demand requirements as the "pull" from Industrial markets using Victrex™ PEEK continues to grow. Because of the fragmented nature of the industrial supply chain, once PEEK has been specified by end users, full clarity on the exact route to market for all of our polymer business is not always possible. This channel to market also typically sees greater levels of destocking as processors or compounders typically reduce inventories in higher value materials when end market demand drops. Sales volume of 1,463 tonnes was 17% lower than last year (FY 2018: 1,766 tonnes), principally reflecting the impact of business being supplied into the Automotive and Electronics markets, together with some destocking.

Transport (Automotive & Aerospace)
Structural megatrends including lightweighting, CO_2 reduction, durability, comfort and heat resistance continue to support the long-term outlook for Transport markets. Sales volume declined 8% to 950 tonnes (FY

2018: 1,035 tonnes), primarily driven by the impact of the World Light Vehicle Testing Programme (WLTP) on Automotive, offset by growth in Aerospace, as plane build and PEEK penetration increases.

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

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

Following our PEEK Gears "on the road" deployment in 2018 and two other smaller contracts, we now have over 10 development programmes to support the medium to long term revenue opportunity, although meaningful revenue will now be later than our original assumption of FY 2019, reflecting the rescoping of a US OEM contract. PEEK gears based on Victrex™ HPG PEEK can offer a 50% performance and noise vibration and harshness (NVH) benefit compared to metal gears, as well as contributing to the trend for minimising CO2 emissions through weight & 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
Aerospace performed well, with 5% growth in sales volume, reflecting penetration and build rates. Brackets, fasteners and other applications continue to offer incremental translation opportunities. Medium term growth prospects look positive as build rates and the use of composites and differentiated products increase. 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, is now manufacturing commercial parts, with capability to deliver approximately 150 tonnes of composite parts per year initially, to prove out the benefits. Our development alliance with Airbus as part of their 'Clean Sky 2' programme will also offer opportunities in larger primary and secondary structures – now part of our Aerospace Structures mega-programme – although the revenue opportunity here is around five years away.

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

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

Medical

	12 months Ended 30 Sep 2019 £m	12 months ended 30 Sep 2018 £m	% Change (reported)	% Change (constant currency)
Revenue	57.7	55.6	4%	1%
Gross profit	48.1	49.4	-3%	-1%

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

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

Medical market overview

Our medium-term focus is to diversify our Medical business into non-Spine areas, as well as seeking growth in Spine through emerging geographies, and new innovative products. Our premium and differentiated PEEK-OPTIMA™ HA Enhanced product – to drive next generation Spine procedures – is one part of our strategy to grow our Medical business. Approximately 60% revenue growth was seen in this product during FY 2019 and we also saw this product used in a new 'Hammertoe' application outside of the Spine market.

Mega-programmes

As previously communicated, our Invibio Dental (Juvora™) branded products have been slower than anticipated following our distribution agreement with Straumann in 2018 and we continue to expect additional agreements will be needed to help market penetration. The medium-term opportunity remains attractive for Dental and the clinical proposition – with lower peri-implantitis rates in PEEK solutions after five years compared to Titanium – remains strong. A recent additional study via the well-regarded Malo Clinic, based on 3 year clinical data, further validated our Dental proposition.

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

In Trauma, we successfully signed a collaboration agreement with a top 5 Trauma player last year. We are also continuing to work with smaller innovative players through development agreements.

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

The $6 billion global knee replacement market continues to demand alternatives. 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 is underway, with approximately 30 patients being recruited via an Italian hospital. We expect the trial to run for approximately 18 months to two years. Whilst our existing partnership with Maxx Orthopedics is working well, we continue to seek an additional OEM partner to help drive awareness and support the value proposition prior to market penetration.

Alternative performance measures:

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

- Operating profit before exceptional items (referred to as underlying operating profit) and profit before tax and exceptional items (referred to as underlying profit before tax) are based on operating profit and PBT before the impact of exceptional items. These metrics are used by the Board to assess the underlying performance of the business excluding items that are, in aggregate, material in size and / or unusual or infrequent in nature. Exceptional items for 2019 are £1.5m relating to acquisition related costs. Further details are disclosed in note 3;
- 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 (FY 2019) weighted average spot rates to prior year (FY 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.
- Research and development expenditure as a % of Group sales is used by the Board because R&D spend is considered to be a leading indicator of the Group's ability to innovate into new applications, supporting future growth. The Group targets spend at c5%–6% of Group revenues.

CONSOLIDATED INCOME STATEMENT
for the year ended 30 September

	Note	2019 £m	2018 £m
Revenue	2	**294.0**	326.0
Losses on foreign currency net hedging[1]		**(5.9)**	-
Cost of sales		**(111.8)**	(118.0)
Gross profit	2	**176.3**	208.0
Sales, marketing and administrative expenses		**(72.2)**	(81.1)
Operating profit before exceptional items		**105.6**	126.9
Exceptional items		**(1.5)**	-
Operating profit		**104.1**	126.9
Financial income		**0.7**	0.6
Share of loss of associate		**(0.1)**	-
Profit before tax and exceptional items		**106.2**	127.5
Exceptional items		**(1.5)**	-
Profit before tax		**104.7**	127.5
Income tax expense[2]	3	**(12.3)**	(16.9)
Profit for the period attributable to owners of the parent		**92.4**	110.6
Earnings per share			
Basic		**107.2p**	128.8p
Diluted		**106.9p**	128.2p
Dividends			
Interim		**13.42p**	13.42p
Final		**46.14p**	46.14p
Special		**-**	82.68p
		59.56p	142.24p

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

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 £0.1m (2018: £nil).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September

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

CONSOLIDATED BALANCE SHEET
for the year ended 30 September

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 September

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
Equity at 1 October 2017	0.9	43.0	2.7	3.8	428.0	478.4
Total comprehensive income for the year						
Profit	-	-	-	-	110.6	110.6
Other comprehensive income/(expense)						
Currency translation differences for foreign operations	-	-	1.1	-	-	1.1
Effective portion of changes in fair value of cash flow hedges	-	-	-	(4.6)	-	(4.6)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	(4.3)	-	(4.3)
Defined benefit pension schemes' actuarial gains	-	-	-	-	5.6	5.6
Tax on other comprehensive income/(expense)	-	-	-	1.7	(0.6)	1.1
Total other comprehensive income/(expense) for the year	-	-	1.1	(7.2)	5.0	(1.1)
Total comprehensive income/(expense) for the year	-	-	1.1	(7.2)	115.6	109.5
Contributions by and distributions to owners of the Company						
Share options exercised	-	5.0	-	-	-	5.0
Equity-settled share-based payment transactions	-	-	-	-	2.6	2.6
Dividends to shareholders	-	-	-	-	(105.6)	(105.6)
Equity at 30 September 2018	0.9	48.0	3.8	(3.4)	440.6	489.9
Total comprehensive income for the year						
Profit	-	-	-	-	92.4	92.4
Other comprehensive income/(expense)						
Currency translation differences for foreign operations	-	-	2.7	-	-	2.7
Effective portion of changes in fair value of cash flow hedges	-	-	-	(7.5)	-	(7.5)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	5.9	-	5.9
Defined benefit pension schemes' actuarial losses	-	-	-	-	(5.9)	(5.9)
Tax on other comprehensive income	-	-	-	0.3	1.0	1.3
Total other comprehensive income/(expense) for the year	-	-	2.7	(1.3)	(4.9)	(3.5)
Total comprehensive income/(expense) for the year	-	-	2.7	(1.3)	87.5	88.9
Contributions by and distributions to owners of the Company						
Share options exercised	-	4.3	-	-	-	4.3
Equity-settled share-based payment transactions	-	-	-	-	2.1	2.1
Tax on share-based payment transactions	-	-	-	-	(1.2)	(1.2)
Dividends to shareholders	-	-	-	-	(122.4)	(122.4
Equity at 30 September 2019	0.9	52.3	6.5	(4.7)	406.6	461.6

Notes to the Financial Report

1. Basis of preparation

General information

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

The consolidated financial statements of the Company for the year ended 30 September 2019 comprise the Company and its subsidiaries (together referred to as the 'Group').

The Company is listed on the London Stock Exchange.

The consolidated financial statements were approved for issue by the Board of Directors on 5 December 2019.

Basis of preparation

Both the consolidated and Company financial statements have been prepared on the basis of the accounting policies set out in the Group's last Annual Report and Accounts except for the application of relevant new standards. A number of new standards and amendments to existing standards were effective for the financial year ended 30 September 2019. These include:

<u>IFRS 9 – Financial Instruments</u>

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

- new requirement for the classification and measurement of financial assets;
- a new impairment model for financial assets held at amortised cost based on expected credit losses; and
- changes to hedge accounting by aligning hedge accounting more closely to an entity's risk management objectives.

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

(1) The Group's approach to currency hedging meets the criteria to be net hedged under IFRS 9. In accordance with IFRS 9, this has resulted in a presentational change on the face of the income statement for the year ended 30 September 2019, with the fair value gains and losses recognised on cash flow hedges being disclosed separately within gross margin, rather than included within the line item of the underlying hedged transaction. Revenue, cost of sales and sales, marketing and administration expenses items are, therefore now recognised at the exchange rate prevailing at the date of the transaction. For the year ended 30 September 2019, a loss of £5.9m has been recognised separately and note 8 provides the average exchange rates applied. The revised presentation will potentially result in an increase in gross margin percentage volatility.

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

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

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

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

IFRS 15 – Revenue from Contracts with Customers

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

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

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

There will be a reduction in expenditure in operating expenses (within cost of sales and sales, marketing and administrative costs) and an increase in finance expenses as operating lease costs are replaced with depreciation and lease interest expense. The Group has opted to use the practical expedients in respect of leases of less than 12 months duration and low value assets and excluded them from the scope of IFRS 16. Rental payments associated with these leases will continue to be recognised in the income statement on a straight line basis over the life of the lease.

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

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

The Directors have carried out a detailed assessment of the impact of IFRS 16. At transition, ROU assets and lease liabilities of approximately £9.0m will be created. The income statement for the year ending 30 September 2019 would be adversely impacted at a profit before tax level of approximately £0.1m. In the financial statements for the year ended 30 September 2018, the Directors estimated that the lease liability at transition would be £6.5m. The estimate has increased because of rent review increases and new property leases.

The financial information presented here does not constitute the Company's statutory accounts for the years ended 30 September 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Sections of this results statement contain forward-looking statements, including statements relating to; future demand and markets for the Group's products and services, research and development relating to new products and services and liquidity and capital resources.

These forward-looking statements involve risks and uncertainties because they relate to events that may or may not occur in the future. Accordingly, actual results may differ materially from anticipated results because of a variety of risk factors which are summarised in Note 10.

The accounts for the year ended 30 September 2019 will be posted to shareholders on 3 January 2020 and will be available from the Company's Registered Office at Victrex Technology Centre, Hillhouse International, Thornton Cleveleys, Lancashire, FY4 4QD, United Kingdom, and online at www.victrexplc.com.

2. Segment reporting

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

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

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

Transactions between segments are at arm's length.

3. 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.

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

Acquisition related costs comprise legal and other non-recurring costs the Group has incurred directly in the course of acquisition and investment activity (see note 6). These costs are largely non-deductible expenses for tax purposes.

4. Taxation

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

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

5. Earnings per share

		Year ended 30 September 2019	Year ended 30 September 2018
Earnings per share	– basic	**107.2p**	128.8p
	– diluted	**106.9p**	128.2p
Profit for the financial period (£m)		**92.4**	110.6
Weighted average number of shares used	– basic	**86,140,877**	85,857,265
	– diluted	**86,418,120**	86,299,646

6. Financial assets held at fair value through profit and loss

Surface Generation Limited

On 22 December 2018, the Group acquired a minority equity interest of 16% in UK-based Surface Generation Limited ('Surface Generation'), for a cash consideration of £3.5 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. On 24 May 2019 it was agreed that technical validation had been achieved and therefore these loans were converted into equity, along with a further investment of €5.5 million. This resulted in the Group's shareholding being 17.2% at 30 September 2019.

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

7. Derivative financial instruments

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

	As at 30 September 2019		As at 30 September 2018	
	Notional contract amount	**Carrying amount and fair value**	Notional contract amount	Carrying amount and fair value
	£m	**£m**	£m	£m
Current assets	**22.3**	**1.5**	39.0	1.1
Current liabilities	**165.7**	**(9.3)**	180.5	(6.2)
	188.0	**(7.8)**	219.5	(5.1)

The fair values have been calculated by applying (where relevant), for equivalent maturity profiles, the rate at which forward currency contracts with the same principal amounts could be acquired at the balance sheet date. These are categorised as Level 2 within the fair value hierarchy under IFRS 7.

In addition to the above, £3.3m 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.

8. Exchange Rates

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

	2019		2018	
	Average spot	**Closing**	Average	Closing
US Dollar	**1.29**	**1.22**	1.30	1.30
Euro	**1.13**	**1.11**	1.13	1.11
Yen	**143**	**133**	144	149

The average exchange rates in the above table for the year ended 30 September 2019 are the weighted average spot rates applied to foreign currency transactions, excluding the impact of foreign currency contracts. Following adoption of IFRS 9 on 1 October 2018, any gains and losses on foreign currency contracts, where net hedging has been applied for cash flow hedges, have been separately disclosed in the income statement as required. For the prior period, the average exchange rates in the above table take into account the impact of gains and losses on foreign currency contracts.

9. Dividend and Annual General Meeting

The proposed final regular dividend will be paid on 21 February 2020 to all shareholders on the register on 31 January 2020. The Annual General Meeting of the Company will be held at 11am on 6 February 2020, at J.P. Morgan, 1 John Carpenter Street, London, EC4Y 0JP.

10. Risks, trends, factors and uncertainties

Victrex's business and share price may be affected by a number of risks, trends, factors and uncertainties, not all of which are in our control.

Accordingly, actual results may differ materially from anticipated results because of a variety of risk factors, including: changes in 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; changes in regulatory environment and the outcome of litigation.

FINANCIAL CALENDAR (also available at www.victrexplc.com)

Ex-dividend date	30 January 2020
Record date#	31 January 2020
Annual General Meeting	6 February 2020
Payment of final dividend	21 February 2020
Announcement of 2020 half–yearly results	May 2020
Payment of interim dividend	July 2020

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