4 December 2018

Victrex plc – Preliminary Results 2018

'Core growth & mega-programme progress'

Victrex plc, an innovative world leader in high performance polymer solutions, today announces its preliminary results for the 12 months ended 30 September 2018.

	FY 2018	FY 2017	% change
Group sales volumes	**4,407 tonnes**	3,992 tonnes	+10%
Group revenue	**£326.0m**	£290.2m	+12%
Gross profit	**£208.0m**	£183.8m	+13%
Gross margin	**63.8%**	63.3%	+50 bps
Profit before tax (PBT)	**£127.5m**	£111.0m	+15%
EPS	**128.8p**	116.4p	+11%
Dividend per share (regular & special dividend)	**142.24p**	121.80p	+17%

Highlights:

- **Strong core business* growth**
  - *Group sales volumes up 10% driven by core growth & mega-programme progress*
  - *Group revenue up 12%; constant currency revenue** up 7%*
  - *Strong performances across Industrial markets; Medical revenue up 3%*
  - *Profit before tax (PBT) up 15%, supported by currency*

- **Further progress in 'mega-programmes'**
  - *Major Dental supply agreement with Straumann and new Trauma collaboration*
  - *PEEK Gears now "on the road" & further larger opportunities*
  - *Strong performance in Magma following planned deployments & further opportunities*
  - *TxV Aero Composites facility in commissioning; new Aerospace alliances under discussion*
  - *Clinical trial submitted for PEEK Knee programme*

- **Continued strong cash generation, supporting investment & shareholder return**
  - *Operating cash conversion** of 107% giving cash available** up 20% to £144.4m*
  - *Regular dividend up 11% to 59.56p/share and special dividend of 82.68p/share*
  - *Dividend distribution policy retained, balancing investment flexibility & shareholder return*

Jakob Sigurdsson, Chief Executive of Victrex, said: "This has been a strong year for Victrex, with broad based growth in our core polymer business and further good progress in our new product pipeline. We delivered a range of notable milestones across each of our mega-programmes and we are currently closing in on larger opportunities in Gears, as well as being in advanced discussions for new strategic Aerospace alliances.

"After my first year as CEO, it's clear that moving downstream through our Polymer & Parts strategy will further differentiate Victrex in a competitive market and enable us to capture our long-term growth opportunities. We will continue to invest in support of future growth, as well as reviewing partnership and acquisition opportunities. Strong cash generation continues to offer the opportunity of attractive returns to shareholders and we are today announcing a special dividend of 82.68p, whilst retaining the current dividend distribution policy, thereby balancing investment for growth with shareholder return.

"For 2019, our expectation is for continued momentum in our core polymer business and milestones in our mega-programmes. We expect to make good progress on a constant currency basis, however, adverse currency, no expected volumes in Consumer Electronics and recent market softness in Automotive may hold back our ability to substantially improve on our overall 2018 performance, with these headwinds falling mainly in the first half. A better second half, compared to the prior year, is our current assessment and with strong structural growth opportunities and a healthy new product pipeline, we continue to be well-placed for the medium and long term."

*** Core business, core growth, etc, excludes Consumer Electronics and sales from mega-programmes.**

**** Alternative performance measures are defined on page 20.**

About Victrex:

Victrex is an innovative world leader in high performance polymer solutions, focused on the strategic markets of automotive, aerospace, energy (including manufacturing & engineering), electronics and medical. Every day, millions of people use products and applications which contain our materials – from smartphones, aeroplanes and cars to oil and gas operations and medical devices. With over 40 years' experience, we develop world leading solutions in PEEK and PAEK based polymers, semi-finished and finished parts which shape future performance for our customers and our markets, and drive value for our shareholders. Find out more at www.victrexplc.com or follow us on LinkedIn and Twitter @victrexir

A presentation for investors and analysts will be held at 9.30am (GMT) this morning at JP Morgan, 1 John Carpenter Street, London EC4Y 0JP. A conference call facility will be available for analysts and investors who are unable to attend the presentation. To register, dial +44 (0) 3333 000804 and participant pin 82946335#. The presentation will be available to download from 9.00am (GMT) today on Victrex's website at www.victrexplc.com.

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Preliminary results statement for the 12 months ended 30 September 2018

'Core growth & mega-programme progress'

Group financial results

Full year sales volume up 10%
Group sales volume of 4,407 tonnes was 10% ahead of the prior year (FY 2017: 3,992 tonnes). Growth was broad-based with all markets recording volume increases at or near double-digits. Growth did slow slightly in the second half, due in part to the large Consumer Electronics order which had been substantially fulfilled in the first half. We also saw some softening in certain Industrial markets during Q4, principally Automotive – in line with the wider market – and Consumer Electronics. Excluding the effect of the large Consumer Electronics order, sales volume growth edged down from 13% in the first half, to 6% in the second half, which saw tougher comparatives.

Revenue up 12%, Constant currency revenue 7% ahead
Group revenue was £326.0m, 12% ahead of the prior year (FY 2017: £290.2m) supported by the strong first half weighting from currency. Group revenue in constant currency was 7% ahead of the prior year (FY 2017: £305.3m in constant currency), with a slightly weaker sales mix, dampened by a slightly higher proportion of Consumer Electronics volumes and further growth in our Value Added Resellers segment. Sales from new products** (one of our strategic KPIs) grew in absolute terms to £11.5m (FY 2017: £10.7m), but remained similar to FY 2017 as a percentage of Group sales (4%), reflecting stronger growth in the core business. We continue to aspire to deliver 10-20% of sales from new products or new grades over the medium term, with the time taken for market adoption being key.

Industrial strong, offset by Medical
Our Industrial division reported revenues of £270.4m, 14% ahead of the prior year (FY 2017: £236.3m), supported by currency. Market growth was broad based, with Automotive, Electronics and Energy being the strongest performers, along with growth in our emerging Manufacturing & Engineering business. Victrex also saw a positive performance in Aerospace following a weaker 2017.

Medical revenues were £55.6m, 3% ahead of the prior year (FY 2017: £53.9m), driven by currency. In constant currency, Medical revenues were flat, reflecting our high exposure to the US Spine market, which is mature and seeing some continued growth in titanium expandable cage applications, as well as 3D printed porous titanium cages. Pleasingly, progress outside of the US, overall, continues to be positive with 27% growth in Asia. Our next generation Spine product, PEEK-OPTIMA™ HA Enhanced, delivered a similar performance to FY 2017, with "meaningful revenue" of approximately £1m and over 10,000 patient implants using this product.

ASP ahead reflecting currency
Our Average Selling Price (ASP) of £73.97/kg was 2% better than the prior year (FY 2017: £72.70/kg), with the benefit of currency partially offset by the weaker mix.

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

Robust gross margin
Group gross margin of 63.8% (FY 2017: 63.3%) was slightly ahead of the prior year, supported by favourable currency movements but offset by the weaker mix. Manufacturing costs were stable. We also saw a small year on year impact from our Zyex acquisition which, as a business producing semi-finished products, supports a lower gross margin percentage. For 2019, on a full year reported basis, we anticipate that Group gross margin will be slightly lower, principally reflecting material inflation and currency headwinds.

As we develop differentiated down-stream products to support our mega-programmes, we have the opportunity to build new markets for PEEK whilst capturing a higher absolute value share of each application. Whilst this may cause a slight softening of our gross margin percentage in the short term, we are confident that this strategy will not only further differentiate and capture greater value in our markets, but will lead to enhanced returns.

Profit before tax up 15% and EPS 11% ahead
Group profit before tax (PBT) of £127.5m was 15% up on the prior year (FY 2017: £111.0m). PBT in constant currency increased by 3%.

The future growth of our core business, as well as the success of our mega-programmes, requires ongoing investment in our 'front-end' functions of Sales, R&D and Marketing. Together with an increased charge for the Group's employee bonus and LTIP schemes, which are based on profit growth, overheads increased by 12%.

Basic earnings per share of 128.8p was 11% ahead (FY 2017: 116.4p per share), which reflects the first normalised financial year in which the Group tax rate benefited from the UK Patent Box scheme. The Group's effective tax rate was 13.3% for FY 2018 (FY 2017: 10.4%), reflecting the impact of the treatment of currency hedging and stock movements within the Patent Box methodology. As our application of the scheme settles down, we expect our effective tax rate going forward to be slightly more variable than initially expected and likely to be in the range from 10.5% to 13.5%.

Currency tailwind in FY 2018; headwind for FY 2019
Currency benefited the Group in FY 2018, with a benefit to profit of approximately £13m. The currency tailwind significantly reduced through the second half, moving to a small headwind in the fourth quarter.

These currency impacts arise as a consequence of currency market movements, combined with our hedging policy which seeks to substantially protect our cash flows from currency volatility on a rolling twelve month basis. The policy requires that at least 90% of our cash flow exposure is hedged for the first six months, then at least 75% for the second six months of any twelve month period. The implementation of the policy is overseen by an Executive Currency Committee which approves all transactions and monitors the policy's effectiveness. The Board reviews the effectiveness of the policy each year, the next review being in February 2019.

As a consequence of the hedging policy, over 80% of FY19 cash flows were hedged as at October 2018, leading to an expected currency headwind of between £6m and £8m, which includes the impact of raw material and energy cost inflation

Further information is available in note 14 of the Financial Statements, in our forthcoming Annual Report.

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

Based on our assessment of the latest available information, our principal risk continues to be that there could be a sustained period when the Group may not be able to import certain raw materials or export finished goods through Customs, which could curtail sales if regional inventory levels were depleted. In mitigation, additional warehousing for finished goods stock has been secured in mainland Europe and China which will allow a minimum of eight weeks of finished goods stock to be held outside the UK by the end of March 2019. We have also secured some additional raw material stocks. Group inventories could exceed £80m through FY19 as a consequence (FY 2018: £69.3m).

Victrex has attempted to assess the potential financial impact of a 'no deal' Brexit. Should standard WTO tariffs be applied, increased costs may be incurred through the application of duties to the import of certain raw materials and on the export of finished goods. It is possible in the first year following our exit from the EU that these could be substantially mitigated by a weakening of Sterling, but this is heavily dependent on the timing of any deal announcement and resulting currency market movements. As the only current manufacturer of PEEK products in the EU, we are also preparing to exploit longer term tariff mitigation strategies that may be available to us.

An Executive Committee has been established to monitor Brexit developments and direct mitigating actions. The Company continues to monitor the situation closely.

Investment to drive growth
We continue to invest in the growth of our core Industrial and Medical businesses. This investment is primarily in our "front-end" Sales, Technical Service and R&D capabilities that are critical to our ongoing success. An ongoing focus on quality is also essential, as is continuous improvement in our operations. We have taken steps to accelerate our progress in these areas during the year.

This investment has led to some new and incremental applications across a number of markets. Examples include home appliance applications such as vacuum cleaners in the electronics market; and fluid handling and food processing applications in Manufacturing & Engineering markets (which reports under Energy & Other Industrial). We also recently launched Victrex FG™, a dedicated polymer grade for the food industry, to reflect increasing regulatory standards and the need for alternative materials.

Total operating overheads were up 12% to £81.1m (FY 2017: £72.7m). This was driven in part by a higher accrual for the Group's profit growth linked bonus scheme and LTIPs, whilst investment in our "business facing" functions grew by 8%. Research & Development investment of £17.4m (FY 2017: £14.5m) represents approximately 5% of Group revenue and is anticipated to remain similar to, or slightly above this level, over the medium term.

For FY19, we again are budgeting for a significant increase in 'business-facing' overhead investment to support both core growth and our Mega-programmes, as well as some operating expense as we explore new capacity options. The impact is expected to be offset by a lower accrual for bonus and LTIPs, which reflects consensus expectations of lower profit growth due to currency headwinds and our expectations around Consumer Electronics volumes, to give total overheads for the year broadly in line with FY18.

Manufacturing investment supports downstream strategy

Capital investment in the short to medium term remains focused around our downstream manufacturing facilities, which support each of our new product "mega-programmes". For 2018, the focus was on our TxV Aero Composites joint venture, where Victrex and Tri-Mack Plastics teamed up to manufacture, at scale, differentiated Loaded Brackets and composite parts for the Aerospace market. Our new US manufacturing facility started commissioning at the end of the financial year, supporting first prototype orders for composite parts, based on our AE™250 polymer grade, which is already pre-qualified with the major aerospace manufacturers. We also saw some small-scale investment at our Victrex Grantsburg (Kleiss Gears) facility in the US to support additional manufacturing capacity, and at our Victrex Stonehouse (Zyex Fibres) facility in the UK.

Capital expenditure was low at £9.9m (FY 2017: £16.7m) but our guidance for Group capital expenditure for the medium term at £20m-£25m per annum remains unchanged.

At the half year, we announced that we would need to invest in new polymer manufacturing capacity during the next five years. This reflects Victrex's historical trend of investing ahead of demand and is driven by the current volume momentum in the business, the potential from high volume down-stream applications, and an assessment of our effective capacity. Options are currently being explored and we expect to be presenting recommendations to the Board during 2019.

Further milestones achieved in our Mega-programmes
In our medium to longer term pipeline, we saw milestones delivered in all of our Mega-programmes.

Gears saw the start of a first supply agreement to a major European car manufacturer during the period, with our PEEK Gears now 'on the road'. With multiple development agreements in place with other car manufacturers, our discussions suggest we are close to other larger supply opportunities through 2019 and beyond. Thanks to the capabilities we acquired through the Kleiss Gears acquisition, we are able to design, develop and manufacture PEEK based gears, although partnerships for manufacturing will be the focus going forward, ensuring Victrex retains the IP but limits the capital required to scale up manufacturing.

Our **Aerospace Loaded Brackets** programme will benefit from the completion of our TxV Aero Composites manufacturing facility, which will give us the capability to manufacture parts from 2019. Progress has also been made in establishing long-term development alliances with a number of Aerospace OEMs, and we are in advanced discussions here.

In Energy, our **Pipe** programme with Magma earned revenue in the period from the manufacture of a 2.5km subsea flowline to be supplied for a customer deployment. Victrex supplied the PEEK pipe and PEEK composite tape as part of the finished m-pipe produced by Magma. Looking further forward, we note the TechnipFMC announcement relating to the potential use of m-pipe within the Libra field development in Brazil, building on other potential supply opportunities with Tullow and Equinor (formerly Statoil) over the next 1-2 years.

In Medical, our focus to grow our non-Spine business saw a notable milestone in **Dental**, where we signed a customer agreement with Straumann Dental, which will help to enhance market access and improve the global reach for our Invibio Dental product (Juvora™). This builds on the product's strong record of clinical data and existing European and US regulatory approvals. Further customer discussions are ongoing and our focus is to secure meaningful revenue of over £1m in Dental over the next year. We also secured distribution agreements in Europe.

In **Trauma**, we secured a collaboration agreement with a top 5 player and through our partner Maxx, saw the clinical trial for our **Knee** programme following ethics approval and appointment of the lead investigator.

Strong balance sheet
With a strong balance sheet, we are able to support growth investment and provide security of supply to our customers. Net assets at 30 September 2018 totalled £489.9m (FY 2017: £478.4m). Inventories slightly increased to £69.3m (FY 2017: £61.5m), as we saw some stock build as part of developing new polymer grades and as our Brexit contingency plan starts to take effect.

Continued strong cash generation
Cash generated from operations was £135.8m (FY 2017: £137.4m) representing an operating cash conversion (cash generated from operations / operating profit) of 107% (FY 2017: 124%). Net cash (with no debt) at 30 September 2018 was £144.4m (FY 2017: £120.1m), based on available cash**, which includes cash held on deposit. In July 2018 we paid the 2018 interim dividend of 13.42p per share. Combined with the payment for the 2017 special dividend and final dividend, dividend payments in 2018 totalled £105.6m (FY 2017 dividends paid: £40.4m).

Taxation
The Group's effective tax rate reflects the associated benefit from Victrex filing patents as part of its unique chemistry and IP. Victrex qualified under the UK government's Patent Box scheme, which incentivises Research & Development investment in the UK. As previously communicated, the scheme is expected to provide an associated benefit to our tax rate from 2017 for the duration of the patents, resulting in a normalised tax rate of approximately 12% and a range expected to be between 10.5% and 13.5%. The effective tax rate of 13.3% for FY 2018 (FY 2017: 10.4%) reflects gains from foreign currency hedges which are taxed, outside the Patent Box regime, at a normalised corporation tax rate, as well as the impact of stock movements on the patent box methodology.

Dividends

Retaining the flexibility to invest in support of our growth remains our top priority, whether that is through capital expenditure, M&A, joint ventures or partnerships. The Group also has a potential requirement for investment in new or additional polymer manufacturing capacity within five years. The Board has assessed several distribution options for future shareholder returns, whilst noting these investment needs, and has concluded that our current capital allocation policy should be retained, which is to grow the regular dividend broadly in line with earnings, whilst maintaining cover around 2x. The Group will also retain the threshold for payment of a special dividend at 50p/share from FY 2019 subject to no additional investment requirements.
With the Group delivering a strong performance in 2018, the final dividend will increase in line with EPS, by 11% to 46.14p/share (FY 2017: 41.60p/share), giving total regular dividends of 59.56p/share for the year. In addition, the Group is proposing a special dividend of 82.68p/share, based on the minimum threshold of 50p/share being reached.

New accounting standards

Victrex will adopt the requirements of IFRS 9 and IFRS 15 with effect from 1 October 2018, as explained in our forthcoming Annual Report. Whilst neither has a material impact on the Group's results, it should be noted that the presentation of gains and losses on currency contracts under IFRS 9 has the potential to affect our reported gross margin percentage, but not absolute gross profit, in future statements.

Pensions

The outcome of the recent Lloyds Banking Group case in October 2018, in relation to guaranteed minimum pensions has also been noted. Should this outcome be upheld, we anticipate that a one-off non-cash P&L charge in the range £1m to £2m may arise during FY19. The Victrex Pension Fund remains in surplus on both a technical provisions and on an accounting basis.

Outlook

For 2019, our expectation is for continued momentum in our core polymer business and milestones in our mega-programmes. We expect to make good progress on a constant currency basis, however, adverse currency, no expected volumes in Consumer Electronics and recent market softness in Automotive may hold back our ability to substantially improve on our overall 2018 performance, with these headwinds falling mainly in the first half. A better second half, compared to the prior year, is our current assessment and with strong structural growth opportunities and a healthy new product pipeline, we continue to be well-placed for the medium and long term.

Jakob Sigurdsson
Chief Executive
4 December 2018

DIVISIONAL REVIEW

Industrial

	12 months Ended 30 Sep 2018 £m	12 months ended 30 Sep 2017 £m	Change
Revenue	270.4	236.3	14%
Gross profit	158.6	135.5	17%

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

Our Industrial business delivered revenue of £270.4m (FY 2017: £236.3m), 14% ahead of the prior year, supported by currency. Gross profit was up 17% on the prior year, with gross margin up at 58.7% (FY 2017: 57.3%), reflecting the benefit of currency, offset by a slightly weaker Industrial mix, as growth in Value Added Resellers continued, alongside a slightly higher contribution from Consumer Electronics. Industrial also saw some emerging inflation in selected raw materials.

Energy & Other Industrial

Energy & Other Industrial (which includes Manufacturing & Engineering) reported sales volume of 680 tonnes, which was 23% ahead of the prior year (FY 2017: 555 tonnes), with Oil & Gas up 19% overall. Victrex saw continued year on year improvement, with onshore prospering, whilst the offshore sector has not yet returned to activity levels seen earlier this decade. Our Magma oil & gas mega-programme delivered meaningful revenue of over £1m during 2018, with Victrex supplying the PEEK pipe and PEEK composite tape as part of the finished m-pipe produced by Magma. Materials for a planned deployment in West Africa supported growth, with further opportunities for FY 2019, whilst a long-term opportunity offshore in Brazil with TechnipFMC continues to support the Magma proposition.

Manufacturing & Engineering (M&E) remains a relatively new area for Victrex and is becoming a meaningful contributor to our Energy & Other Industrial business M&E is focused on new or incremental applications in fluid handling, food contact materials and manufacturing equipment based applications, where metal replacement requirements are increasing. M&E again saw double-digit volume growth through 2018 and we recently introduced Victrex™ FG, a food grade product.

Value Added Resellers

Value Added Resellers combines a mix of long term 'Channels' business, where processors or compounders are using our PEEK materials for part or component manufacturing specified by end users and OEMs, together with more variable demand requirements as the "pull" from Industrial markets using Victrex™ PEEK continues to grow. Because of the fragmented nature of the industrial supply chain, once PEEK has been specified by end users, full clarity on the exact route to market for all of our polymer business is not always possible. Sales volume of 1,766 tonnes was 5% ahead of last year (FY 2017: 1,688 tonnes), as processors and Industrial customers continued to benefit from the growth opportunities within the high-performance polymer market, although Q4 growth rates were slightly lower, principally due to phasing.

Transport

A number of megatrends, including lightweighting, CO2 reduction, durability, comfort and heat resistance continue to support the long-term outlook for Transport markets. Sales volume increased 11% to 1,035 tonnes

(FY 2017: 929 tonnes), primarily driven by an improved year on year performance in Aerospace, and another good performance in Automotive.

Automotive
Automotive growth saw volumes increase 8%, well ahead of market growth. Continued translations of core applications offer opportunities across manufacturers, in braking systems, transmission and chassis applications. Victrex™ PEEK is predominantly deployed within the vehicle powertrain and with a long track record here, our focus is to increase the average volume to approximately 12 grams of PEEK per vehicle over the medium term, compared to approximately 8 grams today.

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

Our Gears are now "on the road", with the first parts supplied to a major European car manufacturer, and we also have several development agreements in place which we anticipate will lead to further parts being supplied. PEEK gears based on Victrex™ HPG PEEK can offer a 50% performance and noise vibration and harshness (NVH) benefit compared to metal gears, as well as contributing to the trend for minimising CO2 emissions through weight & inertia reduction, and quicker manufacturing compared to metal. We remain focused on driving this mega-programme towards a meaningful (£1m+) revenue stage in 2019. To help scale this opportunity, we will partner with manufacturing companies to support a wider roll-out and reduce development time, whilst retaining the development know-how. A PEEK Gear offers the potential of approximately 20 grams per application.

Aerospace
Aerospace saw a positive year on year performance, with volumes increasing by 23%, although revenue growth was lower as pricing remained competitive. Brackets, fasteners and other applications continue to offer incremental translation opportunities. Medium term growth prospects look positive as build rates and the use of composites and differentiated products increase. Light-weighting and the ability to reduce manufacturing cycle time by up to 40% is a key selling point for our PEEK and PAEK polymers. Beyond this, our differentiated polymer grades, such as our AE™250 (low-melt) version continue to progress, alongside our focus on product forms and parts, such as film and our Aerospace Loaded Brackets opportunity. Our new US manufacturing facility in Rhode Island, US, is in commissioning and nearing completion, with the ability to initially manufacture approximately 150 tonnes of composite parts per year. We are also in advanced discussions around strategic alliances which could support further development and commercialisation of thermoplastic composites in primary and secondary structures in the coming years. With projections of around 41,000 new or replacement aircraft required by 2035, the long-term opportunities in this market, particularly in lightweight composite parts, remain strong.

Electronics
Electronics remained a strong performer during the period. Total volumes were up 19% to 746 tonnes (FY 2017: 626 tonnes), including volumes from the large Consumer Electronics order, which were slightly ahead of 2018. With this order reflecting legacy applications, we anticipate much lower or zero volumes in 2019, although we increased the potential revenue opportunity for our 'Mobile Devices' programme, reflecting some of our broader medium-term prospects. Victrex saw strength in Semiconductor, in APTIV™ film and emerging applications for Home Appliances and other consumer related areas during 2018, and we anticipate continued momentum in these areas, whilst recognising the inherent "lumpiness" of the Electronics segment.

Regional trends
Regional trends remain important to Victrex. Europe was up 7%, with 2,308 tonnes (FY 2017: 2,155 tonnes), reflecting the strength in Transport, Value Added Resellers and Industrial markets. Asia-Pacific was up 20% to 1,264 tonnes (FY 2017: 1,049 tonnes) principally from Electronics, whilst US volumes were 6% ahead at 835 tonnes (FY 2017: 788 tonnes) largely reflecting the year on year improvement in the Energy market.

Medical

	12 months Ended 30 Sept 2018 £m	12 months ended 30 Sept 2017 £m	Change
Revenue	55.6	53.9	3%
Gross profit	49.4	48.3	2%

Medical revenue, including the benefit of currency, was up 3% at £55.6m (FY 2017: £53.9m). In constant currency, Medical revenue was flat, principally reflecting the maturity of the US Spine market, where we have the most exposure. Gross profit was £49.4m (FY 2017: £48.3m) and gross margin remained stable at 88.8% (FY 2017: 89.6%).

Revenue outside of the US remains robust, with Asia-Pacific growing by 27%, offset by a decline in Europe of -5%. Asia-Pacific growth principally reflects some non-Spine areas such as Cranio Maxio-Facial (CMF) and Arthroscopy, as sales mix within Medical weakened.

Medical market overview

The lack of material growth in the number of US spinal procedures over recent years, continued growth in expandable spinal cages, 3D printed titanium cages and some downward pressure on pricing have led to revenue growth being challenging in recent years.

Our focus is to diversify our Medical business into non-Spine areas, as well as seeking growth through emerging geographies. Our premium and differentiated PEEK-OPTIMA™ HA Enhanced product – to drive next generation Spine procedures – is one part of our strategy to grow our Medical business. Having delivered over £1m of revenue in 2017, we saw a similar performance in 2018, where we now have over 10,000 patient implants. Whilst it will cannibalise some of our existing Spine product, the medium-term opportunity for global translations is attractive.

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

Mega-programmes

Good progress was made this year in Dental, where we signed a customer agreement with Straumann Dental, one of the world's leading dental companies, which will help increase market penetration of our Invibio Dental (Juvora™) branded products. The agreement will help to improve global reach – our sales resource by virtue of Straumann will increase significantly – building on PEEK-OPTIMA™'s clinical performance and existing European and US regulatory approvals – and we also secured two distribution agreements in Europe.

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

Our Dental product was first commercialised in 2012, initially through regional dental laboratories. It secured CE mark approval in 2012, followed by initial US FDA approval in 2014, and a further FDA approval in 2017 for use in prosthetic All on 4 implants. Juvora™ was also granted a US patent in 2017. Whilst Dental sales remain below the £1m meaningful revenue threshold, we anticipate that with the Straumann agreement, and other potential market access opportunities, we have the opportunity to realise meaningful revenue over the next 12 months.

With our Trauma manufacturing facility in place, we have the ability to meet initial demand and will be further developing our capacity capabilities over the next 1-2 years. Our PEEK composite Trauma plates offer the potential for 50 times better fatigue resistance compared to a metal plate. They also offer the opportunity for enhanced healing. The awareness of composites as a viable metal alternative is growing and we successfully signed a collaboration agreement with a top 5 Trauma player during the year. We are also continuing to work with smaller innovative players through development agreements.

In Knee, our PEEK based solutions offer potential in this $6 billion global market. With 1 in 5 patients dissatisfied with their knee surgery, typically those using metal based solutions, patient demand for alternatives is growing. Our Knee proposition and partnership with Maxx Orthopedics provides a good platform to support our long-term aspirations. The Knee clinical trial has now been submitted, with the lead investigator appointed in Italy, ethics approval and patient recruitment moving forward, with a focus to safely progress the clinical trial during FY 2019.

CONSOLIDATED INCOME STATEMENT

for the year ended 30 September

	Note	2018 £m	2017 £m
Revenue	2	**326.0**	290.2
Cost of sales		**(118.0)**	(106.4)
Gross profit	2	**208.0**	183.8
Sales, marketing and administrative expenses		**(81.1)**	(72.7)
Operating profit		**126.9**	111.1
Financial income		**0.6**	0.3
Financial expenses		**-**	(0.4)
Profit before tax		**127.5**	111.0
Income tax expense	3	**(16.9)**	(11.5)
Profit for the period attributable to owners of the parent		**110.6**	99.5
Earnings per share			
Basic		**128.8p**	116.4p
Diluted		**128.2p**	116.2p

	2018	2017
Dividends		
Interim	**13.42p**	12.20p
Final	**46.14p**	41.60p
Special	**82.68p**	68.00p
	142.24p	121.80p

A final dividend in respect of 2018 of 46.14p and a special dividend of 82.68p per ordinary share has been recommended by the Directors for approval at the Annual General Meeting in February 2019.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September

	2018 £m	2017 £m
Profit for the period	110.6	99.5
Items that will not be reclassified to profit or loss		
Defined benefit pension schemes' actuarial gains	5.6	13.6
Income tax on items that will not be reclassified to profit or loss	(0.9)	(2.3)
	4.7	11.3
Items that may be subsequently reclassified to profit or loss		
Currency translation differences for foreign operations	1.1	(1.5)
Effective portion of changes in fair value of cash flow hedges	(4.6)	2.9
Net change in fair value of cash flow hedges transferred to profit or loss	(4.3)	13.3
Income tax on items that may be reclassified to profit or loss	2.0	(3.3)
	(5.8)	11.4
Total other comprehensive (expense)/income for the period	(1.1)	22.7
Total comprehensive income for the period attributable to owners of the parent	109.5	122.2

CONSOLIDATED BALANCE SHEET

for the year ended 30 September

	2018 £m	2017 £m
Assets		
Non-current assets		
Property, plant and equipment	253.4	258.6
Intangible assets	27.6	30.6
Investments	4.5	10.0
Deferred tax assets	7.2	5.6
Retirement benefit asset	13.5	3.8
	306.2	308.6
Current assets		
Inventories	69.3	61.5
Current income tax assets	0.1	2.4
Trade and other receivables	42.7	37.9
Derivative financial instruments	1.1	7.6
Other financial assets	73.2	-
Cash and cash equivalents	71.2	120.1
	257.6	229.5
Total assets	563.8	538.1
Liabilities		
Non-current liabilities		
Deferred tax liabilities	(22.5)	(18.4)
	(22.5)	(18.4)
Current liabilities		
Derivative financial instruments	(9.3)	(4.2)
Current income tax liabilities	(5.3)	(3.0)
Trade and other payables	(36.8)	(34.1)
	(51.4)	(41.3)
Total liabilities	(73.9)	(59.7)
Net assets	489.9	478.4
Equity		
Share capital	0.9	0.9
Share premium	48.0	43.0
Translation reserve	3.8	2.7
Hedging reserve	(3.4)	3.8
Retained earnings	440.6	428.0
Total equity attributable to owners of the parent	489.9	478.4

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 September

	2018 £m	2017 £m
Profit after tax for the year	110.6	99.5
Income tax expense	16.9	11.5
Financial income	(0.6)	(0.3)
Financial expense	-	0.4
Operating profit	126.9	111.1
Adjustments for:		
Depreciation	15.3	15.3
Amortisation	2.7	2.3
Loss on disposal of non-current assets	0.7	-
(Increase)/decrease in inventories	(7.1)	0.2
(Increase)/decrease in receivables	(5.6)	8.9
Increase in payables	1.9	5.6
Equity-settled share-based payment transactions	2.6	2.3
Losses/(gains) on derivatives in income statement that have not yet settled	2.6	(7.5)
Retirement benefit obligations charge less contributions	(4.2)	(0.8)
Cash generated from operations	135.8	137.4
Interest received	0.6	0.3
Interest paid	-	(0.3)
Tax paid	(7.4)	(19.8)
Net cash flow generated from operating activities	129.0	117.6
Cash flow used in investing activities		
Acquisition of property, plant and equipment and intangible assets	(9.9)	(16.7)
Increase in other financial assets	(73.2)	-
Cash received from investments	5.5	-
Cash consideration of acquisitions	-	(9.9)
Cash acquired with acquisitions	-	0.9
Net cash flow used in investing activities	(77.6)	(25.7)
Cash flow used in financing activities		
Proceeds from issue of ordinary shares exercised under option	5.0	5.2
Dividends paid	(105.6)	(40.4)
Net cash flow used in financing activities	(100.6)	(35.2)
Net (decrease)/increase in cash and cash equivalents	(49.2)	56.7
Effect of exchange rate fluctuations on cash held	0.3	(0.6)
Cash and cash equivalents at beginning of year	120.1	64.0
Cash and cash equivalents at end of year	71.2	120.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
Equity at 1 October 2016	0.9	37.8	4.2	(9.2)	355.4	389.1
Total comprehensive income for the year						
Profit	-	-	-	-	99.5	99.5
Other comprehensive (expense)/income						
Currency translation differences for foreign operations	-	-	(1.5)	-	-	(1.5)
Effective portion of changes in fair value of cash flow hedges	-	-	-	2.9	-	2.9
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	13.3	-	13.3
Defined benefit pension schemes' actuarial gains	-	-	-	-	13.6	13.6
Tax on other comprehensive (expense)/income	-	-	-	(3.2)	(2.4)	(5.6)
Total other comprehensive (expense)/income for the year	-	-	(1.5)	13.0	11.2	22.7
Total comprehensive (expense)/income for the year	-	-	(1.5)	13.0	110.7	122.2
Contributions by and distributions to owners of the Company						
Share options exercised	-	5.2	-	-	-	5.2
Equity-settled share-based payment transactions	-	-	-	-	2.3	2.3
Dividends to shareholders	-	-	-	-	(40.4)	(40.4)
Equity at 30 September 2017	0.9	43.0	2.7	3.8	428.0	478.4
Total comprehensive income for the year						
Profit	-	-	-	-	110.6	110.6
Other comprehensive income/(expense)						
Currency translation differences for foreign operations	-	-	1.1	-	-	1.1
Effective portion of changes in fair value of cash flow hedges	-	-	-	(4.6)	-	(4.6)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	(4.3)	-	(4.3)
Defined benefit pension schemes' actuarial gains	-	-	-	-	5.6	5.6
Tax on other comprehensive income	-	-	-	1.7	(0.6)	1.1
Total other comprehensive income/(expense) for the year	-	-	1.1	(7.2)	5.0	(1.1)
Total comprehensive income/(expense) for the year	-	-	1.1	(7.2)	115.6	109.5
Contributions by and distributions to owners of the Company						
Share options exercised	-	5.0	-	-	-	5.0
Equity-settled share-based payment transactions	-	-	-	-	2.6	2.6
Dividends to shareholders	-	-	-	-	(105.6)	(105.6)
Equity at 30 September 2018	0.9	48.0	3.8	(3.4)	440.6	489.9

Notes to the Financial Report

1. Basis of preparation

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

The consolidated financial statements of the Company for the year ended 30 September 2018 comprise the Company and its subsidiaries (together referred to as the 'Group').

The Company is listed on the London Stock Exchange.

The consolidated financial statements were approved for issue by the Board of Directors on 4 December 2018.

Basis of preparation
Both the consolidated and Company financial statements have been prepared on the basis of the accounting policies set out in the Group's last Annual Report and Accounts except for the application of relevant new standards. A number of new standards and amendments to existing standards were effective for the financial year ended 30 September 2018. None of these have had a material impact to the Group's consolidated result or financial position.

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

Victrex will adopt the requirements of IFRS 9 and IFRS 15 with effect from 1 October 2018, as explained in our forthcoming Annual Report. Whilst neither has a material impact on the Group's results, it should be noted that the presentation of gains and losses on currency contracts under IFRS 9 has the potential to affect our reported gross margin percentage, but not absolute gross profit, in future statements. The financial information presented here does not constitute the Company's statutory accounts for the years ended 30 September 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the registrar of companies, and those for 2018 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Sections of this results statement contain forward-looking statements, including statements relating to; future demand and markets for the Group's products and services, research and development relating to new products and services and liquidity and capital resources. These forward-looking statements involve risks and uncertainties because they relate to events that may or may not occur in the future. Accordingly, actual results may differ materially from anticipated results because of a variety of risk factors which are summarised in Note 10.

The accounts for the year ended 30 September 2018 will be posted to shareholders on 3 January 2019 and will be available from the Company's Registered Office at Victrex Technology Centre, Hillhouse International, Thornton Cleveleys, Lancashire, FY4 4QD, United Kingdom, and online at www.victrexplc.com.

2. Segment reporting

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

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

2. Segment reporting continued

	Industrial 2018 £m	Medical 2018 £m	Group 2018 £m	Industrial 2017 £m	Medical 2017 £m	Group 2017 £m
Revenue from external sales	**270.4**	**55.6**	**326.0**	236.3	53.9	290.2
Segment gross profit	**158.6**	**49.4**	**208.0**	135.5	48.3	183.8
Sales, marketing and administrative expenses			**(81.1)**			(72.7)
Operating profit			**126.9**			111.1
Net financing income/(expense)			**0.6**			(0.1)
Profit before tax			**127.5**			111.0
Income tax			**(16.9)**			(11.5)
Profit for the year attributable to owners of the Parent			**110.6**			99.5

3. Taxation

	2018 £m	2017 £m
Current tax		
UK corporation tax on profits for the year	**13.0**	7.7
Overseas tax on profits for the year	**3.1**	2.2
	16.1	9.9
Deferred tax		
Origination and reversal of temporary differences	**2.0**	0.7
	2.0	0.7
Tax adjustments relating to prior years	**(1.2)**	0.9
Total tax expense in income statement	**16.9**	11.5

	2018		2017	
	%	£m	%	£m
Profit before tax		**127.5**		111.0
Tax expense at UK corporation tax rate	**19.0**	**24.2**	19.5	21.6
Effects of:				
– Expenses not deductible for tax purposes		**0.7**		0.5
– Higher rates of tax on overseas earnings		**1.4**		0.9
– UK research and development tax credits and other allowances		**(0.5)**		(0.4)
– Tax adjustments relating to prior years		**(1.2)**		0.9
– Difference in rates between deferred tax and corporation tax		**0.3**		(0.1)
– Patent box deduction		**(8.0)**		(11.9)
Effective tax rate and total tax expense	**13.3**	**16.9**	10.4	11.5

4. Earnings per share

		Year ended 30 September 2018	Year ended 30 September 2017
Earnings per share	– basic	**128.8p**	116.4p
	– diluted	**128.2p**	116.2p
Profit for the financial period (£m)		**110.6**	99.5
Weighted average number of shares used	– basic	**85,857,265**	85,505,917
	– diluted	**86,299,646**	85,696,602

5. Investments

Following the capital contribution into Magma Global Limited by TechnipFMC, £5.5m of the initial investment was redeemed during the period.

6. Derivative financial instruments

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

	As at 30 September 2018		As at 30 September 2017	
	Notional contract amount	**Carrying amount and fair value**	Notional contract amount	Carrying amount and fair value
	£m	**£m**	£m	£m
Current assets	**39.0**	**1.1**	181.2	7.6
Current liabilities	**180.5**	**(6.2)**	18.0	(1.2)
	219.5	**(5.1)**	199.2	6.4

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

In addition to the above, £3.1m is included in current liabilities in respect of the fair value of the derivative instruments associated with TxV. These are categorised as Level 2 within the fair value hierarchy under IFRS 7.

7. Exchange Rates

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

	2018		2017	
	Average	**Closing**	Average	Closing
US Dollar	**1.30**	**1.30**	1.37	1.34
Euro	**1.13**	**1.11**	1.23	1.14
Yen	**144**	**149**	150	151

The average exchange rates in the above table take into account the impact of gains and losses on foreign currency contracts. These rates are referred to elsewhere in the Preliminary Results as the effective rates for the period

8. Subsequent events

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 Defined 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 ended 30 September 2019. The impact is expected to be in the range of £1m-£2m. This High Court judgment 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 ended 30 September 2018.

9. Dividend and Annual General Meeting

The proposed final regular and special dividends will be paid on 22 February 2019 to all shareholders on the register on 1 February 2019. The Annual General Meeting of the Company will be held at 11am on 6 February 2019, at J.P. Morgan, 1 John Carpenter Street, London, EC4Y 0JP.

10. Risks, trends, factors and uncertainties

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

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

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

Ex-dividend date	31 January 2019
Record date#	1 February 2019
Annual General Meeting	6 February 2019
Payment of final dividend	22 February 2019
Announcement of 2019 half–yearly results	May 2019
Payment of interim dividend	July 2019

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

**** Alternative performance measures:**

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

- Group revenue in constant currency is used by the Board to assess the year on year underlying performance of the business excluding the impact of foreign exchange rates, which can by nature be volatile. Group revenue in constant currency is reached by applying current year (FY 2018) effective currency rates to prior year (FY 2017) transactions (see note 7);
- Available cash is used to enable the Board to understand the true cash position of the business when determining the use of cash under the capital allocation policy. Available cash is cash and cash equivalents plus other financial assets (cash invested in term deposits greater than three months in duration);
- Operating cash conversion is used by the Board to assess the business's ability to convert operating profit to cash effectively, excluding the impact of investing and financing activities. Operating cash conversion is cash generated from operations/operating profit; and
- Sales from new products is sales from new products or grades sold from FY 2014 onwards. The Board monitors sales from new products (one of our strategic KPIs) to assess the level of revenue from mega-programmes, new differentiated polymers and other pipeline products that were not sold before FY 2014.