Victrex Manufacturing Limited

Annual Report
Registered number 2845018
30 September 2020

Contents

Strategic report

Business overview

Victrex Manufacturing Limited (the 'Company') is a wholly owned subsidiary of Victrex plc (the 'Group'), an innovative world leader in high performance polymer solutions, focused on the strategic markets of automotive, aerospace, energy, electronics and medical. Every day, millions of people rely on products which contain our polymers and materials, from smartphones, aircraft and cars to oil and gas operations and medical devices. With over 40 years' experience, we develop world leading solutions in PEEK and PAEK based polymers, selected semi-finished and finished parts which shape future performance for our customers and markets, and drive value for our shareholders.

Key performance indicators

The Company's key performance indicators are profit before tax and exceptional items and Occupational Health & Safety Administration ("OSHA") recordable injury frequency rate, which is an industry standard measure for recordable injuries.

> **Profit before tax and exceptional items**

2020	**£45.7m**
2019	**£83.6m**

During the year, the OSHA recordable injury frequency rate was 1.30 (2019: 1.03)

Financial results

Turnover for the year reduced by 16% to £194.4m (2019: £231.0m) as a result of the worldwide impact of COVID-19 on the company's markets. In addition, the prior year turnover benefited from an overseas inventory build by the wider Group.

Gross profit decreased by 32% to £85.6m (2019: £125.5m). Gross margin decreased to 44.0% (2019: 54.3%) because of the under-recovery of fixed production overheads resulting from lower production volumes.

Operating profit before exceptional items was £45.3m (2019: £83.0m), a decrease of 45% on the back of lower Gross Profit. Exceptional items were £8.9m (2019: £1.5m) which comprised £2.2m acquisition related expenses and £6.7m relating to the cost of a re-structuring exercise that was implemented in the second half of the year to the actions required to support profitability in a lower production environment.

At the year end, the Company had cash of £41.1m (2019: £62.6m), with no debt and net assets of £175.0m (2019: £146.7m). No dividend was paid in the year (2019: £100.0m).

Product and market development and future development

The Company's strategy of product leadership in PEEK, and other enabling polymers in the polyaryletherketone ('PAEK') family, keeps it focused on larger and more impactful targets. Whilst the scale of market opportunities remains significant, Victrex has chosen to focus on a small number of potentially high value and deliverable opportunities. On a long-term basis, megatrends across all of its end markets remain strong. The Company also continues to enhance its differentiated products, through focusing on new grades or IP-protectable technology that is aligned with its transition from materials manufacturer to solutions provider.

Risks, trends, factors and uncertainties

The Company's business 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

Strategic report (continued)

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.

Principal risks

Risks are managed at a Group level, rather than at an individual subsidiary level. The principal risks and uncertainties of Victrex plc, which include those of the Company, include the following:

- Safety, Health and Environment - Failure to comply with legislative and regulatory requirements
- Business Growth - Failure to investment in innovation resulting in competitive pressure, as well as loss of business to competitors and/or competing materials
- Recruitment and Retention of the Right People - Failure to recruit and retain the right people in all areas of the business
- Product Liability – Failure to supply in accordance with agreed specification has the potential to lead to consumer harm or a product liability claim
- Foreign Currency - Impact of exchange rate movements
- Business Continuity of Supply Chain - Failure to maintain a secure supply of high quality products to customers
- Network and IT Systems and Security - Failure or interruption in IT networks and systems
- Contracts, Ethics and Regulatory Compliance - Failure to comply with contractual, ethical and regulatory standards
- Strategy Execution - Failure to execute the strategy effectively and generate value arising from ineffective project management and delivery of mega programmes
- COVID-19 pandemic: The emergence of COVID-19 and its impact on society and global end-markets presents a significant new risk factor for the Group, as it does for peer companies. The pandemic increases several existing principal risks for the business, including safety, health and the environment, business growth and continuity of supply chain

Brexit: The principal potential impact of Brexit is a sustained period when the Group may not be able to import certain raw materials, which would impact the Company's ability to manufacture finished goods, and then export through Customs, which could curtail sales if regional inventory levels were depleted. This is addressed by the Business Continuity of Supply Chain risk noted above.

These risks, along with mitigations in place, are discussed in full on pages 31 to 36 of the Group's Annual Report 2020.

Section 172 statement

Under section 172 of the Companies Act 2006 (section 172), the Directors are required to act in a way that they consider, in good faith, would most likely promote the success of the Company. This success must be for the benefit of the Company's shareholder in the long-term, as well as the interests of the Company's principal stakeholders and any other impacted parties. The principal stakeholders are employees, customers, suppliers and regulators/government. We also strive to make a positive contribution to the environment and local communities in which we operate.

The Company as a subsidiary of Victrex Plc, continues to address the impact of COVID-19 proactively, through effective communication, guidance, support and guidelines for our employees; through regular dialogue with our customers; engagement with our communities, regulators and governments; and by taking appropriate actions to maintain a robust financial position. The UK Government defined Chemicals as an essential industry, and therefore the Group has continued to operate its production plants ensuring a continuation of supply to our customers, as well providing significant support to care and health organisations globally through employee volunteering, equipment and PPE donations (including 3D printed mask ear covers).

All Company directors are also Group executive directors, and with the Company being the main UK subsidiary for the Industrial segment of the Group, the matters that the Directors are responsible for considering under section 172 of the Companies Act 2006 have been considered to an appropriate extent by the Group Board in relation to both the Group and this Company. To the extent necessary for an understanding of the development, performance and position of the Company, an explanation of how the Group Board has considered matters set out in section 172 is set out on pages 18 and 19 of the Victrex plc Annual Report 2020.

Strategic report (continued)

Section 172 statement (continued)

In addition, further information of how the Directors have supported the Company's employees is included in employee engagement on page 5.

The directors have also considered specific matters where appropriate. In the current year this included consideration of the long-term financial position of the company when considering potential dividends

of the restructure of its investments in the Asia Pacific region which resulted in the disposal of its investment in Victrex High-Performance Materials (Shanghai) Limited to newly incorporated Victrex Hong Kong Limited. To the extent necessary for an understanding of the development, performance and position of the Company, an explanation of how the Group Board has considered matters set out in section 172 is set out on pages 18 and 19 of the Victrex plc Annual Report 2020.

On behalf of the Board

R J Armitage
Director

Victrex Technology Centre
Hillhouse International
Thornton Cleveleys
Lancashire
FY5 4QD
9 December 2020

Directors' report

The Directors present their Annual Report and audited financial statements for the year ended 30 September 2020.

Research and development

Research and development is a key element of the Company's strategy to provide innovative solutions. Spend on research and development increased 7% to £10.7m (2019: £10.0m) reflecting the company's commitment to invest throughout the economic cycle.

Financial instruments

The Company's financial instruments comprise forward exchange contracts (derivative instruments), financial assets held at fair value through the profit and loss, cash, and various items arising directly from operations (such as trade receivables and trade creditors).

The main risks arising from these financial instruments are foreign currency risk, credit risk, liquidity risk and price risk. These are managed at a group level, and further details can be obtained from the Group's Annual Report 2020 in note 15. As part of the Victrex plc Group's hedging activities, forward exchange contracts are entered into by the Company to manage the Group's exposure to fluctuations in foreign exchange rates. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date. The Company buys or sells foreign currency at spot where necessary to address any short-term requirements.

Dividends

No dividend was approved or paid in the year (2019: £100.0m). The directors have not proposed paying a final dividend.

Directors

The Directors who held office during the financial year and thereafter to the date of this report were as follows:

R J Armitage
M L Court
J O Sigurdsson

The ultimate parent company Victrex plc maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors and those directors of its subsidiary companies. During the period and up to the date of approval of this report, indemnities have been granted to the Company's directors by Victrex plc to the extent permitted by law.

Employment policies

Victrex Manufacturing Limited has depth and breadth in the talent of our global workforce. In an increasingly competitive global market, ensuring that we attract, motivate and retain our people remains an on-going theme for the Company. We have an Organisational Capability Strategy, which supports us to identify and develop the skills and experience we need to deliver our business strategy and shape our people strategy.

In Victrex Manufacturing Limited, diversity encompasses differences in ethnicity, gender, language, age, sexual orientation, religion, socio-economic status, physical and mental ability, thinking style, experience and education. We believe that the wide array of perspectives that result from such diversity promotes innovation and business success.

We operate an equal opportunities policy and provide a healthy environment which will encourage good and productive working relationships within the organisation. The Group Diversity & Equal Opportunities Policy highlights the need to specifically support diverse groups and highlights our approach to people with existing disabilities, and those who become disabled, offering support through wide-ranging, global support. Adjustments are made within the workplace, where possible, following guidance from medical professionals, to support employees with disabilities.

Training, career development and promotion opportunities are open to all employees.

Directors' report (continued)

Stakeholder engagement

The Company has multiple stakeholders who are all important to our business. We recognise that valuable stakeholder engagement underpins our ability to achieve our purpose and strategic aims. The Company's sole shareholder is Victrex Plc and all Company Executive Directors are also executive directors for Victrex Plc. By holding this position in both companies, the Directors have a thorough understanding of the key issues of the shareholder. When making decisions, the Directors consider what is most likely to promote the success of the company for its shareholders in the long-term.

The other stakeholder groups are consistent with the Group's as a whole. From the perspective of the Directors, as a result of the Group governance structure, the Group Board has taken the lead in carrying out the duties of a Board in respect of the Company's other stakeholders. The board of the Company has also considered relevant matters where appropriate. Details of how the Group Board have engaged with these stakeholders, and the effect of that regard, including on the principal decisions taken by the company during the year is set out on pages 18 and 19 of the Victrex plc Annual Report 2020, which does not form part of this report. Further details regarding employee engagement specifically is below.

Employee engagement

From the perspective of the Directors, as a result of the Group governance structure, the Group Board has taken the lead in carrying out the duties of a Board in respect of the Company's employees, including engaging with them, having regard to their interests and the effect of that regard (including on the principal decisions taken by the company during the financial year). The Board promotes effective engagement with the Company's workforce, and all Company employees enjoy the same communication channels as the rest of the Group's workforce in the UK. The range of measures to facilitate workforce engagement include employee forums, staff briefings and anonymous communication channels. This year, the Board has enhanced its engagement with the workforce through the appointment of Brendan Connolly as the non-executive director with designated responsibility for workforce engagement. The Workforce Engagement Statement is set out on page 74 of the Victrex plc Annual Report 2020.

Usual channels have supported the regular communication of information and guidance which has taken place with employees throughout the Covid-19 pandemic supplemented by weekly emails, a dedicated intranet site and Q&A sessions. Working groups were established to review, revise and implement updated policies and practices to provide a safe working environment for our workforce who could not work from home. Risk assessments, training and support was provided to those working from home.

Environment

Whilst the Company meets the criteria to report under the Streamlined Energy and Carbon Reporting (SECR) regulations, its obligation to disclose its energy and carbon information has already been met through its parent's group level report and therefore no separate disclosure is required in these accounts. See pages 49 to 53 of the Victrex plc Annual Report 2020 for further details.

Political contributions

No political donations were made (2019: £nil).

Future developments

This is set out in the Strategic report.

Going concern

Victrex Plc ("the group"), the company's parent, manages its cash balances on a group-wide basis, with surplus cash balances held in the Company, until such time as the Company or a fellow subsidiary undertaking, requires those balances. In addition to the cash held the group has access to a multi-currency revolving credit facility ("RCF") of £40m (£20m committed and £20m accordion) which expires in October 2024. This facility was undrawn at 30 September 2020 and remained undrawn at 9 December 2020 when these financial statements were approved for issue by the Board of Directors.

Directors' report (continued)

Going concern (continued)

As a result of the group's cash management policy the going concern review for this company has considered the outputs of the going concern review performed by the group. Full details of this, along with the longer term viability statement, are included in the Annual Report of Victrex plc on pages 37 to 39. The key factors considered by the directors of this company in concluding that the group and therefore the company remain a going concern are:

- The basis for preparing the group's forecasts, which leverages from the Integrated Business Planning process and includes consideration of external data sources from customers, market trends and forward looking industry forecasts;
- The principal risks facing the group and the company and their potential impact on the forecasts over the period to September 2022;
- The assessment and scenario analysis performed on the forecasts through to September 2022. The scenarios tested included a significant downside on the base case forecasts, including a reduction of 25% in sales below the lows experienced during the COVID-19 impacted 6 months to September 2020, which is considered to be a severe but plausible scenario;
- The ability of the company and the group to keep its manufacturing assets operational throughout the first COVID-19 wave and the measures put in place to ensure the safety of employees;
- The level of inventory held by the company and the group to manage any disruption caused by COVID-19 or the end of the Brexit transition period; and
- the mitigating actions which could be put in place if the downside scenarios arise, which includes deferral of capital expenditure, reduction in discretionary overheads, deferral/cancellation of dividends and using the aforementioned RCF facility.

In addition, the company has received pledges from its fellow group subsidiaries that they will not seek repayment of their receivables from Victrex Manufacturing Limited until such time as Victrex Manufacturing Limited has the resources to repay them.

Following this detailed assessment and taking account of the letter of support received from both Victrex plc and Invibio Limited, the Directors are satisfied, that the Company has 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 financial statements.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

- select suitable accounting policies and then apply them consistently;

- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;

- make judgements and accounting estimates that are reasonable and prudent; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report (continued)

Statement of directors' responsibilities in respect of the financial statements (continued)

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the Board

R J Armitage
Director

Victrex Technology Centre
Hillhouse International
Thornton Cleveleys
Lancashire
FY5 4QD
9 December 2020

Independent auditors' report to the members of Victrex Manufacturing Limited

Report on the audit of the financial statements

Opinion

In our opinion, Victrex Manufacturing Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance sheet as at 30 September 2020; the Profit and Loss account, Statement of comprehensive income, the Statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Ian Morrison

Ian Morrsion (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
9 December 2020

Profit and Loss account

For the year ended 30 September 2020

	Note	**2020 £m**	2019 £m
Turnover		**194.4**	231.0
Cost of sales	2	**(108.8)**	(105.5)
Gross profit		**85.6**	125.5
Administrative expenses	2	**(49.2)**	(44.0)
Operating profit before exceptional items		**45.3**	83.0
Exceptional items	2	**(8.9)**	(1.5)
Operating profit		**36.4**	81.5
Interest receivable	3	**0.4**	0.7
Interest payable	3	**(0.1)**	-
Share of loss of associate	8	**(0.5)**	(0.1)
Gain on disposal of subsidiary	8	**0.6**	-
Profit before tax and exceptional items		**45.7**	83.6
Exceptional items	2	**(8.9)**	(1.5)
Profit before taxation		**36.8**	82.1
Tax on profit	5	**(6.1)**	(11.4)
Profit for the financial year		**30.7**	70.7

Statement of comprehensive income

For the year ended 30 September 2020

	Note	**2020 £m**	2019 £m
Profit for the financial year		**30.7**	70.7
Other comprehensive (expense)/income			
Items that will not be reclassified to profit and loss			
Defined benefit pension schemes actuarial losses	13	**(2.9)**	(5.4)
Income tax on items that will not be reclassified to profit or loss	5	**0.5**	0.9
		(2.4)	(4.5)
Items that may be reclassified subsequently to profit and loss			
Currency translation differences for foreign operations		**-**	0.2
Income tax on items that may be reclassified to profit or loss	5	**-**	(1.2)
		-	(1.0)
Total other comprehensive expense for the year, net of income tax		**(2.4)**	(5.5)
Total comprehensive income for the year		**28.3**	65.2

Balance sheet
As at 30 September 2020

	Note	**2020 £m**	2019 £m
Assets			
Non-current assets			
Tangible assets	6	**236.5**	237.6
Intangible assets	7	**18.8**	19.7
Investment in Subsidiaries	8	**1.8**	1.3
Investment in Associates	8	**12.3**	8.2
Financial assets held at fair value through profit and loss	8	**8.0**	8.0
Deferred tax assets	9	**1.5**	0.9
		278.9	275.7
Current assets			
Stocks	10	**68.1**	68.2
Debtors	11	**68.0**	65.2
Cash at bank and in hand		**41.1**	62.6
Debtors: amounts falling due after more than one year	11	**1.5**	1.6
		178.7	197.6
Creditors: amount falling due within one year	12	**(263.6)**	(316.7)
Net current liabilities		**(84.9)**	(119.1)
Total assets less current liabilities		**194.0**	156.6
Provision for liabilities			
Lease liabilities	16	**(4.0)**	-
Deferred tax liabilities	9	**(24.4)**	(20.9)
		(28.4)	(20.9)
Net assets excluding pension assets		**165.6**	135.7
Pension assets			
Defined benefit scheme	13	**9.4**	11.0
Net assets		**175.0**	146.7
Capital and reserves			
Called up share capital	15	**1.0**	1.0
Special capital reserve	15	**1.1**	1.1
Translation reserve		**(3.7)**	(3.7)
Profit and loss account		**176.6**	148.3
Total shareholder's funds		**175.0**	146.7

The notes on pages 13 to 40 are an integral part of these financial statements.

These financial statements of Victrex Manufacturing Limited on pages 10 to 40, registered number 2845018, were approved by the Board of Directors on 9 December 2020 and were signed on its behalf by:

R J Armitage
Director

Statement of changes in equity
For the year ended 30 September 2020

	Called up share capital £m	Special capital reserve £m	Translation reserve £m	Profit and loss account £m	Total £m
Balance at 1 October 2018	1.0	1.1	(3.9)	183.3	181.5
Total comprehensive income/(expense) for the year					
Profit for the year	-	-	-	70.7	70.7
Other comprehensive income/(expense) for the year	-	-	0.2	(5.7)	(5.5)
Total comprehensive income for the year	-	-	0.2	65.0	65.2
Transactions with owners, recorded directly in equity					
Dividends to shareholder	-	-	-	(100.0)	(100.0)
Balance at 30 September 2019	1.0	1.1	(3.7)	148.3	146.7
Total comprehensive income/(expense) for the year					
Profit for the year	-	-	-	**30.7**	**30.7**
Other comprehensive expense for the year	-	-	-	**(2.4)**	**(2.4)**
Total comprehensive income for the year	-	-	-	**28.3**	**28.3**
Transactions with owners, recorded directly in equity					
Dividends to shareholder	-	-	-	-	-
Balance at 30 September 2020	**1.0**	**1.1**	**(3.7)**	**176.6**	**175.0**

Notes to the financial statements

1) Significant accounting policies

General information

Victrex Manufacturing Limited (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 Company is a subsidiary undertaking of Victrex plc, which is the ultimate parent undertaking, incorporated in Great Britain and registered in England and Wales.

The smallest and largest group in which the results of the Company are consolidated is that headed by Victrex plc. The consolidated financial statements of this Group are available to the public and may be obtained from Victrex Technology Centre, Hillhouse International, Thornton Cleveleys, Lancashire, FY5 4QD, United Kingdom.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements have been approved for issue by the Board of Directors on 9 December 2020.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, *'Reduced Disclosure Framework'* (*"FRS 101"*).

The financial statements have been prepared under the historical cost convention except that derivative financial instruments are measured at fair value through profit or loss, and in accordance with the Companies Act 2006..

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 17.

The Company's immediate parent undertaking, Victrex plc includes the Company in its consolidated financial statements. The consolidated financial statements of Victrex plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the address in note 19.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:
- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investments;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of compensation of Key Management Personnel.
- IFRS 2 Share Based Payments in respect of group settled share based payments
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets; and
- The disclosures required by IFRS 7 *Financial Instrument Disclosures*

The Company's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 3.

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

Going concern

Victrex Plc ("the group"), the company's parent, manages its cash balances on a group-wide basis, with surplus cash balances held in the Company, until such time as the Company or a fellow subsidiary undertaking requires those balances. In addition to the cash held the group has access to a multi-currency revolving credit facility ("RCF") of £40m (£20m committed and £20m accordion) which expires in October 2024. This facility was undrawn at 30 September 2020 and remained undrawn at 9 December 2020 when these financial statements were approved for issue by the Board of Directors.

As a result of the group's cash management policy the going concern review for this company has considered the outputs of the going concern review performed by the group. Full details of this, along with the longer term viability statement, are included in the Annual Report of Victrex plc on pages 37 to 39. The key factors considered by the directors of this company in concluding that the group and therefore the company remain a going concern are:

- The basis for preparing the group's forecasts, which leverages from the Integrated Business Planning process and includes consideration of external data sources from customers, market trends and forward looking industry forecasts;
- The principal risks facing the group and the company and their potential impact on the forecasts over the period to September 2022;
- The assessment and scenario analysis performed on the forecasts through to September 2022. The scenarios tested included a significant downside on the base case forecasts, including a reduction of 25% in sales below the lows experienced during the COVID-19 impacted 6 months to September 2020;
- The ability of the company and the group to keep its manufacturing assets operational throughout the first COVID-19 wave and the measures put in place to ensure the safety of employees;
- The level of inventory held by the company and the group to manage any disruption caused by COVID-19 or the end of the Brexit transition period; and
- the mitigating actions which could be put in place if the downside scenarios arise, which includes deferral of capital expenditure, reduction in discretionary overheads, deferral/cancellation of dividends and using the aforementioned RCF facility.

In addition, the company has received pledges from its fellow group subsidiaries that they will not seek repayment of their receivables from Victrex Manufacturing Limited until such time as Victrex Manufacturing Limited has the resources to repay them.

Following this detailed assessment and taking account of the letter of support received from both Victrex plc and Invibio Limited, the Directors are satisfied that the Company has 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 financial statements.

IFRS 16 – Leases

This standard was effective for accounting periods beginning on or after 1 January 2019 and was adopted by the Company 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 is a reduction in expenditure in operating expenses (within cost of sales and sales, marketing and administrative costs) and an increase in depreciation and finance expenses as operating lease costs are replaced with depreciation and lease interest expense. The Company 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.

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

IFRS 16 – Leases (continued)

The adoption of IFRS 16 required the Company to make several judgements, estimates and assumptions, which include:

1) The approach to be adopted on transition – the Company has used the modified retrospective transition method. Lease liabilities were determined based on the appropriate incremental borrowing rates and rates of exchange at the date of transition, being 1 October 2019. ROU asset values were measured based on the respective lease liabilities.
2) Incremental borrowing rate – the rates used on transition are the Company'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 a weighted 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 or exercise termination options.

The accounting policies set out below have, unless otherwise stated, been consistently applied to all periods presented in these financial statements.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in sterling, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation to balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Derivative financial instruments

In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

Derivatives are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Any resulting gain or loss on remeasurement of the fair value is recognised immediately in the profit and loss account.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

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

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

Non-derivative financial instruments

Non-derivative financial instruments comprise financial assets held at fair value through profit and loss (investments in unquoted companies), trade and other debtors, cash at bank and in hand, and trade and other creditors.

Trade and other receivables

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

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method less any impairment losses. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

Allowances are calculated by reference to credit losses expected to be incurred over the lifetime of the receivable using the simplified approach.

Trade and other creditors

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

Financial assets held at fair value through the profit and loss

Investments in unquoted companies are initially carried at fair value, where neither control nor significant influence is held. The initial fair value is deemed to be cost where transactions are at arm's length. They are remeasured at subsequent reporting dates to fair value with any changes recognised directly in the income statement. For investments in unquoted companies, cost will continue to be used as a proxy for fair value where more recent information is insufficient to determine fair value or there is a wide range of possible fair value measurements, and cost represents the best estimate in that range, unless, at the balance sheet date, there is an identified change in value, which could be illustrated by significant performance variations to plan or the value implied by subsequent funding rounds or other equity transactions.

Investment in associated undertakings

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

In line with IAS 27, the results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted for post acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of the investment. Any goodwill recognised on acquisition is included in the carrying values of the investment.

The Company's share of the post-tax profits/(losses) of associates is included in the income statement. If the Company's share of losses in an associate equals or exceeds its investment in the associate, the Company does not recognise further losses, unless it has incurred legal or constructive obligations to do so or made payments on behalf of the associate.

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

Investments in subsidiaries

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

The Company recognises a dividend from its subsidiary when the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the subsidiary's net assets, including associated goodwill. When the carrying amount is not exceeded, the dividend is used to reduce the carrying amount of the investment.

Tangible assets

Owned assets

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

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

Right of use assets (Policy applicable from 1 October 2019)

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Leases are recognised as a ROU asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. At the lease commencement date a ROU asset is measured at cost comprising the following: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs; and restoration costs to return the asset to its original condition. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis. If ownership of the ROU asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Depreciation

Depreciation is charged to the profit and loss account on a straight line basis over the estimated useful economic lives as follows:

Buildings	25-50 years
Plant and machinery	10-30 years
Fixtures, fittings, tools and equipment	5-10 years
Computers and motor vehicles	2-5 years

Freehold land is not depreciated.

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss account.

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

Lease liabilities (Policy applicable from 1 October 2019)

Lease liabilities are initially measured at their present value, which includes the following lease payments: fixed payments (including in-substance fixed payments), less any lease incentives receivable; variable lease payments that are based on an index or a rate (using the index or rate in place at transition); amounts expected to be payable by the Group under residual value guarantees; the exercise price of a purchase option if the Group is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option; and payments to be made under reasonably certain extension options. Lease liabilities and the corresponding right of use asset are subsequently remeasured where there is a change in future lease payments resulting from a rent review or change in index or rate. The lease payments are discounted using the Group's incremental borrowing rate. Each lease payment is allocated between the principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The Group has elected not to recognise ROU assets and lease liabilities for short-term leases that have a lease term of twelve months or less and those leases of low-value assets. Payments associated with short-term leases and leases of low-value assets are recognised on a straight line basis as an expense in the income statement. Short-term leases are leases with a lease term of twelve months or less that do not contain a purchase option. Low-value assets mainly comprise office equipment.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the life of the lease.

Intangible assets

Goodwill

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested

annually for impairment. Any impairment provisions that arose during impairment testing would not be reversed.

In respect of acquisitions prior to 1 October 2004, goodwill is included on the basis of its deemed cost, which represents the net amount recorded previously under UK GAAP. In respect of acquisitions that have occurred since 1 October 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the assets, liabilities and contingent liabilities acquired.

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

Impairment losses are recognised if the carrying amount of the CGU to which goodwill has been allocated exceeds its recoverable value (the higher of value in use and fair value less costs to sell) and are recognised in the income statement.

Other Intangible assets

Other intangible assets are stated at cost less accumulated amortisation and any provisions for impairment. Other intangibles are assessed for impairment only when there is an indication that they might be impaired. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

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

Amortisation

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

Computer software	3–7 years straight line
Customer relationships	10 years systematic
Brand	5 years systematic

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

Research & Development

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

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

Research & Development expenditure of £10.7m (2019: £10.0m) was expensed to the income statement in the year within sales, marketing and administrative expenses. No development expenditure met the criteria to be capitalised (2019: same).

Stocks

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

Cash at bank and in hand

Cash at bank and in hand comprises cash balances, call deposits and other short-term highly liquid investments with original maturities of three months or less.

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

Income tax

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

Current tax is the expected tax payable on the taxable income for the current and prior years, using tax rates (and tax laws) enacted or substantively enacted at the balance sheet date. The Group is subject to income tax in numerous jurisdictions. Estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain because it may be unclear how tax law applies to a particular transaction or circumstance. Where the Group determines that it is more likely than not that the tax authorities would accept the position taken in the tax return, amounts are recognised in the financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability based on either the Group's judgement of the most likely outcome or, where there is a wide range of possible outcomes, uses a probability weighted approach.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affects neither accounting nor taxable profit except to the extent that they will probably reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are appropriately authorised and are no longer at the discretion of the entity.

Distributions of non-cash assets to the Company's shareholders (including dividends in specie) are measured at the fair value of the net assets to be distributed. Dividend liabilities are remeasured at each reporting date and at settlement, with changes recognised directly in equity.

Turnover

Turnover arises from the principal activity of the manufacture and sale of high performance polymers.

Turnover comprises the amounts receivable for the sale of goods, net of value added tax, rebates and discounts. Turnover from the sale of goods is recognised when all performance obligations have been met, which is when the goods are dispatched or delivered in line with incoterms.

No turnover is recognised if there is significant uncertainty regarding recovery of the consideration due, associated costs or the possible return of goods.

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

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

Employee benefits

Defined contribution pension schemes

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the profit and loss account as incurred.

Defined benefit pension schemes

The Company's net obligation in respect of defined benefit pension schemes recognised in the balance sheet is the present value of the future benefits that employees have earned in return for their service in the current and prior periods less the fair value of plan assets.

The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating to the terms of the related pension liability.

When the calculation results in a benefit to the Company, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply. An economic benefit is available to the Company if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the profit or loss on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

Actuarial gains and losses are immediately recognised in full through the statement of comprehensive income.

Share-based payment transactions

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest and include employee service periods and performance targets which are not related to the parent's share price, such as earnings per share growth. The fair value of the options is measured by the Stochastic model, taking into account the terms and conditions upon which the instruments were granted. At each balance sheet date the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

Any failure of Victrex Plc to meet market conditions, which includes performance targets such as share price or Total Shareholder Return, would not result in a reversal of original estimates in the profit and loss account.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium of the parent when the options are exercised.

Exceptional items

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

Notes to the financial statements (continued)

2) Expenses by nature

	Note	2020 £m	Restated 2019 £m
Staff costs	4	**54.9**	43.7
Depreciation of tangible fixed assets	6	**14.8**	13.7
Amortisation of intangible assets	7	**2.5**	2.4
Operating lease rentals		**-**	0.7
Trade receivable impairment allowance	11	**0.4**	(0.1)
Research and development		**10.7**	10.0
Other costs of manufacture		**70.1**	68.6
Other administrative costs		**8.2**	3.1
(Gain)/losses on forward exchange contracts		**(3.6)**	7.4
		158.0	149.5

Details of the FY 2019 restatement are set out in note 4.

Exceptional items included in the above were as follows:

	2020 £m	2019 £m
Included within sales, marketing and administrative expenses:		
Acquisition related expenses	**2.2**	**1.5**
Re-structuring costs	**6.7**	**-**
Exceptional items before tax	**8.9**	1.5
Income tax deductible on exceptional items	**(0.8)**	(0.1)
Exceptional items after tax	**8.1**	1.4

Acquisition related costs comprise legal and other non-recurring costs the Company has incurred directly in the course of acquisition and investment activity (see note 8). These costs are largely non-deductible expenses for tax purposes.

During the second half of the financial year, the Company reviewed cost actions and efficiencies required to support profitability in a lower production environment. As part of this programme, the Company commenced, prior to the year-end, consultation which has reduced the Company's employee base by approximately 80 roles, primarily through voluntary severance. The cost of this exercise is shown in Re-structuring costs above.

Auditors' remuneration is as follows:

	2020 £000	2019 £000
Audit of these financial statements	**123**	79
Non audit services relating to:		
Other services	**-**	6
Total audit and non-audit fees	**123**	85

Notes to the financial statements (continued)

3) Interest

	2020 £m	2019 £m
Interest income	**0.4**	0.7
Interest payable on IFRS 16 leases	**(0.1)**	-
	0.3	0.7

4) Staff costs

	Note	2020 £m	Restated 2019 £m
Wages and salaries		**45.8**	34.2
Social security costs		**4.0**	3.7
Contributions to defined contribution pension schemes		**4.7**	4.4
Interest income relating to defined benefit pension schemes	13	**(0.2)**	(0.4)
Equity-settled share-based payment transactions	14	**0.6**	1.8
	2	**54.9**	43.7

During FY2020, a review has been performed of the costs included in the staff costs disclosure. Following this review, costs have increased by £3.8m in FY2020. In order to provide a like for like comparison, the FY2019 costs have been re-stated, increasing staff costs by £2.8m.

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

	2020	2019
Make	**476**	505
Develop, Market and Sell	**111**	141
Support	**101**	104
	688	750

R J Armitage, J O Sigurdsson and M L Court were also Directors of the holding company, Victrex plc, and details of emoluments paid were disclosed in the financial statements of that company. No recharge has been made in respect of Directors' emoluments.

5) Tax on profit

	Note	2020 £m	2019 £m
Current tax			
Current tax		**5.0**	10.9
Overseas tax		**0.1**	0.2
UK corporation tax adjustments relating to prior years		**(3.1)**	0.4
Payments for group relief for prior years		**0.6**	-
Overseas tax adjustments relating to prior years		**0.1**	-
		2.7	11.5

Notes to the financial statements (continued)

5) Tax on profit (continued)

	Note	**2020 £m**	2019 £m
Deferred tax			
Origination and reversal of timing differences	9	**0.4**	0.2
Change in deferred tax rate		**2.2**	
Deferred tax adjustments relating to prior years	9	**0.8**	(0.3)
Total tax expense in profit and loss account		**6.1**	11.4

The tax expense for the year is lower (2019: lower) than the standard rate of current tax in the UK of 19% (2019: 19%). These differences are explained below.

	2020 %	**2020 £m**	2019 %	2019 £m
Reconciliation of standard tax rate				
Profit before tax		**36.8**		82.1
Tax expense using UK corporation tax rate	**19.0**	**7.0**	19.0	15.6
Expenses not deductible for tax purposes		**1.2**		0.8
Group relief received		**(0.3)**		(0.5)
Payment in respect of prior years' group relief		**0.6**		-
Other allowances		**(0.6)**		(0.4)
Corporation tax adjustments relating to prior years		**(3.0)**		0.4
Difference in rates on overseas taxes		**0.1**		-
Deferred tax adjustments relating to prior years		**3.0**		(0.3)
Patent box super deduction		**(1.9)**		(4.2)
Effective tax rate / Total tax charge	**16.6**	**6.1**	13.9	11.4

Deferred tax assets/liabilities have been measured at the rate they are expected to reverse. In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As a consequence, UK assets/liabilities are measured at 19% (30 September 2019: 17%), being the UK tax rate effective from 1 April 2020. This has increased the tax charge for the period by £2.2m.

Tax recognised in other comprehensive income:

	2020 £m	2019 £m
Items that will not be reclassified to profit and loss		
Defined benefit pension schemes	**(0.5)**	(0.9)
Items that may be reclassified subsequently to profit and loss		
Equity-settled transactions	-	1.2
	(0.5)	0.3

Notes to the financial statements (continued)

6) Tangible assets

	Land and buildings £m	Plant and machinery £m	Computers and motor vehicles £m	Fixtures, fittings, tools and equipment £m	Right of use assets £m	Assets in course of construction £m	Total £m
Cost							
At 1 October 2019	49.4	318.2	6.2	0.7	-	8.1	**382.6**
***Adoption of* IFRS 16**	-	-	-	-	**4.6**	-	**4.6**
Additions	-	0.5	-	-	-	8.8	**9.3**
Transfer	0.2	6.8	1.0	0.1	-	(8.1)	**-**
Disposals	-	(1.0)	(3.9)	-	-	-	**(4.9)**
At 30 September 2020	**49.6**	**324.5**	**3.3**	**0.8**	**4.6**	**8.8**	**391.6**
Accumulated Depreciation							
At 1 October 2019	10.2	129.0	5.2	0.6	-	-	**145.0**
Depreciation charge	1.3	12.5	0.6	-	0.4	-	**14.8**
Disposals	-	(0.8)	(3.9)	-	-	-	**(4.7)**
At 30 September 2020	**11.5**	**140.7**	**1.9**	**0.6**	**0.4**	**-**	**155.1**
Net book value							
At 30 September 2020	**38.1**	**183.8**	**1.4**	**0.2**	**4.2**	**8.8**	**236.5**
At 30 September 2019	39.2	189.2	1.0	0.1	-	8.1	237.6
IFRS 16 opening re-stated	-	-	-	-	4.6	-	4.6
Adjusted at 1 October 2019	39.2	189.2	1.0	0.1	4.6	8.1	242.2

Leased property, plant and equipment

Following adoption of IFRS 16 on 1 October 2019, the Company has recognised ROU assets and lease liabilities for the leases it has entered into (except for short-term and low-value leases) and accordingly no longer presents operating lease commitments. Having applied the modified retrospective approach to the implementation of IFRS 16, the Company has continued to present the comparative financial information for the aggregate payments, for which there were commitments under operating leases as follows as at 30 September 2019:

Total commitments under non-cancellable operating leases are as follows:

	2020 £m	2019 £m
Not later than one year	-	0.6
Later than one year but not later than five years	-	1.4
Later than five years	-	2.5
	-	**4.5**

Notes to the financial statements (continued)

6) Tangible assets (continued)

On implementation of IFRS 16, those leases previously recognised as finance leases were reclassified to ROU assets and lease liabilities and are included in the table above. Accordingly, the Company no longer presents obligations under finance leases. Having applied the modified retrospective approach to the implementation of IFRS 16, the Company has continued to present the comparative financial information for the aggregate payments (see note 18).

The following table reconciles the amount disclosed as operating lease commitments at 30 September 2019 disclosed in the Company's 2019 financial statements to the amount recognised on the Balance sheet in respect of lease liabilities on adoption of IFRS 16:

	£m
Operating lease commitment at 30 September 2019 as disclosed in the Group's consolidated financial statements	**4.5**
Discounted using the incremental borrowing rate at 1 October 2019	**4.1**
Adjustments relating to:	
Contracts reassessed as meeting the lease definition	**0.5**
Lease liabilities recognised at 1 October 2019	**4.6**

At 30 September 2020, the Company leased a small number of assets, principally land and buildings:

	Land and Buildings £m	Motor vehicles £m	Total £m
Right of Use Assets			
Balance at 1 October 2019	4.4	0.2	4.6
Depreciation charge for the period	(0.3)	(0.1)	(0.4)
Balance at 30 September 2020	**4.1**	**0.1**	**4.2**

Notes to the financial statements (continued)

7) *Intangible assets*

	Brand £m	Customer Relationships £m	Goodwill £m	Computer software £m	Assets in course of construction £m	Total £m
Cost						
At 1 October 2019	0.7	1.7	10.0	13.7	1.5	**27.6**
Additions	-	-	-	-	1.6	**1.6**
Re-classification	-	-	-	1.5	(1.5)	-
At 30 September 2020	**0.7**	**1.7**	**10.0**	**15.2**	**1.6**	**29.2**
Accumulated Amortisation						
At 1 October 2019	0.4	0.8	-	6.7	-	**7.9**
Amortisation charge	0.3	0.2	-	2.0	-	**2.5**
At 30 September 2020	**0.7**	**1.0**	-	**8.7**	-	**10.4**
Net book value						
At 30 September 2020	-	**0.7**	**10.0**	**6.5**	**1.6**	**18.8**
At 30 September 2019	0.3	0.9	10.0	7.0	1.5	19.7

Goodwill

Goodwill has arisen as follows:

	£m	Associated CGU
Acquisitions associated with the supply of our key raw material BDF:		
- December 1999	**3.5**	Victrex
- April 2005	**3.9**	Victrex
Acquisition of Zyex - April 2017	**2.6**	Victrex
	10.0	

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

Impairment losses are recognised if the carrying amount of the CGU to which goodwill has been allocated exceeds its recoverable value (the higher of value in use and fair value less costs to sell) and are recognised in the income statement.

Notes to the financial statements (continued)

8) Investments

	Investments in subsidiaries	Investments in associate	Financial assets held at fair value through profit and loss	Total
	£m	£m	£m	£m
Cost and carrying value				
At 1 October 2019	1.3	8.2	8.0	17.5
Investment in Bond 3D High Performance Technology BV	-	4.6	-	4.6
Share of loss of Bond 3D High Performance Technology BV	-	(0.5)	-	(0.5)
Disposal of investment in Victrex High-performance Materials (Shanghai) Co Limited	(1.2)	-	-	(1.2)
Investment in Victrex Hong Kong Limited	1.7	-	-	1.7
At 30 September 2020	**1.8**	**12.3**	**8.0**	**22.1**
Magma Global Limited	-	-	4.5	4.5
Surface Generation Limited	-	-	3.5	3.5
Zyex Group Limited	0.1	-	-	0.1
Bond 3D High Performance Technology BV	-	12.3	-	12.3
Victrex Hong Kong Limited	1.7	-	-	1.7
At 30 September 2020	**1.8**	**12.3**	**8.0**	**22.1**

On 13 January 2020, the Victrex Group, via Victrex Manufacturing Limited, established Victrex Hong Kong Limited. Victrex Hong Kong Limited is wholly owned, and is set up as a limited liability company for the purpose of trading with customers in Hong Kong and acting as an intermediary holding company for the Group's investments in mainland China. As such during the year, the Company restructured by disposing of its investment in Victrex High-Performance Materials (Shanghai) Limited for a consideration of £1.7m to Victrex Hong Kong Limited, generating a profit on disposal of £0.6m.

Bond 3D High Performance Technology BV

On 22 December 2018, the Company invested an initial €2.7m (£2.4m) via a convertible loan in Bond 3D High Performance Technology BV ('Bond'). Following successful completion of technical milestones, the Company made a further convertible loan of €1.2m (£1.0m) on 1 April 2019, and €5.5m (£4.8m) on 28 May 2019. Based on Technical Validation being achieved, these loans were converted into equity.

A further investment of €5.3m (£4.6m) was made on 2 January 2020, resulting in the Company's shareholding being 24.5% at 30 September 2020. As the Company is considered to have significant influence in Bond the investment continues to be accounted for as an associate, using the equity method.

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.

Notes to the financial statements (continued)

8) Investments (continued)

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

	Company number	Company status	Registered Address
Subsidiary undertakings			
Zyex Limited[1]	2890014	Dormant company	Victrex Technology Centre, Hillhouse
Zyex Group Limited[2]	2839512	Dormant company	International, Thornton Cleveleys, Lancashire,
Zyex Reclaim Limited[2]	2890011	Dormant company	FY5 4QD, UK
Victrex Hong Kong Limited[3]		Trading entity	Level 54, Hopewell Centre 183, Queen's Road East, Hong Kong
Associates			
Bond 3D High Performance Technology BV		Trading Entity	Institutenweg 25A, 7521 PH, Enschede, Netherlands
Investments			
Magma Global Limited	6528820	Trading entity	Magma House Trafalgar Wharf, Hamilton Road, Portsmouth, PO6 4PX, UK
Surface Generation Limited	4379384	Trading entity	7 Brackenbury Court, Lyndon Barns, Edith Weston Road, Lyndon, Oakham, LE15 8TW
Joint operations			
Aghoco 1491 Limited[4]	10523749	Trading entity	Victrex Technology Centre, Hillhouse International, Thornton Cleveleys, Lancashire, FY5 4QD, UK

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

[1] Directly held by Victrex Manufacturing Limited.

[2] Zyex Group Limited and Zyex Reclaim Limited are subsidiaries which are wholly owned by Zyex Limited.

[3] Victrex Hong Kong Limited is a new, wholly owned subsidiary of Victrex Manufacturing Limited, incorporated on 13 January 2020. The company was set up as a limited liability company for the purpose of trading with customers in Hong Kong and acting as an intermediary holding company for the Group's investment in Panjin VYX High Performance Materials Co., Ltd ("PVYX"). Victrex Hong Kong Limited has a 75% equity interest in PVYX, with the remaining 25% held by Yingkou Xingfu Chemical Co. Ltd. With 75% of the voting equity and the majority of appointments on the board, Victrex Hong Kong Limited is considered to have control of PVYX and therefore accounts for it as a subsidiary. PVYX is therefore considered to be an indirect holding of Victrex Manufacturing Limited.

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

9) Deferred tax assets and liabilities

	Tangible assets 2020 £m	**Employee benefits 2020 £m**	**Other 2020 £m**	**Total 2020 £m**	Tangible fixed assets 2019 £m	Employee benefits 2019 £m	Other 2019 £m	Total 2019 £m
Deferred tax assets	-	1.5	-	1.5	-	0.9	-	0.9
Deferred tax liabilities	(21.4)	(2.2)	(0.8)	(24.4)	(18.2)	(1.8)	(0.9)	(20.9)
Net deferred tax liabilities	**(21.4)**	**(0.7)**	**(0.8)**	**(22.9)**	(18.2)	(0.9)	(0.9)	(20.0)

Notes to the financial statements (continued)

9) *Deferred tax assets and liabilities (continued)*

	Tangible Assets £m	Employee Benefits £m	Other £m	Total £m
Movement in net provision				
At 1 October 2018	(18.2)	(0.8)	(0.8)	(19.8)
Prior period adjustment	0.1	0.4	(0.2)	0.3
Recognised in profit and loss account	(0.1)	(0.2)	0.1	(0.2)
Recognised in other comprehensive income	-	(0.3)	-	(0.3)
At 30 September 2019	(18.2)	(0.9)	(0.9)	(20.0)
Prior period adjustment	(0.8)	-	-	(0.8)
Change in deferred tax rate	(2.1)	(0.1)	-	(2.2)
Recognised in profit and loss account	(0.3)	(0.2)	0.1	(0.4)
Recognised in other comprehensive income	-	0.5	-	0.5
At 30 September 2020	**(21.4)**	**(0.7)**	**(0.8)**	**(22.9)**

10) Stocks

	2020 £m	2019 £m
Raw materials and consumables	**24.9**	11.3
Work in progress	**16.8**	12.3
Finished goods	**26.4**	44.6
	68.1	68.2

The amount of stock expensed in the year is £100.5m (2019: 94.9m). Stocks are stated after provisions for impairment of £4.2m (2019: £3.7m).

11) Debtors

Amounts falling due within one year:	**2020 £m**	2019 £m
Trade debtors	**3.5**	12.5
Amounts owed by fellow subsidiary undertakings	**51.5**	44.9
Amounts owed by fellow subsidiary undertakings in respect of group relief	**0.6**	-
Current income tax assets	**3.4**	-
Prepayments	**1.5**	1.0
Derivative financial instruments	**2.9**	1.5
Other debtors	**4.6**	5.3
	68.0	65.2

Notes to the financial statements (continued)

11) Debtors (continued)

Trade debtors can be analysed as follows:

As at 30 September	**2020 £m**	2019 £m
Amounts not past due	**3.3**	11.7
Amounts past due:		
– Less than 30 days	**0.2**	0.6
– 30–60 days	**0.1**	0.2
– More than 60 days	**-**	0.2
Total past due	**0.3**	1.0
Lifetime expected credit losses	**(0.1)**	(0.2)
Amounts specifically impaired	**0.5**	-
Specific allowances for bad and doubtful debts	**(0.5)**	-
Carrying amount of impaired receivables	**-**	-
Trade receivables net of allowances	**3.5**	12.5

Amounts owed to by fellow subsidiary undertakings are interest free, unsecured and repayable on demand. Trade receivables are amounts due from customers for goods sold in the ordinary course of business.

The company has applied the simplified approach to measuring expected credit losses, which requires lifetime expected losses to be recognised from initial recognition for trade debtors. Lifetime expected credit losses for trade debtors are calculated based on historical loss rates adjusted where necessary for relevant forward-looking estimates. Trade debtors have been grouped for this analysis based on shared credit risk characteristics.

Movements in the allowance for impairments were:

	2020 £m	2019 £m
At beginning of year	**0.2**	0.3
Charge in the year	**0.5**	-
Release of allowance	**(0.1)**	(0.1)
At end of year	**0.6**	0.2

Trade receivables are specifically impaired when the amount is in dispute, when customers are believed to be in financial difficulty or if any other reason exists which implies that there is a doubt over the recoverability of the debt. They are written off when there is no reasonable expectation of recovery, based on an estimate of the financial position of the customer.

The Company has considered the impact of COVID-19 on its Expected Credit Loss Model and has concluded that there has been no material impact on credit loss provisioning at 30 September 2020. However, there remains a risk in relation to this matter for the year ending 30 September 2021

Amounts falling due after more than one year:	**2020 £m**	2019 £m
Amounts owed by joint arrangement	**1.5**	1.6

Amounts owed by joint arrangement comprises the loan outstanding to Aghoco 1491 Limited. This loan is unsecured, non interest bearing and repayable by 22 February 2037 unless both parent companies agree an earlier payment date. Both parties have pledged not to request repayment for at least a year, so the balance has been presented in line with the proposed loan repayment schedule. Whilst the balance has a repayment schedule through to 2037 it is potentially repayable on demand and therefore has not been discounted over the period of the loan.

Notes to the financial statements (continued)

12) Creditors: amounts falling due within one year

Amounts due within one year:	**2020 £m**	2019 £m
Trade creditors	**4.8**	2.2
Amounts owed to parent, subsidiary and fellow subsidiary undertakings	**242.0**	279.1
Accruals	**13.2**	15.8
Current income tax liabilities	**-**	8.8
Derivative financial instruments	**3.3**	9.3
Lease liabilities	**0.3**	-
Other creditors	**-**	1.5
	263.6	316.7

The company has received pledges from its fellow group subsidiaries that they will not seek repayment of their receivables which are interest free, from Victrex Manufacturing Limited until such time as Victrex Manufacturing Limited has the resources to repay them.

13) Retirement benefit obligations

The principal scheme operated by the Company is a funded UK pension scheme in which employees of UK subsidiary undertakings participate. The scheme has two sections. One section provides benefits on a defined benefit basis with benefits related to final pensionable pay. The defined benefit section was closed to new members from 31 December 2001. From this date new employees have been invited to join the second section that provides benefits on a defined contribution basis. The scheme closed on 31 March 2016, with employees in the defined benefit scheme eligible to join the defined contribution scheme.

The latest triennial valuation was performed to 31 March 2019 and showed a scheme surplus of £7.9m. The surplus position means the Company has no current obligation to make further contributions to the scheme, although this may change following future valuations. Additional contributions of £1.1m were made during the year as part of an ongoing programme with the Trustees to work towards self-sufficiency and therefore further contributions of a similar level are expected in the future. The directors have approved a further voluntary contribution of £1.0m which was paid in November 2020.

The trustees have agreed an investment strategy in the context of the liabilities. In particular, investments have been made that reflect the nature and term of the liabilities and the long-term nature of investment for a pension scheme.

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

Defined contribution plan
The total expense relating to the defined contribution plans in the year was £4.7m (2019: £4.4m).

Defined benefit plan
IAS 19 disclosures relating to defined benefits are as follows:

Notes to the financial statements (continued)

13) Retirement benefit obligations (continued)

Principal actuarial assumptions

	At 30 September 2020	At 30 September 2019
Discount rate	**1.60%**	1.85%
RPI inflation	**3.10%**	3.20%
CPI inflation	**2.10%**	2.20%
Future pension increases	**3.00%**	3.10%
Mortality tables		
Male	**92% of S3PMA**	92% of S3PMA
Female	**95% of S3PFA**	95% of S3PFA
Mortality improvements		
Model	**CMI 2019**	CMI 2018
Long-term rate of improvement	**1.25%**	1.25%
Initial addition	**0.5%**	1.00%
Life expectancy from age 62 of current pensioners:		
Male	**25.8 yrs** (1)	26.0 yrs (2)
Female	**27.9 yrs** (1)	28.1 yrs (2)
Life expectancy from age 62 of active and deferred members:		
Male	**27.0 yrs** (3)	27.2 yrs (4)
Female	**29.2 yrs** (3)	29.3 yrs (4)

(1) Life expectancy from age 62 for members aged 62 in 2020.
(2) Life expectancy from age 62 for members aged 62 in 2019.
(3) Life expectancy from age 62 for members aged 45 in 2020.
(4) Life expectancy from age 62 for members aged 45 in 2019.

The average duration of the benefit obligation at the end of the reporting period is 22 years (2019: 22 years). Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate and inflation rate. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant:

Change in assumption	**Reduction in fund surplus as at 30 September 2020**	Reduction in fund surplus as at 30 September 2019
Reduce discount rate by 1% p.a.	**£20.5m**	£21.0m
Increase inflation expectations by 1% p.a.	**£16.5m**	£16.9m
Increase life expectancy by 1 year	**£3.0m**	£2.8m

In reality one might expect interrelationships between the assumptions, especially between discount rate and expected inflation rates. The above analysis does not take the effect of these interrelationships into account.

Notes to the financial statements (continued)

13) Retirement benefit obligations (continued)

Amounts recognised in the balance sheet

	At 30 September 2020 £m	At 30 September 2019 £m	At 30 September 2018 £m	At 30 September 2017 £m	At 30 September 2016 £m
Present value of funded Obligations	**(83.7)**	(81.5)	(68.3)	(69.9)	(78.5)
Fair value of scheme's Assets	**93.1**	92.5	83.4	75.5	70.1
Net asset/(liability) before deferred taxation	**9.4**	11.0	15.1	5.6	(8.4)
Related deferred taxation (liability)/asset	**(1.8)**	(1.8)	(2.5)	(0.9)	1.4
Net asset/(liability) after deferred taxation	**7.6**	9.2	12.6	4.7	(7.0)
Change in assumptions and experience adjustments arising on scheme's liabilities	**2.0**	14.4	1.8	9.0	(21.2)
Experience adjustments arising on scheme's assets	**(0.9)**	9.0	3.6	4.2	10.6

Changes in the present value of the funded obligation

	2020 £m	2019 £m
Defined benefit obligation at beginning of year	**(81.5)**	(68.3)
Interest cost	**(1.5)**	(2.0)
Actuarial losses	**(2.0)**	(14.4)
Benefits paid	**1.3**	3.2
Defined benefit obligation at end of year	**(83.7)**	(81.5)

Changes in the fair value of the scheme's assets

	2020 £m	2019 £m
Fair value of scheme's assets at beginning of year	**92.5**	83.4
Interest income on assets	**1.7**	2.4
Actuarial (losses)/gains	**(0.9)**	9.0
Contributions by employer	**1.1**	0.9
Benefits paid	**(1.3)**	(3.2)
Fair value of scheme's assets at end of year	**93.1**	92.5

Notes to the financial statements (continued)

13) Retirement benefit obligations (continued)

Major categories of scheme's assets

	At 30 September 2020 Quoted £m	**At 30 September 2020 Unquoted £m**	At 30 September 2019 Quoted £m	At 30 September 2019 Unquoted £m
UK equities	**-**	**0.4**	-	0.4
Non UK equities	**-**	**10.3**	-	8.1
Debt Instruments	**-**	**19.0**	-	20.7
Liability-driven investment[1]	**49.3**	**-**	49.7	-
Cash	**0.7**	**-**	0.1	-
Diversified growth and absolute return funds[2]	**1.8**	**11.6**	1.8	11.7
Fair value of scheme's assets at end of year	**51.8**	**41.3**	51.6	40.9

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

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

Amounts recognised in the profit and loss account

	Note	**2020 £m**	2019 £m
Interest on liabilities		**(1.5)**	(2.0)
Interest income on assets		**1.7**	2.4
Total included in 'staff costs'	4	**0.2**	0.4

Gross amounts of actuarial gains and losses recognised in other comprehensive income

	2020 £m	2019 £m
Cumulative amount at beginning of year	**(11.1)**	(5.7)
Movement in year	**(2.9)**	(5.4)
Cumulative amount at end of year	**(14.0)**	(11.1)

14) Share-based payments

Where the Company's parent grants rights to its equity instruments to the Company's employees, which are accounted for as equity-settled in the consolidated financial statements of the Group, the Company is recharged by the parent for the cost of these equity-settled share-based payments, which is recognised as a recharge liability. All options are settled by the physical delivery of shares in Victrex plc. The terms and conditions of all the grants are as follows:

Notes to the financial statements (continued)

14) Share-based payments (continued)

Victrex 2005/2015 Executive Share Option Plan ('ESOP')

All employees are eligible to participate. The Victrex plc Remuneration Committee currently excludes executive Directors from participating in this plan. Option awards are based on a percentage of basic salary, not exceeding 100% of salary in each financial year. The exercise price of the options is equal to the market price of the shares on the date of grant. ESOP options are conditional on the employee completing three years' service (the vesting period) and achieving the performance condition where applicable. The level of awards vesting will vary depending on EPS growth. In order for awards to reach the threshold level of vesting, the EPS growth of the Group must exceed 2% per annum with some awards requiring the growth to be above the Retail Price Index. For awards over 33% of salary, the threshold increases to 3%, and then to 4% for awards over 66%. Straight line vesting will occur to the extent that EPS growth falls between these annual EPS growth targets. These options are exercisable from the date of vesting to the ten-year anniversary of the grant date.

Victrex 2015 Sharesave Plan

UK resident employees and full-time Directors of Victrex plc or any designated participating subsidiary will be eligible to participate. The exercise price of the granted Sharesave Plan options is equal to the market price of the ordinary shares less 20% on the date of grant.

Victrex 2009/2019 Long Term Incentive Plan ('LTIP')

Each year executive Directors, and senior executives by invitation, are eligible to be awarded options to acquire, at no cost, ordinary shares in the Company. Under the 2019 LTIP the normal maximum award level will be up to 175% of salary per annum in respect of the CEO and 150% for other executive Directors. The overall policy limit is 200% of salary.

Under the 2019 LTIP each award is measured over at least a three-year performance period. An additional holding period applies after the end of the three-year performance period so that the total vesting and holding period is at least five years.

Shares subject to awards may accrue dividend equivalents. If applicable, participants receive a payment (in cash and/or shares) on or shortly following the vesting of their awards, of an amount equal to the dividends that would have been paid on those shares between the time when the awards were granted and the time when they vest.

The extent to which an award will be exercisable is dependent on two independent performance conditions with 25% determined by reference to the Company's Total Shareholder Return ('TSR') and 75% determined by reference to Victrex plc earnings per share ('EPS'):

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

- The EPS element of an award will vest in full if cumulative EPS growth exceeds a pre-determined target over the three year period. This element of the award is reduced to 20% on a pro-rata basis if cumulative EPS exceeds a minimum target over the three year period and is reduced to nil if cumulative EPS over the period fails to exceed the minimum target.

Victrex 2017 Deferred Bonus Plan ('DBP')

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

Notes to the financial statements (continued)

14) Share-based payments (continued)

As set out in the Victrex plc Directors' Remuneration Policy, awards granted from December 2013 onwards are subject to a clawback provision.

Range of exercise prices and weighted average contractual life

	ESOS and ESOP	Sharesave Scheme and Plan	LTIP	DBS
Range of exercise prices in the year				
2020	**1,348p–2,730p**	**1,266p–2,164p**	**nil p**	**-**
2019	805p–2,730p	1,266p–2,164p	nil p	-
Weighted average contractual life (years)				
2020	**7.2**	**2.3**	**8.1**	**5.9**
2019	7.6	2.7	8.2	6.9

Staff costs – equity-settled share-based payment transactions

	Note	2020 £m	2019 £m
ESOP		**0.2**	1.0
Sharesave Plan		**0.3**	0.6
LTIP		**0.1**	0.2
	4	**0.6**	1.8

15) Share capital and reserves

Share capital

	2020 Number	2020 £m	2019 Number	2019 £m
Allotted, called up and fully paid ordinary shares of £1 each				
At beginning and end of year	**1,000,000**	**1.0**	1,000,000	1.0

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Special capital reserve

The special capital reserve is the net of £10.0m share premium account and £8.9m goodwill created at the time of the management buy-out from ICI in 1993. This goodwill represents the difference between the consideration paid and the fair value of the assets acquired. Statutory approval for this write off against the share premium account was granted and hence does not affect the distributable reserves of the Company.

Dividends

In the current year, no dividend was approved or paid to the parent company, Victrex plc (2019: £100.0m).

Notes to the financial statements (continued)

16) Lease liabilities

Finance lease liabilities arising on the adoption of IFRS 16 are as follows:

	Current £m	Non-current £m	Total £m
Balance at 1 October 2019	0.3	4.3	4.6
Payments in the period	-	(0.4)	(0.4)
Interest on lease liabilities	-	0.1	0.1
Balance at 30 September 2020	**0.3**	**4.0**	**4.3**

The maturity of these lease liabilities at 30 September 2020 is a follows:

	£m
Due within one year	0.3
Due between 2 and 5 years	1.0
Due after 5 years	3.0
Total	**4.3**

17) Accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made in applying accounting policies

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

Sources of estimation uncertainty

The Company uses estimates and assumptions in applying the critical accounting policies to value balances and transactions recorded in the financial statements. The estimate and assumption that, if revised, would have a significant risk of a material impact on the valuation of assets and liabilities within the next financial year is retirement benefit obligations. The Group has considered other estimates and assumptions that, whilst not deemed to represent a significant risk of material adjustment, do represent important estimates at 30 September 2020 and are disclosed accordingly. The valuation of stocks is disclosed as another estimate in the current year. Management has discussed these with the Directors.

The following should be read in conjunction with the significant accounting policies provided in the notes to the financial statements.

Retirement benefit obligations

The valuation of pension scheme liabilities is calculated in accordance with Company policy. The valuation is prepared by independent qualified actuaries but significant estimates are required in relation to the assumptions for pension increases, inflation, the discount rate applied, investment returns and member longevity, which underpin the valuations. Note 13 contains information about the assumptions relating to retirement benefit obligations and also the sensitivity of the pension liability to movements in these assumptions.

Notes to the financial statements (continued)

17) Accounting estimates and judgements (continued)

Inventory

The carrying value of inventory, comprising raw materials, work in progress and finished goods totalling £68.1m, requires the use of estimates and judgement. Judgement is required when assessing the level of normal production over which directly attributable costs are absorbed. The judgement relating to normal operating capacity considers current year actual, prior period actual and budgeted production when concluding on the appropriate level over which to absorb production costs. The primary estimate is in respect of the level of variations, including material usage and purchase price variances, between actual and standard cost absorbed into inventory at each period end. Management uses its detailed experience in the process of forming its view on the adjustments required to record inventory at cost. Management has assessed the range of possible outcomes which might result from a change in assumptions and has determined this to be from a £1.5m increase in inventory to a £1.9m reduction in inventory at 30 September 2020 and can therefore conclude that no reasonable change in the key assumptions would have resulted in a material change to the inventory balance of £68.1m at 30 September 2020.

Inventory provisions are put in place for slow moving and potentially obsolete inventory as well as damaged and/or out of specification product where cost is considered to be higher than net realisable value. The level of provisioning is an estimate, with judgement required on ageing, customer order profiles, alternative routes to market and the option to reprocess. The estimation of the range of possible outcomes is an increase in the value of inventory of £1.9m to a decrease of £4.0m.

Consequently, none of the sources of estimation uncertainty in inventory are expected to materially impact the result of the Group in FY 2021.

18) Related party transactions

As a subsidiary undertaking of Victrex plc, the company has taken advantage of the exemption in FRS101.8(k) not to disclose transactions with wholly owned group companies.

In addition the company has taken advantage of the exemption in FRS101.8(j) not to disclose compensation of Key Management Personnel.

There were no other related party transactions in the current or prior year.

19) Ultimate parent company

The immediate and ultimate parent company is Victrex plc, registered in England and Wales. This is the largest and smallest group in to which the company is consolidated. Copies of the group financial statements can be obtained from Victrex Technology Centre, Hillhouse International, Thornton Cleveleys, Lancashire FY5 4QD.

Notes to the financial statements (continued)

20) Changes in accounting policy

As explained in note 6, the Company adopted IFRS 16 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 Group recognised the following assets and liabilities on adoption:

	30 September 2019 reported £m	IFRS 16 £m	1 October 2019 re-stated £m
Assets			
Non-current assets	275.7	—	275.7
Defined benefit pension scheme	11.0	—	11.0
Right of use assets	—	4.6	4.6
	286.7	4.6	291.3
Current assets	197.6	—	197.6
Total assets	484.3	4.6	488.9
Liabilities			
Non-current liabilities	(20.9)	—	(20.9)
Long term lease liability	—	(4.3)	(4.3)
	(20.9)	(4.3)	(25.2)
Current liabilities	(316.7)	—	(316.7)
Lease liability	—	(0.3)	(0.3)
	(316.7)	(0.3)	(317.0)
Net assets	146.7	—	146.7