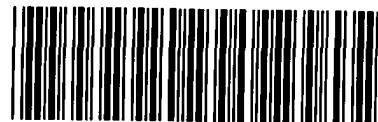


Victrex Manufacturing Limited

Annual Report
Registered number 2845018
30 September 2018

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Contents

Strategic report	1
Directors' report	3
Independent auditors' report to the members of Victrex Manufacturing Limited	6
Profit and loss account	8
Other comprehensive income	8
Balance sheet	9
Statement of changes in equity	10
Notes to the financial statements	11

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

On 1 August 2018, the company acquired the trade and assets of its subsidiary, Zyex Limited for consideration of £7.8m which equates to the book value of the assets and liabilities of Zyex Limited at that date. This value is considered to be the approximate fair value. The investment value in Victrex Manufacturing Limited has been reduced accordingly (see note 7).

Key performance indicators

> Profit before tax

2018	£73.9m
2017	£81.2m

During the year, 1.4 million (2017: 1.3 million) employee hours were worked with no employee reportable injuries and no cases of reportable ill health.

Financial results

Turnover for the year decreased by 1.0% to £222.1m (2017: £224.4m). This was due to adverse currency movement, offset by strong growth in the core business.

Gross profit decreased by £7.6m to £118.4m (2017: £126.0m). Gross margin % decreased by 2.8% to 53.3% (2017: 56.1%), which primarily reflected adverse currency movements.

Operating profit was £71.3m (2017: £81.1m), a decrease of 12% over the prior year primarily driven by currency and an increase in administrative expenses. Although administrative expenses increased by £2.2m, the % against sales have remained controlled at 21% (2017: 20%), and reflects increased investment in growth programmes.

At the year end, the Company had cash of £133.5m (2017: £104.4m), with no debt and net assets of £181.5m (2017: £221.3m). A dividend of £100m was approved and paid in the year (2017: £100m).

Product and market development and future development

Our strategy of product leadership in PEEK, and other enabling polymers in the polyaryletherketone ('PAEK') family, keeps us 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 our end markets remain strong. We also continue to enhance our differentiated products, through focusing on new grades or IP-protectable technology that is aligned with our 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.

Sections of this Strategic Report contain forward-looking statements. These forward-looking statements involve risks and uncertainties because they relate to events that may or may not occur in the future.

Strategic report (continued)

Accordingly, actual results may differ materially from anticipated results because of a variety of risk factors, including: changes in exchange rates; changes in global, political, economic, business, competitive and market forces; changes in raw material pricing and availability; changes to legislation and tax rates; future business combinations or disposals; relations with customers and customer credit risk; events affecting international security, including global health issues and terrorism; changes in regulatory environment and the outcome of litigation.

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:

- Failure to comply with legislative and regulatory requirements in respect of safety, health and the environment
- Failure to innovate resulting in loss of competitive advantage
- Failure to recruit and retain the right people in all areas of the business
- Product liability claims
- Impact of exchange rate movements
- Failure to maintain a secure supply of high quality products to customers
- Failure or interruption in IT networks and systems
- Failure to comply with ethical and regulatory standards
- Exposure to changes and events outside the Company's control, such as external global economic conditions, markets or territories, as well as natural disasters, which may impact the Company's performance and its ability to achieve its strategic objectives. In addition, political uncertainty, for example the impact of Brexit, can affect decisions by our customers to invest and therefore impact demand for our products.

These risks, along with mitigations in place, are discussed in full on pages 23 to 25 of the Group's Annual Report 2018.

On behalf of the Board



R J Armitage
Director

Victrex Technology Centre
Hillhouse International
Thornton Cleveleys
Lancashire
FY5 4QD
4 December 2018

Directors' report

The Directors present their Annual Report and audited financial statements for the year ended 30 September 2018.

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 14.1% to £9.7m (2017: £8.5m).

Financial instruments

The Company's financial instruments comprise forward exchange contracts (derivative instruments), investments in subsidiary undertakings, cash, and various items arising directly from operations (such as trade receivables, trade creditors etc).

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 2018 in note 14.

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

A dividend of £100.0m was approved and paid in the year (2017: £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:

RJ Armitage (appointed 1 May 2018)
D R Hummel (resigned 9 February 2018)
T J Cooper
L S Burdett (resigned 30 April 2018)
M L Court
J O Sigurdsson (appointed 24 January 2018)

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 Victrex. 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.

Directors' report (continued)

We have a policy of giving full and fair consideration to applications from all backgrounds.

Political contributions

No political donations were made (2017: £nil).

Future developments

This is set out in the Strategic report.

Going concern

The Directors have performed a robust assessment, including review of the budget for the year ending 30 September 2019 and longer term strategic forecasts and plans, including consideration of the principal risks faced by the company, as referred to on page 2. Following this review, 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

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

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 the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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.

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.

Disclosure of information to auditors

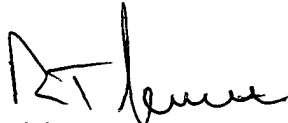
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he/she ought to have taken as a Director to make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

Directors' report (continued)

Independent Auditors

PricewaterhouseCoopers LLP ('PwC') was appointed as external auditors in the year. Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PwC will therefore continue in office.

On behalf of the Board



R J Armitage
Director

Victrex Technology Centre
Hillhouse International
Thornton Cleveleys
Lancashire
FY5 4QD
4 December 2018

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 2018 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 at 30 September 2018; the Profit and loss account, Other comprehensive income, and the Statement of changes in equity for the year ended 30 September 2018; 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 when:

- 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 2018 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' set out on page 4, 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 (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
4 December 2018

Profit & Loss account

For the year ended 30 September 2018

	Note	2018 £m	2017 £m
Turnover		222.1	224.4
Cost of sales	2	(103.7)	(98.4)
Gross profit		118.4	126.0
Administrative expenses	2	(47.1)	(44.9)
Operating profit		71.3	81.1
Income from subsidiary	7	1.9	-
Interest receivable		0.7	0.1
Profit before taxation		73.9	81.2
Tax on profit	4	(8.6)	(8.7)
Profit for the financial year		65.3	72.5

Other comprehensive income

For the year ended 30 September 2018

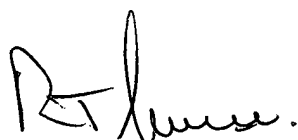
	Note	2018 £m	2017 £m
Profit for the financial year		65.3	72.5
Other comprehensive income/(expense)			
Items that will not be reclassified to profit and loss			
Defined benefit pension schemes actuarial gains	12	5.4	13.2
Income tax on items that will not be reclassified to profit or loss	4	(0.9)	(2.3)
		4.5	10.9
Items that may be reclassified subsequently to profit and loss			
Currency translation differences for foreign operations		0.1	(0.5)
Income tax on items that may be reclassified to profit or loss	4	0.3	(0.1)
		0.4	(0.6)
Total other comprehensive income for the year, net of income tax		4.9	10.3
Total comprehensive income for the year		70.2	82.8

Balance sheet

As at 30 September 2018

	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Tangible assets	5	235.8	239.4
Intangible assets	6	20.1	18.3
Investments	7	5.8	21.0
Deferred tax assets	8	2.0	0.4
		263.7	279.1
Current assets			
Stocks	9	54.9	44.5
Debtors	10	25.8	45.0
Cash at bank and in hand		133.5	104.4
Debtors due after more than one year	10	1.6	1.5
		215.8	195.4
Creditors: amount falling due within one year	11	(291.3)	(252.0)
Net current liabilities		(75.5)	(56.6)
Total assets less current liabilities		188.2	222.5
Provision for liabilities			
Deferred tax liabilities	8	(21.8)	(16.8)
		(21.8)	(16.8)
Net assets excluding pension assets		166.4	205.7
Pension assets			
Defined benefit scheme	12	15.1	5.6
Net assets		181.5	211.3
Capital and reserves			
Share capital	14	1.0	1.0
Special capital reserve	14	1.1	1.1
Translation reserve		(3.9)	(4.0)
Profit and loss account		183.3	213.2
Total shareholders' funds		181.5	211.3

These financial statements of Victrex Manufacturing Limited on pages 8 to 33, registered number 2845018, were approved by the Board of Directors on 4 December 2018 and were signed on its behalf by:



R J Armitage
Director

Statement of changes in equity

For the year ended 30 September 2018

	Share capital £m	Special capital reserve £m	Translation reserve £m	Profit and loss account £m	Total £m
Balance at 1 October 2016	1.0	1.1	(3.5)	229.9	228.5
Total comprehensive income (expense) for the year					
Profit for the year	-	-	-	72.5	72.5
Other comprehensive (expense)/income for the year	-	-	(0.5)	10.8	10.3
Total comprehensive (expense)/income for the year	-	-	(0.5)	83.3	82.8
Transactions with owners, recorded directly in equity					
Dividends to shareholders	-	-	-	(100.0)	(100.0)
Balance at 30 September 2017	1.0	1.1	(4.0)	213.2	211.3
Total comprehensive income for the year					
Profit for the year	-	-	-	65.3	65.3
Other comprehensive income for the year	-	-	0.1	4.8	4.9
Total comprehensive income for the year	-	-	0.1	70.1	70.2
Transactions with owners, recorded directly in equity					
Dividends to shareholders	-	-	-	(100.0)	(100.0)
Balance at 30 September 2018	1.0	1.1	(3.9)	183.3	181.5

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 4 December 2018.

Basis of preparation

The financial statements have been prepared in accordance with The Companies Act 2006, including Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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 18.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A 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.

As the consolidated financial statements of Victrex plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- 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 financial statements are prepared on the historical cost basis except that derivative financial instruments are measured at fair value.

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

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 2.

The Group has significant positive cash balances and has a multi-currency revolving credit facility of £40m (£20m committed and £20m accordion) which expires in June 2022. This facility was undrawn at 30 September 2018 and remained undrawn at 4 December 2018 when these financial statements were approved for issue by the Board of Directors.

The Directors, have performed a robust assessment, including review of the budget for the year ending September 2019 and longer term strategic forecasts and plans including consideration of the principal risks faced by the Company, as referred to on page 2. 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 assessment and taking account of the pledges made by fellow group undertakings, the Directors are satisfied, notwithstanding the net current liability position, 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.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Details of significant estimates and assumptions are set out in note 16.

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.

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

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

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other debtors, cash at bank and in hand, and trade and other creditors.

Trade and other debtors

Trade and other debtors 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.

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.

Investments

Accounting for investments is driven by the level of control that can be exerted. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Where there is deemed to be an ability to affect the return, investments are consolidated from the date that ability commences until the date that it ceases. Where there is not deemed to be an ability to affect the return, investments are held at fair value. The initial fair value is deemed to be cost

where transactions are at arm's length. For investments in unquoted companies, cost will continue to be used as a proxy for fair value unless there is a clear indication for a 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.

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.

Leased assets

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

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

Depreciation

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

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

Freehold land is not depreciated.

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

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

Intangible assets

Goodwill

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

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

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

Impairment losses are recognised if the carrying amount of the goodwill exceeds its value in use and are recognised in the profit and loss account.

Other Intangible assets

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

Amortisation

Amortisation is charged to the profit and loss account over the estimated useful lives as follows:

Computer software	5-7 years
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Notes to the financial statements (continued)

1) Significant accounting policies (continued)

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

Research and development

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

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

Stocks

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

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.

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 year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided 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.

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

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 the significant risks and rewards of ownership have been transferred to the buyer.

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.

Gains and losses on forward currency contracts, used to hedge overseas sales made in local currencies, are recognised in Turnover. There was a loss of £5.0m on forward currency contracts in the year (2017: gain of £2.0m).

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.

Employee benefits (continued)

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

Notes to the financial statements (continued)

1) Significant accounting policies (continued)

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.

2) Expenses by nature

	Note	2018 £m	2017 £m
Staff costs	3	52.2	46.2
Depreciation of tangible fixed assets	5	13.9	13.8
Amortisation of intangible assets	6	2.1	1.7
Operating lease rentals	5	0.7	0.5
Trade receivable impairment allowance	10	0.2	-
Other costs of manufacture		70.2	67.5
Other administrative costs		11.5	13.6
		150.8	143.3

Included within the above is expenditure of £9.7m relating to research and development (2017: £8.5m).

Exceptional items included in the above were as follows:

	2018 £m	2017 £m
Included within sales, marketing and administrative expenses:		
Restructuring costs	-	(2.0)
Exceptional items before tax	-	(2.0)
Tax on exceptional items	-	0.4
Exceptional items after tax	-	(1.6)

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 (continued)

Restructuring costs

The prior year restructuring costs were incurred relating to a reorganisation across a number of the group's manufacturing and non-manufacturing locations.

Auditors' remuneration is as follows:

	2018 £000	2017 £000
Audit of these financial statements	76	77
Non audit services relating to:		
Interim review	16	14
Pension fund audit	-	11
Other services	10	4
Total audit and non audit fees	102	106

There has been a change of auditor during the year, with PricewaterhouseCoopers LLP being appointed on 9 February 2018. The 2018 fees above reflect their remuneration from this date. The 2017 comparative reflects KPMG's fees.

3) Staff costs

	Note	2018 £m	2017 £m
Wages and salaries		41.4	36.1
Social security costs		5.0	4.3
Contributions to defined contribution pension schemes		3.4	3.3
Interest income relating to defined benefit pension schemes	12	(0.2)	0.2
Equity-settled share-based payment transactions	13	2.6	2.3
	2	52.2	46.2

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

	2018	2017
Make	461	370
Develop, Market and Sell	111	102
Support	92	90
	664	562

D R Hummel, T J Cooper, R J Armitage, J O Sigurdsson, L S Burdett 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.

Notes to the financial statements (continued)

4) Tax on profit

	Note	2018 £m	2017 £m
Current tax			
Current tax		7.6	7.8
UK corporation tax adjustments relating to prior years		(1.1)	2.6
		6.5	10.4
Deferred tax			
Origination and reversal of timing differences	8	0.5	(0.1)
Deferred tax adjustments relating to prior years	8	1.6	(1.6)
Total tax expense in profit and loss account		8.6	8.7

	2018 %	2018 £m	2017 %	2017 £m
Reconciliation of standard tax rate				
Profit before tax		73.9		81.2
Tax expense using UK corporation tax rate	19.0	14.0	19.5	15.8
Expenses not deductible for tax purposes		0.5		0.5
Non taxable dividends received		(0.4)		-
Tax effect of losses surrendered by fellow subsidiaries		(0.2)		(0.4)
Other Allowances		(0.4)		(0.2)
UK corporation tax adjustments relating to prior years		(1.1)		2.6
Impact of difference between current and deferred tax rates		(0.1)		-
Deferred tax adjustments relating to prior years		1.6		(1.6)
Patent box super deduction		(5.3)		(8.0)
Effective tax rate	11.6	8.6	10.7	8.7

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2017 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020.

Tax recognised in other comprehensive income

	2018 £m	2017 £m
Defined benefit pension schemes	(0.9)	(2.3)
Equity-settled transactions	0.3	(0.1)
	(0.6)	(2.4)

Notes to the financial statements (continued)

5) Tangible assets

	Land and buildings £m	Plant and machinery £m	Computers and motor vehicles £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Cost						
At 1 October 2017	48.0	296.3	6.6	0.6	5.0	356.5
Additions	0.1	0.1	0.1	-	7.2	7.5
Acquisition (note 7)	0.1	7.0	0.6	0.1	0.1	7.9
Transfer	1.1	4.5	0.3	-	(5.9)	-
Disposals	(0.2)	(1.0)	(0.6)	-	(0.1)	(1.9)
At 30 September 2018	49.1	306.9	7.0	0.7	6.3	370.0
Accumulated Depreciation						
At 1 October 2017	7.6	103.5	5.5	0.5	-	117.1
Depreciation charge	1.3	12.0	0.5	0.1	-	13.9
Acquisition (note 7)	0.1	3.9	0.6	-	-	4.6
Disposals	(0.1)	(0.7)	(0.6)	-	-	(1.4)
At 30 September 2018	8.9	118.7	6.0	0.6	-	134.2
Net book value						
At 30 September 2018	40.2	188.2	1.0	0.1	6.3	235.8
At 30 September 2017	40.4	192.8	1.1	0.1	5.0	239.4

Leased plant and equipment

The Company has no finance lease agreements (2017: none).

Operating lease rentals of £0.7m (2017: £0.5m) relating to the lease of tangible fixed assets are included in the profit and loss account (see note 2). Obligations under operating leases are disclosed in note 15.

6) Intangible assets

	Brand £m	Customer Relationship £m	Goodwill £m	Computer software £m	Total £m
Cost					
At 1 October 2017	-	-	7.4	13.6	21.0
Disposals	-	-	-	(0.4)	(0.4)
Acquisition (note 7)	0.7	1.7	2.6	-	5.0
At 30 September 2018	0.7	1.7	10.0	13.2	25.6

Notes to the financial statements (continued)

6) Intangible assets (continued)

Accumulated Amortisation					
At 1 October 2017	-	-	-	2.7	2.7
Amortisation charge	-	-	-	2.1	2.1
Acquisition (note 7)	0.2	0.5	-	-	0.7
At 30 September 2018	0.2	0.5	-	4.8	5.5
Net book value					
At 30 September 2018	0.5	1.2	10.0	8.4	20.1
At 30 September 2017	-	-	7.4	10.9	18.3

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.

7) Investments

	£m
Cost and net book value	
At 1 October 2017	21.0
Disposal – partial redemption of Magma	(5.5)
Reclassification to intangibles from subsidiary	(3.9)
Dividend from Zyex Group Limited	(5.8)
At 30 September 2018	5.8

Following the capital contribution into Magma Global Limited by Technip FMC, £5.5m of the initial investment was redeemed during April 2018.

Notes to the financial statements (continued)

7) Investments (continued)

Prior year acquisitions

Acquisition of Zyex Group Limited (Zyex)

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

On 1st August 2018, Victrex Manufacturing Limited acquired the trade and assets of Zyex Limited.

The book value of the acquired assets was as follows

	Book Value £m	Provisional fair value at 1 August 2018 £m
<i>Acquiree's net assets at acquisition date:</i>		
Fixed Assets	3.3	3.3
Stock	1.3	1.3
Cash	2.1	2.1
Other	1.1	1.1
Net identifiable assets	7.8	7.8
Consideration paid – satisfied in cash	7.8	7.8

As a result, the intangible assets which would have been recognised in Victrex Manufacturing Limited consolidated financial statements are now recognised in the company only financial statements of Victrex Manufacturing Limited (NBV of £4.3m and associated deferred tax liability of £0.4m). The investment value has been reduced by £3.9m accordingly.

Following this, Zyex Group Limited, the holding company of Zyex Limited, proposed and paid a dividend to Victrex Manufacturing Limited of £7.7m of which £5.8m has been allocated against the investment value, with the remaining £1.9m (post acquisition profits) being recognised in the Income Statement.

The investment in Zyex Group Limited has subsequently reduced to £0.1m, equating to its net assets.

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

	Company number	Company status	Registered Address
Subsidiary undertakings			
Victrex High-performance Materials (Shanghai) Co., Limited		Trading entity	Victrex Asian Innovation & Technology Centre, Part B Building G, No. 1688, Zhuanxing Road, Xinzhuang Industry Park, Shanghai, 201108, China
Zyex Limited	2890014	Trading entity	Victrex Technology Centre, Hilhouse International, Thornton Cleveleys, Lancashire, FY5 4QD, UK
Zyex Group Limited	2839512	Intermediate holdings company	
Zyex Reclaim Limited	2890011	Dormant company	
Investments			
Aghoco 1491 Limited	10523749	Trading entity	Victrex Technology Centre, Hilhouse International, Thornton Cleveleys, Lancashire, FY5 4QD, UK
Magma Global Limited	6528820	Trading entity	Magma House Trafalgar Wharf, Hamilton Road, Portsmouth, PO6 4PX, UK

Notes to the financial statements (continued)

7) Investments (continued)

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

Incorporation of Aghoco 1491 Limited

On 13 December 2016, the Company incorporated Aghoco 1491 Limited with AGC Chemicals Limited. Aghoco 1491 Limited is a joint arrangement, in which the Company holds equal ownership and rights over the entity.

8) Deferred tax assets and liabilities

	Tangible assets 2018 £m	Employee benefits 2018 £m	Other 2018 £m	Total 2018 £m	Tangible fixed assets 2017 £m	Employee benefits 2017 £m	Other 2017 £m	Total 2017 £m
Deferred tax assets	-	1.8	0.2	2.0	-	0.2	0.2	0.4
Deferred tax liabilities	(18.2)	(2.6)	(1.0)	(21.8)	(16.8)	-	-	(16.8)
Net deferred tax (liabilities)/assets	(18.2)	(0.8)	(0.8)	(19.8)	(16.8)	0.2	0.2	(16.4)

	Tangible assets £m	Employee benefits £m	Other £m	Total £m
Movement in net provision				
At 1 October 2016	(18.5)	2.5	0.2	(15.8)
Prior period adjustment	1.7	(0.1)	-	1.6
Recognised in profit and loss account	-	0.1	-	0.1
Recognised in other comprehensive income	-	(2.3)	-	(2.3)
At 30 September 2017	(16.8)	0.2	0.2	(16.4)
Prior period adjustment	(1.3)	-	(0.3)	(1.6)
Recognised in profit and loss account	0.3	(0.4)	(0.4)	(0.5)
Recognised in other comprehensive income	-	(0.6)	-	(0.6)
Zyex acquisition (note 7)	(0.4)	-	(0.3)	(0.7)
At 30 September 2018	(18.2)	(0.8)	(0.8)	(19.8)

Notes to the financial statements (continued)

9) Stocks

	2018 £m	2017 £m
Raw materials and consumables	19.9	22.1
Work in progress	6.5	6.0
Finished goods	28.5	16.4
	54.9	44.5

The amount of stock expensed in the year is equal to the value of cost of sale.

10) Debtors

	2018 £m	2017 £m
Amounts falling due within one year:		
Trade debtors	7.3	12.4
Amounts owed by joint venture	-	0.1
Amounts owed by fellow subsidiary undertakings	11.1	19.9
Prepayments	2.7	1.0
Derivative financial instruments	1.1	7.6
Current tax assets	-	2.0
Other debtors	3.6	2.0
	25.8	45.0

Amounts owed to by fellow subsidiary undertakings are interest free, unsecured and repayable on demand.

Trade debtors are considered to be impaired when the amount is in dispute, 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.

Movements in the allowance for impairments were:

	2018 £m	2017 £m
At beginning of year	0.1	0.1
Charge in the year	0.2	-
At end of year	0.3	0.1

	2018 £m	2017 £m
Amounts falling due after more than one year:		
Amounts owed by joint venture	1.6	1.5

Amounts owed by joint venture 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)

11) Creditors: amounts falling due within one year

	2018 £m	2017 £m
Amounts due within one year:		
Trade creditors	2.0	2.4
Amounts owed to parent, subsidiary and fellow subsidiary undertakings	252.3	225.2
Accruals	28.2	21.3
Current income tax liabilities	2.5	-
Derivative financial instruments	6.2	1.3
Other creditors	0.1	1.8
	291.3	252.0

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.

12) Retirement benefit obligations

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

The latest triennial valuation was performed to 31 March 2016 and showed a scheme surplus of £773,000. The surplus position means the Company has no current obligation to make further contributions to the scheme, although this may change following future valuations. Additional contributions of £3.9m were made during the year as part of an ongoing programme with the Trustees to work towards self-sufficiency.

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.

On 26 October 2018, the High Court handed down its judgment in the Lloyds Banking Group case relating to equalisation of member benefits for the gender effects of Guaranteed Minimum Pensions ("GMP equalisation"). This addressed a long-standing legal uncertainty for Deferred Benefit pension schemes, and will result in an increase in scheme liabilities. "GMP equalisation" represents a scheme amendment, where an additional past service cost is chargeable, due to a change in the benefits payable and will be recognised in full in the Groups financial statements in the year ending 30 September 2019. The impact is expected to be in the range of £1m - £2m. This High Court judgement represents a condition that arose after the balance sheet date and has therefore been treated as a non-adjusting post balance sheet event (in accordance with IAS 10) for the year ending 30 September 2018.

Defined contribution plan

The total expense relating to the defined contribution plans in the year was £3.4m (2017: £3.3m).

Defined benefit plan

IAS 19 disclosures relating to defined benefits are as follows:

Notes to the financial statements (continued)

12) Retirement benefit obligations (continued)

Principal actuarial assumptions

	At 30 September 2018	At 30 September 2017
Discount rate	2.95%	2.80%
RPI inflation	3.40%	3.50%
CPI inflation	2.40%	2.50%
Future salary increases	n/a	n/a
Future pension increases	3.30%	3.30%
Mortality tables	S2NA CMI_2017 (1.25%)	S2NA CMI 2016 (1.25%)
Life expectancy from age 62 of current pensioners:		
Male	25.0 yrs ⁽¹⁾	25.1 yrs ⁽²⁾
Female	27.1 yrs ⁽¹⁾	27.2 yrs ⁽²⁾
Life expectancy from age 62 of active and deferred members:		
Male	26.2 yrs ⁽³⁾	26.4 yrs ⁽⁴⁾
Female	28.4 yrs ⁽³⁾	28.5 yrs ⁽⁴⁾

⁽¹⁾ Life expectancy from age 62 for members aged 62 in 2018.

⁽²⁾ Life expectancy from age 62 for members aged 62 in 2017.

⁽³⁾ Life expectancy from age 62 for members aged 45 in 2018.

⁽⁴⁾ Life expectancy from age 62 for members aged 45 in 2017.

The average duration of the benefit obligation at the end of the reporting period is 23 years (2017: 23 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	Increase in fund deficit as at 30 September 2018	Increase in fund deficit as at 30 September 2017
Reduce discount rate by 1% p.a.	£16.4m	£17.6m
Increase inflation expectations by 1% p.a.	£11.8m	£14.5m
Increase life expectancy by 1 year	£2.0m	£2.1m

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)

12) Retirement benefit obligations (continued)

Amounts recognised in the balance sheet

	At 30 September 2018 £m	At 30 September 2017 £m	At 30 September 2016 £m	At 30 September 2015 £m	At 30 September 2014 £m
Present value of funded Obligations	(68.3)	(69.9)	(78.5)	(57.9)	(57.6)
Fair value of scheme's assets	83.4	75.5	70.1	53.2	51.1
Net asset/(liability) before deferred taxation	15.1	5.6	(8.4)	(4.7)	(6.5)
Related deferred taxation (liability)/asset	(2.5)	(0.9)	1.4	0.9	1.3
Net asset/(liability) after deferred taxation	12.6	4.7	(7.0)	(3.8)	(5.2)
Change in assumptions and experience adjustments arising on scheme's liabilities	1.8	9.0	(21.2)	1.1	(6.1)
Experience adjustments arising on scheme's assets	3.6	4.2	10.6	0.3	1.1

Changes in the present value of the funded obligation

	2018 £m	2017 £m
Defined benefit obligation at beginning of year	(69.9)	(78.5)
Interest cost	(1.9)	(1.9)
Actuarial gains	1.8	9.0
Benefits paid	1.7	1.5
Defined benefit obligation at end of year	(68.3)	(69.9)

Changes in the fair value of the scheme's assets

	2018 £m	2017 £m
Fair value of scheme's assets at beginning of year	75.5	70.1
Interest income on assets	2.1	1.7
Actuarial gains	3.6	4.2
Contributions by employer	3.9	1.0
Benefits paid	(1.7)	(1.5)
Fair value of scheme's assets at end of year	83.4	75.5

Notes to the financial statements (continued)

12) Retirement benefit obligations (continued)

Major categories of scheme's assets

	At 30 September 2018 £m	At 30 September 2017 £m
UK equities	0.4	0.9
Non UK equities	7.6	15.6
Debt Instruments	20.5	20.8
Liability-driven investment ¹	37.4	11.2
Cash	0.7	0.7
Diversified growth and absolute return funds ²	16.8	26.3
Fair value of scheme's assets at end of year	83.4	75.5

¹Liability-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.

²Diversified 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	2018 £m	2017 £m
Interest on liabilities		(1.9)	(1.9)
Interest income on assets		2.1	1.7
Total included in 'staff costs'	3	0.2	(0.2)

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

	2018 £m	2017 £m
Cumulative amount at beginning of year	(11.1)	(24.3)
Movement in year	5.4	13.2
Cumulative amount at end of year	(5.7)	(11.1)

13) 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)

13) 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 2005/2015 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 2005/2015 Employee Stock Purchase Plan

US based employees (including executive Directors) are eligible to participate in the Victrex 2005 Employee Stock Purchase Plan. The price payable for each ordinary share shall be a price determined by the Board, provided that it shall not be less than 85% of the lower of the market value of an ordinary share on the date of grant or the date of purchase.

Awards may be granted over a number of ordinary shares determined by the amount employees have saved by the end of a one year savings period.

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

Each year executive Directors, and senior executives by invitation, are eligible to be awarded options to acquire, at no cost, ordinary shares in the Company up to a maximum equivalent of 150% of basic salary. In exceptional circumstances, such as recruitment or retention, this limit is increased to 200% of an employee's annual basic salary.

Awards normally vest in three equal tranches on the third, fourth and fifth anniversaries of grant to the extent that the applicable performance conditions (see below) have been satisfied and provided the participant is still employed in the Company's Group. Participants will have a five year period from the date each tranche vests in which to exercise awards structured as nil (or nominal) cost options.

Participants will 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.

Alternatively, participants may have their awards increased as if dividends were paid on the shares subject to their award and then reinvested in further shares.

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'):

Notes to the financial statements (continued)

13) Share-based payments (continued)

- 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.

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	Stock Purchase Plan	LTIP	DBS
Range of exercise prices in the year					
2018	805.0p – 2,730p	1,266p – 2,164p	-	nil p	n/a
2017	752.0p – 2,052p	1,266p – 1,633p	-	nil p	-
Weighted average contractual life (years)					
2018	7.7	1.9	0.4	8.4	7.3
2017	7.7	2.5	0.4	8.0	-

Staff costs – equity-settled share-based payment transactions

	Note	2018 £m	2017 £m
ESOP		1.0	0.9
Sharesave Plan		0.5	0.6
LTIP		1.1	0.8
	3	2.6	2.3

Notes to the financial statements (continued)

14) Share capital and reserves

Share capital

	2018 Number	2018 £m	2017 Number	2017 £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, a final dividend of £100 per share totalling £100.0m was approved and paid to the parent company, Victrex plc (2017: £100.0m).

15) Operating leases

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

	2018 £m	2017 £m
Not later than one year	0.6	0.4
Later than one year but not later than five years	1.4	0.8
Later than five years	2.2	2.3
	4.2	3.5

16) 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.

The following are the critical judgements and key sources of estimation uncertainty that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Management has discussed these with the Directors.

Notes to the financial statements (continued)

16) Accounting estimates and judgements (continued)

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

Judgements made in applying accounting policies

Other than judgements involving the use of estimates, the Directors do not consider there are any judgements made in applying the 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 estimates and assumptions that, if revised, would have a significant risk of a material impact on the valuation of assets and liabilities within the next financial year are as follows:

Stock valuation

The valuation of inventory, detailed in note 9, requires the use of estimates, with judgement required both in identification of directly attributable costs, to be absorbed into inventory valuation, and the level of normal production over which these costs are absorbed. The assessment of normal production considers current

year actual, prior period actual and budgeted production when concluding on the appropriate level over which to absorb production costs. Similarly judgement is used in determining which costs are considered to be directly attributable to the production of inventory. Management use their detailed experience in this process in forming their view on the adjustment required to record inventory at cost.

Inventory provisions are put in place for slow moving and potentially obsolete inventory as well as damaged and/or out of specification product where cost is considered to be higher than net realisable value. The level of provisioning is an estimate, with judgement required on ageing, customer order profiles, alternative routes to market and the option to re-process.

Pension scheme

The valuation of pension scheme liabilities is calculated in accordance with 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 12 contains information about the assumptions relating to retirement benefit obligations and also the sensitivity of the pension liability to movements in these assumptions.

Tangible assets

Tangible assets of the Company are £235.8m (2017: £239.4m) which represents 50% (2017: 50%) of the Company's total assets. In relation to an asset, the depreciation charge is derived using estimates of its useful economic lives and residual value, which is based on historical experience in addition to other relevant assumptions, for instance speed of technological change and level of forecast utilisation. Assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to a change in the useful economic life or residual value.

Tax provisioning

The Company operates in a number of geographies and different tax jurisdictions. There is an inherent uncertainty in some of these jurisdictions with the tax calculation involving estimation in respect of matters where the tax impact is uncertain until a conclusion is reached with the relevant tax authority. Management use their experience of each geography along with that of their advisors in estimating the tax charge for the period and any provision required for previous periods. Based on recently-granted UK patents and following discussions with Her Majesty's Revenue & Customs (HMRC) about the UK's Patent Box legislation, management has assessed the acceptance of Patent Box to be more likely than not and has therefore

Notes to the financial statements (continued)

16) Accounting estimates and judgements (continued)

included the benefit in the calculation of the current year tax charge. The impact of this is shown in note 4. Management will reassess this position on a continuous basis in with any changes in the legislation and further discussions with HMRC.

17) 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.

18) 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.