R.C. Treatt & Co. Limited

Annual Report and Financial Statements

Year Ended 30 September 2022

Registered number: 00131429

R.C. TREATT & CO. LIMITED

Annual report and financial statements for the year ended 30 September 2022

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Directors
Daemmon Reeve (Chief Executive Officer)
Ryan Govender (Chief Financial Officer)

Secretary and registered office
Vanessa Myatt, Skyliner Way, Bury St Edmunds, IP32 7FR.

Registered number
00131429

Auditors
BDO LLP, 16 The Havens, Ransomes Europark, Ipswich, Suffolk, IP3 9SJ

Strategic Report for the year ended 30 September 2022

The Directors are pleased to present their Strategic Report for the year ended 30 September 2022.

Principal activity

The Company's principal activity is the manufacture and supply of natural extracts and ingredients for the global beverage, flavour and fragrance industries. This involves blending and distilling essential oils, the marketing of aroma chemicals and the production of other natural distillates for the flavour, fragrance and Fast-Moving Consumer Goods (FMCG) industries. The Company is a subsidiary of Treatt plc.

Strategy

The main objective of the strategy is the delivery of long-term and consistent growth in profitability by focusing on those customers and products which can bring sustainable value in the long run. The strategy places a strong focus on building close, long-standing relationships with customers in the beverage sector, providing them with value-added solutions for differential advantage in the marketplace.

Since the Company's only shareholder is Treatt plc and the Company's strategy is managed and controlled on a Group basis, a full strategic report on the Group is included in the financial statements of Treatt plc which can be found at www.treatt.com.

Business review

The Company traded in line with expectations during the year despite a period of disruption during the transfer of manufacturing operations from the old premises at Northern Way to the new UK site at Skyliner Way; as well as ongoing challenges across the global supply chain.

Revenue for the year increased by 14.0% to £74.0m (2021: £65.0m), largely driven by an 18% increase in revenue within the citrus category, which remains the largest product category representing 44.9% (2021: 43.6%) of total revenue, coupled with a 14% increase in revenue from our synthetic aroma portfolio which represents 34.7% (2021: 34.9%) of total sales for the year.

Gross profit grew by 12.2% to £16.6m with gross profit margins remaining consistent at 22.8% (2021 22.8%). The ongoing profitability of the business reflects the successful execution of the Company's strategy of diversifying the product portfolio and continued focus on higher margin value-added products. The Company has continued its significant investment in research and development, in particular in areas of beverage innovation, supporting customers in their response to consumer demand and widening the application of our products.

Profit before tax and exceptional items increased to £4.7m (2021: £4.5m). The taxation charge for the year of £0.7m (2021: £1.2m) reflects an effective pre-exceptional taxation rate of 15.5% (2021: 26.3%). The decrease in the tax charge is due to increased permanent deductions.

Exceptional items in the year are a net income of £0.5m (2021: £1.3m expense), of which £3.3m is a gain on disposal of the old premises at Northern Way which was disposed of in February 2022, and this is offset by £2.3m (2021: £1.3m) of one-off costs in relation to the UK Headquarters relocation to Skyliner Way, and £0.5m (2021: £nil) of costs in relation to management restructuring during the year.

Business review (continued)

Working capital reports a net outflow of £13.9m arising primarily from a £8.6m increase in inventories as the Company proactively purchased to protect itself from the effect of global supply chain issues, and a net increase in receivables of £7.4m having reported a record revenue month in August 2022, partially compensated by a £2.1m increase in payables. Net debt has increased to £19.5m (2021: £12.3m) largely as a result of the working capital outflow together with £7.0m of capital expenditure during the year, £5.0m of which was related to the UK relocation and the transfer of manufacturing operations.

The total capital costs for the new UK Headquarters are estimated to be £38.8m and as the relocation project moves into the final phase we expect a further net cash outflow of £3.9m over the next year.

Section 172 statement

This statement describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006, relating to the directors' duty to promote the success of the Company for the benefit of its stakeholders as a whole.

Developing and maintaining strong relationships with all of our stakeholders is key to the success of the Company. By engaging with stakeholders, listening to their feedback and understanding their perspective, the Directors are able to ensure that there is sufficient consideration of the impact of its decisions on stakeholders and that their interests are balanced with corporate objectives. The nature of our stakeholder engagement, for each type of key stakeholder are as follows:

Employees

Employees are essential to the success of our business; our culture drives business performance. The Company has a culture which promotes employee engagement and encourages questions and feedback throughout the management structure.

The Company also operates a wellbeing initiative that provides regular events to promote health and wellbeing within the workforce, including guest speakers and educational sessions as well as subsidised activities. Competitive pay, benefits and share packages are available to all employees, which helps to attract and retain top talent and improve employee engagement with the business.

Customers

It is important that we understand our customers' requirements to allow us to deliver the products and service they need and to develop innovative solutions for beverage and flavour and fragrance applications. As a business we listen to our customers and their needs to tailor our innovation and products.

We work with customers on technical and regulatory matters that concern them and have regular discussions through site visits and virtual meetings, and provide our Market Intelligence Reports which provide comprehensive information on the raw material markets that are relevant to them.

Suppliers

We have a strong supplier base, located all over the world. We want to deal with those suppliers who are committed to Treatt and our values. Our Procurement Team are responsible for our supply chain relationships, and they have engaged with our suppliers through supplier visits and regular virtual meetings. Our Supplier Code of Conduct makes clear our expectations of suppliers when it comes to ethical behaviour and social and environmental responsibility and the Company is committed to high standards of ethical business conduct.

Section 172 statement (continued)

Communities and environment

We care deeply about the communities in which we operate and have spent time developing relationships with our local communities to provide support and opportunities where we are able to do so. Community relationships are important to the Company and we make financial and non-financial donations to community projects and charities, provide work experience, internships, and sponsorship of academic and careers events.

We aim to make a positive contribution to our environment and the sustainability of our products. The Directors are conscious of the Company's impact on the environment and the current UK Headquarters relocation provided an opportunity to improve the environmental credentials of the business and embed greater energy efficiency and sustainability into its working practices.

Members

The Company's only shareholder is its parent company Treatt PLC, however the performance of the business is directly of interest to the shareholders of the parent Company. Shareholder views inform our decision-making and engagement enables us to explain our strategic goals; it is important that the parent company's shareholders have confidence in our business and how it is managed, whether they are institutional investors, private individuals or employee shareholders.

Throughout the year, Directors of the Company (and also the Parent Company) have met with current and prospective shareholders with particular focus on the implementation of our strategy, and trading updates. Capital markets days were held at the new UK headquarters, providing institutional investors with an opportunity to see our new facilities and learn about the business.

Stakeholder engagement in practice

During the year, the business has engaged with its key stakeholders throughout. Some examples are set out below:

- Employees – The commitment to improving skills of employees is demonstrated by provision of targeted training programs specific to their roles and such as courses with The Institute of Leadership and Management, Chartered Institute of Personnel and Development and Chartered Institute of Procurement and Supply. We also have a number of apprenticeships where structured training and qualifications are provided

- Community – During the year the Company made donations to local and national causes and has been involved in several local initiatives, including getting staff active in return for the company donating to a local mental health charity. With further support both financial and non-financial to a range of charities locally that we continue to partner with. Our enterprise advisors worked closely with local schools to support careers education through virtual assemblies and collaborative projects.

- Environment – We continued to work with consultants to further develop and embed our sustainability strategy and improve environmental performance. An energy, waste and water audit of our UK facility has identified several opportunities to reduce our consumption and carbon footprint. We continue to purchase 100% renewable electricity at our UK site and send zero waste to landfill.

- Suppliers – The board indirectly engages with our suppliers through our procurement team, who are also working with a consultant on a sustainable supply chain strategy, inclusive of a new responsible and sustainable sourcing policy which has rolled out to entire supply chain. The CEO has also been involved in several supplier meetings during the year.

- Customers – The CEO met with several customers during the year at both their premises and at our UK facility. The board indirectly engaged with customers at an operational level through the Executive Leadership Team and key account managers. Our sustainability, technical and regulatory teams have also discussed matters directly, as face to face meetings continue to grow at our new facility and those of our customers.

Key performance indicators
The key financial performance indicators used by management are as follows:

	2022 £'000	2021 £'000
Revenue	74,048	64,965
Gross profit	16,603	14,799
Gross profit %*	22.4%	22.8%
Operating profit before exceptional items	5,187	4,889
Profit before taxation and exceptional items	4,652	4,493
Profit for the year	5,340	2,197
Number of reportable accidents	1	1
Average number of sick days per employee	5.2	3.4

* Gross profit as a percentage of revenue.

Principal risks and uncertainties
Risk management is an important part of the management process of the Company and a policy of continuous improvement is adopted in assessing the adequacy of the internal control systems. The Company's operations expose it to a variety of risks including people, financial, operational, commercial, legal/regulatory and particularly in this year and the next, the ongoing impact of the global Covid-19 pandemic. The management of the Company monitors the exposures to these risks in order to limit the adverse effects of these risks on the financial performance of the Company.

Climate change
Volatility in availability and quality of natural ingredients in the longer-term – mitigated through enhancing relationships with suppliers and achieving a greater geographical spread of suppliers, strategic buying of core products, working with suppliers who are engaged with climate change issues and investment in production efficiency and new technologies.

Pandemics
Reduction in demand, changes in consumer habits, difficulties within the supply chain, production, logistics and welfare of our employees – mitigated through continual monitoring of regulatory and market conditions, working closely through regular virtual meetings with customers and across our supply chain and adapted working practices to prioritise the health and wellbeing of all employees.

People
The poaching of key staff – mitigation through securing an emotional attachment to the business, offering competitive salaries and benefits, ensuring staff are empowered and have opportunities within the business.

Financial
Movement in commodity raw material prices – mitigated through regular inventory meetings and inventory control with experienced staff, monitoring and communication of market conditions and long-term commodity contracts.

Movement in foreign exchange rates – mitigated by holding and managing US Dollar borrowings and taking out forward currency contracts and options.

Principal risks and uncertainties (continued)

Operational
Pressure on infrastructure from strategic wins – mitigated through ensuring the appropriate investment in infrastructure, close communication between sales and operations and the management of sub-contractor relationships.

Commercial
Product failure – mitigated through a strong supplier qualification process, intake testing analysis, use of barcode scanners to avoid mis-picks, product contamination testing and supplier risk assessment.

Legal/regulatory
Failure to comply with relevant environmental, health and safety and other applicable legislation – mitigated through a detailed understanding of legislative requirements and ensuring the Company's systems and procedures are adapted to ensure compliance.

Future developments and outlook

During the year, the Company has successfully transitioned almost all of its UK operations to the new site at Skyliner Way, and is optimistic around phase two of the relocation, which involves the gradual transfer and upgrade of highly complex manufacturing equipment from the old site to the new site. Phase two is expected to be completed by late 2023, the Company will continue to manufacture some products at its old site over the next 9 months whilst most of manufacturing and technical operates out of Skyliner Way.

The new facility boasts state-of-the-art laboratories which will support product innovation and also provide an exceptional customer collaboration environment, and the new operations area will bring about short, mid and long-term transformational efficiencies that we expect will have a lasting impact on the business.

The Company is aware of the ongoing uncertainties in global markets post-pandemic, notably inflationary pressures and supply-side challenges and is continuing to take proactive measures both to protect its employees and its supply chain.

The Company successfully refinanced its banking facilities on 13 June 2023, and now has access to a £25.0m multi-currency asset-based lending ("ABL") facility with HSBC Invoice Financing (UK) Ltd in which the available borrowing is referenced off the quantity and quality of the Company's inventory and receivables. This facility replaces all banking facilities the Company previously had, and utilises its strong working capital base to give it access to more scalable and cost-effective funding which puts the Company on a solid financial footing.

The outlook for the current financial year is satisfactory, with trading to date in the first half of the new financial year being in line with management's expectations.

Approved and signed by order of the Board.

Vanessa Myatt
Secretary

13 June 2023

Directors' Report for the year ended 30 September 2022

The Directors present their report together with the audited financial statements for the year ended 30 September 2022.

Results and dividends

The Income Statement is set out on page 12 and shows the profit for the year.

A breakdown of dividend payments made during the year can be found in Note 10.

The Directors recommend a final dividend amounting to £1,303,500 (2021: £1,203,000) and the Directors propose the said final dividend be paid on 16 March 2023.

Directors

The Directors of the Company during the year were:

Daemmon Reeve (Chief Executive Officer)
Richard Hope (Chief Financial Officer) – retired 30 June 2022
Ryan Govender (Chief Financial Officer) – appointed 1 July 2022

Research and development

The Company continues to invest in research and development as, in the opinion of the Directors, this is essential for the maintenance of the Company's market share and future growth.

Financial instruments

Information on the financial risk management objectives and policies and on the exposure to relevant risks in respect of financial instruments is set out in note 25 of the financial statements.

Directors' and Officers' liability insurance

The Company purchases liability insurance covering the Directors and Officers of the Company.

Directors' responsibilities

The Directors are responsible for preparing the Directors' Report, the Strategic 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101').

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.

Directors' responsibilities (continued)

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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. They 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.

Statement as to disclosure of information to auditors

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditors

BDO LLP has indicated its willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

Information in the Strategic Report

The Company has chosen, in accordance with the Companies Act 2006 s414C(11), to set out in the strategic report information required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 Sch. 7 to be contained in the Directors' Report. Specifically, this includes reference to future developments.

Approved and signed on behalf of the Board.

Vanessa Myatt
Secretary

13 June 2023

Independent auditor's report to the members of R.C. Treatt & Co. Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of R. C. Treatt & Co. Limited ("the Company") for the year ended 30 September 2022 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's 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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

Independent auditor's report to the members of R.C. Treatt & Co. Limited (continued)

We have nothing to report in this regard.

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors

As explained more fully in the Directors Responsibilities section of the directors' report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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.

Auditor's 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 auditor's 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.

Independent auditor's report to the members of R.C. Treatt & Co. Limited (continued)

Extent to which the audit was capable of detecting irregularities, including fraud

- Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, through discussion with management and the Audit Committee and our knowledge of the industry. We focussed on significant laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006, UK adopted International Accounting Standards, Health and Safety, the Bribery Act 2010 and tax legislations;

- We considered compliance with these laws and regulations through discussions with management and in-house legal counsel and the Audit Committee. Our procedures also included reviewing minutes from board meetings of those charged with governance to identify any instances of non-compliance with laws and regulations;
- We assessed the susceptibility of the Company's financial statements to material misstatement as an engagement team, including how fraud might occur, by meeting with management to understand where it is considered there would be a susceptibility of fraud;

- Our audit planning identified fraud risks in relation to management override and inappropriate or incorrect revenue recognition. We obtained an understanding of the processes and controls that the company has established to address risks identified by the entity or that otherwise seek to prevent, deter or detect fraud;

- With regard to the fraud risk in management override, our procedures included targeted journal transactions testing, with a focus on large or unusual transactions based on our knowledge of the business and we tested the application of revenue recognition policies;

- We identified areas at risk of management bias, particularly in respect of the inventory valuation and reviewed key estimates and judgements applied by management in the financial statements to assess their appropriateness; and

- We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of R.C. Treatt & Co. Limited (continued)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Tracey Keeble
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Tracey Keeble (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Ipswich, UK
13 June 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

INCOME STATEMENT

for the year ended 30 September 2022

	Notes	2022 Before exceptional items £'000	2022 Exceptional items £'000	2022 Total £'000	2021 Before exceptional items £'000	2021 Exceptional items £'000	2021 Total £'000
Revenue	4	74,048	-	74,048	64,965	-	64,965
Cost of sales		(57,445)	-	(57,445)	(50,166)	-	(50,166)
Gross profit		16,603	-	16,603	14,799	-	14,799
Administrative expenses		(11,416)	(535)	(11,951)	(9,910)	-	(9,910)
Gain on disposal of land and buildings	8	-	3,324	3,324	-	-	-
Exceptional items	8	-	(1,799)	(1,799)	-	(1,302)	(1,302)
Operating profit[1]	5	5,187	990	6,177	4,889	(1,302)	3,587
Finance income	7	9	-	9	12	-	12
Finance costs	7	(544)	-	(544)	(408)	-	(408)
Profit before taxation		4,652	990	5,642	4,493	(1,302)	3,191
Taxation	9	(721)	419	(302)	(1,180)	186	(994)
Profit for the year		3,931	1,409	5,340	3,313	(1,116)	2,197

[1]Operating profit is calculated as profit before net finance costs and taxation.

All amounts relate to continuing operations.

Notes 1 – 28 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2022

	Notes	2022 £'000	2021 £'000
Profit for the year		5,340	2,197
Other comprehensive (expense)/income:			
Items that may be reclassified subsequently to profit or loss:			
Fair value movement on cash flow hedges	25	(23)	(508)
Deferred tax on fair value movement	9	4	93
		(19)	(415)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on defined benefit pension scheme	24	8,273	2,952
Deferred tax on actuarial loss	9	(2,068)	(135)
		6,205	2,817
Other comprehensive income for the year		6,186	2,402
Total comprehensive income for the year		11,526	4,599

Notes 1 – 28 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2022

	Notes	Share capital £'000	Hedging reserve £'000	Retained earnings £'000	**Total equity £'000**
1 October 2020		20,050	123	21,187	41,360
Profit for the year		-	-	2,197	**2,197**
Other comprehensive income:					
Fair value movement on cash flow hedges		-	(508)	-	**(508)**
Actuarial gain on defined benefit pension scheme		-	-	2,952	**2,952**
Taxation relating to items above		-	93	(135)	**(42)**
Total comprehensive (expense)/income		-	**(415)**	**5,014**	**4,599**
Transactions with owners:					
Dividends paid	10	-	-	(1,404)	**(1,404)**
Share-based payments	23	-	-	1,314	**1,314**
Taxation relating to items recognised directly in equity	9	-	-	573	**573**
Total transactions with owners		-	-	**483**	**483**
30 September 2021		**20,050**	**(292)**	**26,684**	**46,442**
Profit for the year		-	-	5,340	**5,340**
Other comprehensive income:					
Fair value movement on cash flow hedges		-	(23)	-	**(23)**
Actuarial gain on defined benefit pension scheme		-	-	8,273	**8,273**
Taxation relating to items above		-	4	(2,068)	**(2,064)**
Total comprehensive (expense)/income		-	**(19)**	**11,545**	**11,526**
Transactions with owners:					
Dividends paid	**10**	-	-	(2,005)	**(2,005)**
Share-based payments	**23**	-	-	919	**919**
Taxation relating to items recognised directly in equity	**9**	-	-	(300)	**(300)**
Total transactions with owners		-	-	**(1,386)**	**(1,386)**
30 September 2022		**20,050**	**(311)**	**36,843**	**56,582**

Notes 1 – 28 form part of these financial statements.

Registered Number: 00131429

BALANCE SHEET

as at 30 September 2022

	Notes	2022 £'000	2021 £'000
ASSETS			
Non-current assets			
Intangible assets	11	2,799	2,050
Property, plant and equipment	12	41,832	38,055
Right-of-use assets	13	321	1,517
Post-employment benefits	24	1,782	-
Deferred tax assets	14	-	790
		46,734	42,412
Current assets			
Inventories	15	28,065	19,470
Trade and other receivables	16	23,620	16,194
Current tax assets		719	1,050
Cash and bank balances	17	59	792
Derivative financial instruments	21	-	11
		52,463	37,517
Total assets		99,197	79,929
LIABILITIES			
Current liabilities			
Borrowings	18	(19,174)	(12,013)
Provisions	19	(81)	(77)
Trade and other payables	20	(20,300)	(12,986)
Lease liabilities	13	(83)	(82)
Derivative financial instruments	21	(666)	(593)
		(40,304)	(25,751)
Net current assets		12,159	11,766
Non-current liabilities			
Lease liabilities	13	(257)	(930)
Post-employment benefits	24	-	(6,806)
Deferred taxation liabilities	14	(2,054)	-
		(2,311)	(7,736)
Total liabilities		(42,615)	(33,487)
Net assets		56,582	46,442

BALANCE SHEET (continued)

as at 30 September 2022

	Notes	2022 £'000	2021 £'000
EQUITY			
Share capital	**22**	**20,050**	**20,050**
Hedging reserve		**(311)**	**(292)**
Retained earnings		**36,843**	**26,684**
Total equity		**56,582**	**46,442**

Notes 1 – 2827 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 13 June 2023 and were signed on its behalf by:

Ryan Govender
Chief Financial Officer

1. GENERAL INFORMATION

R.C. Treatt & Co. Ltd ('the Company') is a private limited company guaranteed by shares, incorporated in the United Kingdom and domiciled in England and Wales. The address of the registered office is Skyliner Way, Bury St Edmunds, IP32 7FR.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

New and amended accounting standards
The Company has adopted all of the new or amended accounting standards and interpretations issued by the International Accounting Standards Board "IAS") that are mandatory for the current reporting period. No accounting standards which became mandatorily effective for the current reporting period have had any material effect on the financial statements of the Company.

Any new or amended accounting standards or interpretations that are not yet mandatory have not been early adopted.

Accounting standards in issue but not yet effective
There are no IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been used in the preparation of these financial statements are set out below.

Accounting convention
The Company has prepared its financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). The financial statements have also been prepared under the historical cost convention (unless a fair value basis is required by FRS 101) and in accordance with the Companies Act 2006. The financial statements are prepared in Pound Sterling, which is the functional currency of the Company, and figures are presented to the nearest thousand, unless stated otherwise.

In preparing these financial statements, the Company applies the recognition and measurement requirements in accordance with international accounting standards in conformity with UK-adopted international financial reporting standards.

Reduced disclosures
The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements and, where relevant, equivalent disclosures have been made in the Group accounts of the Parent Company, in accordance with FRS 101:

- Presentation of a Statement of Cash Flows and related notes;
- Disclosure of the objectives, policies and processes for managing capital;
- Disclosure of key management personnel compensation;
- Disclosure of the categories of financial instrument and the nature and extent of risks arising on these financial instruments;
- The effect of financial instruments on the Statement of Comprehensive Income;
- Information about financial instruments that have been reclassified or derecognised, transfers of financial assets, credit losses recorded in a separate account, netting arrangements, loan defaults or breaches and collateral;
- Details of hedging relationships and the effect of hedge accounting on the result and equity;
- Comparative period reconciliations for the carrying amounts of property, plant and equipment and intangible assets;
- Disclosure relating to nature, amount and timings of revenue recognition under IFRS 15;
- Disclosure of the future impact of new International Financial Reporting Standards in issue but not yet effective at the reporting date;

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

- A reconciliation of the number and weighted average exercise prices of share options, how the fair value of share-based payments was determined and their effect on profit or loss and the financial position;
- Valuation techniques and assumptions used to measure recoverable amounts of assets on which impairment losses are recognised and cash generating units containing goodwill or intangible fixed assets;
- Presentation of financial information – additional comparative information and comparative information on property, plant and equipment and intangible assets; and
- Related party disclosures for transactions with the Parent Company or wholly owned members of the Group.

The financial statements of the Company are consolidated into the financial statements of Treatt plc. The consolidated financial statements of Treatt plc are available from its registered office, Skyliner Way, Bury St Edmunds, Bury Saint Edmunds IP32 7FR and can also be found at www.treatt.com.

Going concern

The current Global economic environment post-pandemic is still uncertain in both domestic and international markets. We have seen supply-side challenges and economic slowdown due to China's lockdowns, together with higher-than-expected inflationary pressures, especially on raw material prices and energy from Russia's continued invasion of Ukraine, all alongside a challenging labour market.

The Company successfully refinanced its banking facilities in June 2023, and now has access to a £25.0m multi-currency asset-based lending ("ABL") facility with HSBC Invoice Finance (UK) Ltd in which the available borrowing is referenced off the quantity and quality of the Company's inventory and receivables. The facility comes with an accordion facility of £10.0m, which can be drawn upon should inventory and receivables be sufficient to do so, and the facility is made available on a three year term with two options to extend for further years if required. The applicable covenants on the ABL facility are operational in nature, and the Company's compliance is no longer measured against its net debt/EBITDA ratio and interest cover but instead against debt turn, margin, inventory ageing and dilution of sales.

Considering this, the Directors have reviewed budgets, forecasts and cashflows for the next twelve months and beyond and assessed these against the Company's current and projected liquidity position, in particular the headroom on the new facilities and compliance with operational covenants. The Directors have used the Company's Board approved forecasts, and upon that have modelled scenarios representing varying degrees of severity and have considered the impact of changes in working capital, foreign exchange rates, revenues and margin on the Company. Similarly, reverse-stress tests were conducted which would determine the conditions under which the Company would suffer a breach of headroom or its operational covenants within the next two years.

All modelling undertaken indicated that the Company would have sufficient financial headroom to trade for the next 12 months from the signing date of these accounts, without any assistance from other Group Companies. Operational covenants of the ABL are also expected to be complied with throughout the period in all scenarios tested.

In the reverse-stress test scenarios, it was determined that a headroom breach was not likely given the current net debt of around £13.0m, which leaves headroom on facilities of around £12.0m. Given the future anticipated sales and costs and associated cashflows, no realistic set of assumptions would lead to a breach of this facility within the next 12 months. To breach the terms of the facility within the next 12 months, it would be more likely an operational covenant that would be required to be broken. Covenants include:

- Invoice dilution not to exceed 5% on a rolling three month basis – breach of this is considered remote given the historically significant number of experienced credits and write offs.
- Inventory aged > 180 days aged must not exceed 50% of total inventory – breach of this is considered remote in the next 12 months given the current levels of inventory ageing as a percentage of total, and the current order book.
- Debt turn to not exceed 95 days – A breach of this covenant would require debt turn to increase by around 15-20 days compared to historically experienced levels, there is no reason to expect such an outcome.
- Gross sales margin to not fall below of 80% of budgeted levels – Budgeted levels are communicated with the bank in advance of the year. At the date of signing of the accounts, four months remain in the year and it is not likely that margins would be so low as to drag the year to date margins below 80% of their budgeted levels.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Directors consider the possibility of these adverse scenarios relating to headroom and covenants materialising to be remote. In addition, it is implausible that the Company would not act swiftly and decisively to activate mitigations such as operating cost savings, reduction in capital expenditure, delaying or cancelling future dividend payments to avoid a breach of headroom, but also price increases and tightening of its credit terms, and selling of aged inventory to protect against its operational covenants being breached.

Based on the facilities above and the budgets, forecasts and cashflows reviewed, at the time of approving the financial statements, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Presentation of financial statements
The primary statements within the financial information contained in this document have been presented in accordance with IAS 1, 'Presentation of Financial Statements' other than where FRS 101 permits reduced disclosure.

Revenue recognition
Revenue represents amounts receivable net of trade discounts, VAT and other sales-related taxes. Revenue is recognised in these financial statements when goods are physically dispatched from Company's premises or other storage depots, irrespective of the terms of trade. Where goods are sold to a customer, but retained physically on a bill and hold arrangement, revenue is recognised at the point that the goods are assigned to the customer. At the point of physical dispatch or assignment, the goods are derecognised by the Company and are no longer available for sale, therefore the Directors believe that this is the point at which control transfers to the customer in accordance with IFRS 15, 'Revenue from Contracts with Customers'.

Effect of changes in foreign exchange rates
Transactions in currencies other than Pounds Sterling are recorded at the rate of exchange at the date of transaction. Assets and liabilities in foreign currencies are translated into Pounds Sterling in the balance sheet at the year-end rate.

Research and development expenditure
Expenditure on research activities is recognised as an expense and charged to the income statement in the period in which it is incurred.

Expenditure arising from any specific development is recognised as an asset only if all of the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Development expenditure meeting these conditions is amortised on a straight-line basis over its useful life. Where these conditions for capitalising development expenditure have not been met, the related expenditure is recognised as an expense in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

When the Company becomes party to a lease arrangement it applies IFRS 16, 'Leases' and recognises a right-of-use asset and a lease liability upon commencement, except for leases of low value (less than £3,000) or for leases with a duration of less than 12 months. The lease liability and right-of-use asset is initially measured at the present value of the lease payments payable over the lease term, discounted at the incremental borrowing rate for that lease. Right-of-use assets are depreciated over the expected life of the lease. The amount charged to the income statement comprises the depreciation of the right-of-use asset and the interest cost on the lease liability.

Rentals receivable under operating leases continue to be recognised in the income statement as and when they fall due.

Taxation

The tax expense comprises current and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the current tax is also dealt with in equity.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exceptional items
The Company has elected to classify certain items as exceptional and present them separately on the face of the income statement. Exceptional items are classified as those which are separately identified by virtue of their size, nature or expected frequency, to allow a better understanding of the underlying performance in the year.

Post balance sheet events and dividends
IAS 10, 'Events after the Balance Sheet Date' requires that final dividends proposed after the balance sheet date should not be recognised as a liability at that balance sheet date, as the liability does not represent a present obligation as defined by IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'. Consequently, final dividends are only recognised as a liability once formally approved at the Annual General Meeting and interim dividends are not recognised until paid.

Property, plant and equipment
Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition or construction of the assets. Assets are recognised only when it is probable that future economic benefits associated with the assets will flow to the Company and the cost of the asset can be measured reliably.

Depreciation is provided on all property, plant and equipment and right-of-use assets, except freehold and long leasehold land and assets in the course of construction, using the straight-line basis to write off the cost of the asset, less estimated residual value. Property, plant and equipment residual values and useful lives are reviewed annually, and are as follows:

- Buildings: 50 years
- Plant and machinery: 4 – 15 years
- Fixtures, fittings and equipment: 4 – 10 years
- Laboratory equipment: 5 years

Property, plant and equipment is derecognised on disposal or where no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing the net proceeds with the carrying amount and are recognised within administrative expenses.

Intangible assets
Intangible assets comprise of licences for software, internally generated software and development costs that meet the criteria for capitalisation as set out in the research and development expenditure accounting policy note. Amortisation (which is included within administrative expenses) is provided on all intangible assets, using the straight-line basis to write off the cost of the asset, less estimated residual value, as follows:

- Software: 4 – 12 years
- Development costs: 10 years

Impairment of property, plant and equipment and intangible assets
Provision will be made should any impairment in the value of properties or other non-current assets, excluding deferred tax assets, occur.

The carrying amounts of the Company's non-current assets, excluding deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the need for an impairment is assessed by comparison of the carrying value of the asset against the higher of fair value less costs of disposal and value in use. The value in use is estimated using a discounted cash flow model.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is based on raw material costs plus attributable overheads.

Net realisable value is based on estimated selling price less further costs expected to be incurred through to disposal. Provision is made for obsolete, slow-moving and defective items.

Onerous contracts
Provisions for onerous contracts are recognised when the expected benefits from a contract are lower than the unavoidable costs of meeting the contract's obligations. This arises when fixed-price contracts become lossmaking as a result of raw material price increases or market pressure on selling prices.

Financial instruments
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company has become a party to the contractual provisions of the instrument.

Financial Assets
Financial assets held by the Company are classified in accordance with IFRS 9, 'Financial Instruments'. Financial assets at the reporting date comprise trade receivables, loans, other receivables and cash and cash equivalents. The classification depends on both the nature of contractual cash flows due from the instrument, and the business model in which it is expected the cash flows to be realised.

Trade and other receivables
Trade and other receivables are initially recognised at fair value. The Company generally holds trade receivables with the objective to collect the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method, less an allowance for expected credit losses ('ECLs'). The Company may sell trade receivables from some customers before the due date; these sales are true sales of debt that result in derecognition. Any receivables from such customers not sold at the reporting date are classified as 'held to collect and sell' and held at fair value with changes recognised in other comprehensive income.

The Company has adopted the simplified approach to impairment as permitted under IFRS 9 and recognises the lifetime ECLs for trade receivables at initial recognition. ECLs have been estimated using the Company's historical credit loss experience and the current and anticipated future market conditions at the reporting date.

Loans receivable
All loans receivable are initially recognised at fair value. After initial recognition, interest-bearing loans are measured at amortised cost using the effective interest method, less an allowance for ECLs. Impairment provisions for receivables from related parties and loans to related parties are recognised based on the forward looking ECL model. For those receivables where the credit risk has not increased significantly since initial recognition, twelve-month ECLs are recognised. ECLs measured over the lifetime of the financial asset are only recognised where it is determined that the credit risk has increased significantly.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and in accordance with IAS 32, 'Financial Instruments: Presentation'. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. All borrowing costs are recognised in the income statement in the period in which they are incurred unless they meet the criteria for capitalisation under IAS 23, 'Borrowing Costs'.

Trade and other payables

Trade payables are not interest-bearing and are stated at their nominal value.

Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

The Company's activities expose it to both the financial risks of changes in foreign currency exchange rates and interest rates. From time to time the Company uses foreign exchange forward and option contracts and interest rate swap contracts to hedge some of these exposures. The Company does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Group's policies approved by the Parent Company's Board.

Hedge accounting

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with the Company's risk management objectives and strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company prospectively documents whether the hedging instrument that is used in a hedging relationship is effective in offsetting changes in fair values or cash flows of the hedged item.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. If a hedging transaction is no longer expected to occur, the net cumulative gain or loss that was recognised in equity is reclassified to profit and loss as a reclassification adjustment through reserves. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedging instruments are initially recognised directly in equity. Where the hedged item is cash flows that are to be recognised in the income statement, amounts deferred in equity are recognised in the income statement at the same time in which the hedged items affect net profit or loss. Any ineffective portion is recognised immediately in the income statement as other gains and losses. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had been previously recognised in equity are included in the initial measurement of the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension costs
The Company operates a defined benefit scheme through an independently administered pension scheme.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with full actuarial valuations being carried out every three years and updated at each balance sheet date. The post-employment benefits obligation or surplus recognised in the balance sheet represents the present value of the defined benefit pension obligations as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the scheme.

In accordance with IAS 19, 'Employee Benefits', the asset or liability in the defined benefit pension scheme is recognised as an asset or liability of the Company under non-current assets or liabilities under the heading 'post-employment benefits'. The deferred tax in respect of 'post-employment benefits' is netted against other deferred tax assets and liabilities relating to the same jurisdiction (see taxation accounting policy) and included in the deferred taxation asset or liability shown under non-current assets or liabilities.

The service cost and net interest on assets, net of interest on scheme liabilities, are reflected in the income statement for the period, in place of the actual cash contribution made. All experience gains or losses on the assets and liabilities of the scheme, together with the effect of changes in assumptions are reflected as a gain or loss in the Statement of Comprehensive Income.

The Company also operates a number of defined contribution pension schemes. The contributions for these schemes are charged to the income statement in the year in which they become payable.

Share-based payments
IFRS 2, 'Share-based Payments', requires that an expense for equity instruments granted be recognized in the financial statements based on their fair value at the date of grant. The Company has adopted the Black-Scholes model for the purposes of computing the fair value of options under IFRS. The fair value excludes the effect of non market-based vesting conditions. This expense, which is in relation to share option schemes for staff in the UK, is recognised on a straight-line basis over the vesting period of the scheme, based on the Company's estimate of the number of equity instruments that will eventually vest.

At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the retained earnings reserve.

Savings-related share options granted to employees are treated as cancelled when employees cease to contribute to the scheme. Cancelled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised in profit or loss in the year that the options are cancelled.

The Company has an HMRC-approved SIP for its UK-based employees under which employees can be awarded 'Free' and 'Matching' shares. The fair value of shares awarded under the SIP is the market value of those shares at the date of grant, which is then adjusted for leavers and recognised on a straight-line basis over the vesting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical accounting estimates, assumptions and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The Company has evaluated the estimates and assumptions that have been made in relation to the carrying amounts of assets and liabilities in these financial statements.

The key accounting judgements and sources of estimation uncertainty with a significant risk of causing a material adjustment to assets and liabilities in the next twelve months include the following:

Pensions

The choice of discount rate, inflation rate and life expectancy basis could materially affect the level of surpluses and deficits in the defined benefit pension scheme. Under IAS 19, a discount rate should be based upon a yield of high quality corporate bonds of appropriate term and currency, hence a degree of estimation exists in the choice of applicable bond universe on which the yield curve is constructed, the method used to produce the yield curve as well as the expected average duration of the scheme's liabilities.

The methodology behind the inflation assumptions is based on similar assumptions regarding duration of the scheme and choice of yield curves, as well as the application of a risk-premium deduction. The estimated life expectancy of scheme members is determined through the choice of mortality model and allowances for future mortality improvement.

The key assumptions used to value pension assets and liabilities are set out in note 24, 'Post-employment benefits'.

Inventory provisions

Estimates are made of the level of provision against inventory at the year-end date. The Company has an inventory provisioning policy which is applied consistently year on year, however, because of the volatility of citrus commodity pricing as well as the fast-moving nature of trends and customer requirements there is a chance that judgements made at the balance sheet date could lead to a material adjustment in the following year.

Expected credit losses

Estimations are made in determining the expected credit losses on its trade receivables based on historic credit loss levels and its current knowledge of customer relationships and wider market conditions at the balance sheet date. Due to the size, diversity and international nature of its customer base the estimates on credit losses require judgements around recoverability which could give rise to material adjustments in the following year.

Share-based payments

In accordance with IFRS 2, 'Share-based Payments', share options and other share awards are measured at fair value at the date of grant. The fair value determined is then expensed in the income statement on a straight-line basis over the vesting period, with a corresponding increase in equity. The fair value of the options is measured using the Black-Scholes option pricing model. The valuation of these share-based payments requires several estimates to be made in respect of the number of options that are expected to be exercised. Details of the assumptions made in respect of each of the share-based payment schemes are disclosed in note 23 'Share-based payments'. Changes in these assumptions could lead to changes in the income statement expense in future periods.

Critical judgements

In the course of preparing these financial statements, no judgements have been made in the process of applying the Company's accounting policies, other than those involving estimations as discussed above, that have had a material effect on the amounts recognised in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of the nature and purpose of each reserve within equity

Share capital
Share capital represents the value of all called up, allotted and fully paid shares of the Parent Company.

Share premium account
The share premium account represents amounts received in excess of the nominal value of shares on the issue of new shares.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Retained earnings
Retained earnings comprises the Company's cumulative annual profits and losses, actuarial gains and losses on the defined benefit pension scheme and dividend payments, combined with the employee share option reserve which represents the equity component of share-based payment arrangements.

4. SEGMENTAL INFORMATION

Business segments

IFRS 8, 'Operating Segments' requires operating segments to be identified on the basis of internal financial information reported to the Chief Operating Decision Maker (CODM). The Company's CODM has been identified as the Board of Directors who are primarily responsible for the allocation of resources to the segments and for assessing their performance. The disclosure in the Company accounts of segmental information is consistent with the information used by the CODM in order to assess profit performance from the Company's operations. The Company operates one global business segment engaging in the manufacture and supply of ingredient solutions for the flavour, fragrance and FMCG markets with a manufacturing site in the UK.

Geographical segments

The following table provides an analysis of the Company's revenue by geographical market:

Revenue by destination		2022 £'000	2021 £'000
United Kingdom		9,715	9,484
Rest of Europe	- Germany	6,453	5,916
	- Ireland	8,503	5,803
	- Other	13,060	12,516
The Americas	- USA	5,646	4,545
	- Other	5,286	4,288
Rest of the World	- China	6,514	6,916
	- Singapore	3,949	3,135
	- Japan	4,461	3,001
	- Other	10,461	9,361
		74,048	64,965

All Company revenue is in respect of the sale of goods, other than property rental income of £1,000 (2021: £18,000). No country included within 'Other' contributes more than 5% of the Company's total revenue. The Company's largest customer, together with its affiliates and agents, represented 12.3% (2021: 8.8%) of Company revenue.

5. PROFIT FOR THE YEAR

Profit[1] for the year is stated after charging/(crediting):

	2022 £'000	2021 £'000
Depreciation of property, plant and equipment and right-of-use assets	719	446
Amortisation of intangible assets[2]	170	53
Loss on disposal of property, plant and equipment	1,771	-
Research and development costs	1,092	852
Research and development government grant	(208)	(181)
Finance charges on lease liabilities under IFRS 16	11	23
Net foreign exchange loss[3]	551	464
Rent receivable	(1)	(18)
Cost of inventories recognised as an expense[4]	50,545	44,156
Write down of inventories recognised as an expense	636	769
Shipping costs	1,635	1,393
IT and telephony costs	882	671
Insurance costs	512	537
Energy and utility costs	270	289

[1] Figures refer to operating profit before exceptional items.
[2] Included in administrative expenses.
[3] Excludes foreign exchange gains or losses on financial instruments disclosed in note 21.
[4] Included in cost of sales.

The analysis of the auditor's remuneration is as follows:

Fees payable to the Company's auditors and their associates for the audit of:	2022 £'000	2021 £'000
- the Company accounts	87	75

6. EMPLOYEES

Number of employees

During the year the average number of staff employed by the Company, including Directors, was as follows:

	2022 Number	2021 Number
Technical and production	97	107
Administration and sales	168	138
	265	245

Employment costs

The following costs were incurred in respect of the above:

	2022 £'000	2021 £'000
Wages and salaries	9,179	10,147
Social security costs	839	1,374
Pension costs (see note 24)	700	727
Share-based payments (see note 23)	668	1,314
	11,386	13,562

Directors

The remuneration of the Directors was as follows:

	2022 £'000	2021 £'000
Fees and remuneration	754	1,165
Pension contributions	52	63
	806	1,228

Remuneration of the highest paid Director was as follows:

	2022 £'000	2021 £'000
Remuneration	1,435	696
Pension contributions	31	45
	1,466	741

The number of Directors for whom money purchase pension contributions were made during the year was three (2021: two). Directors can elect to preserve their current lifetime allowance for pension contributions, and instead draw a cash supplement equivalent to the cost to the Company of their pension entitlement, as adjusted for employer's NI contributions, such that the Company is in no better or worse position. These amounts have been included within the pension contribution amount disclosed above.

The number of Directors who exercised share options in Treatt plc (the Company's ultimate parent undertaking) during the year was two (2021: two). The highest paid Director exercised 80,487 (2021: zero) share options and has 4,986 (2021: zero) shares which are receivable under a rolling programme of three year Save As You Earn, HMRC approved and unapproved share option schemes. The highest paid Director has defined benefit pension entitlements accrued of £14,855 (2021: £14,404).

7. NET FINANCE COSTS

	2022 £'000	2021 £'000
Finance income		
Bank interest received	-	12
Other	9	-
	9	12
Finance costs		
Loan interest to fellow subsidiary undertaking	(141)	(75)
Bank overdraft interest paid	(113)	(25)
Other bank finance costs	(144)	(128)
Pension finance cost (see note 24)	(135)	(157)
Lease liability finance cost (see note 13)	(11)	(23)
	(544)	(408)

8. EXCEPTIONAL ITEMS

The exceptional items referred to in the income statement can be categorised as follows:

	2022 £'000	2021 £'000
New site relocation expenses not capitalised	1,799	1,302
Less tax effect	(317)	(186)
Disposal of land and buildings	(3,324)	-
Less tax effect	-	-
Employment costs	535	-
Less tax effect	(102)	-
	(1,409)	1,116

The exceptional items all relate to non-recurring items.

On 28 February 2022, the Company successfully disposed of its former premises at Northern Way, Bury St. Edmunds. The proceeds of the sale, net of selling costs were £5,597,000 and the associated gain on disposal was £3,323,000. The gain on the sale of property is not expected to be taxable as indexation allowances are available which fully offset the taxable gain.

Relocation expenses relate to one-off costs incurred in connection with the relocation of the Company's operations that do not fall to be capitalised.

Restructuring costs relate to a significant change to the management and executive leadership structure of the business, which was announced in May 2022. The restructuring costs are recognised in accordance with IAS 37, Provisions, contingent liabilities and contingent assets and consist of employment and termination costs for those employees impacted. Payments to employees are those which are contractually due under their existing terms and conditions, and are therefore considered to be fully allowable expenses for tax purposes. During the financial year, payments totalling £387,000 had been made, with the cash flow impact of the remaining costs expected to be settled in the following financial year.

9. TAXATION

Analysis of tax charge/(credit) in income statement:	2022 £'000	2021 £'000
Current tax:		
UK corporation tax on profits for the year	53	139
Adjustments to tax in respect of previous periods	(231)	(131)
Total current tax (credit)/charge	(178)	8
Deferred tax:		
Origination and reversal of temporary differences	236	807
Effect of increasing of tax rate on opening liabilities	-	212
Adjustments in respect of previous periods	244	(33)
Total deferred tax charge (see note 14)	480	986
Tax on profit on ordinary activities	302	994

Analysis of tax charge/(credit) in other comprehensive income:	2022 £'000	2021 £'000
Deferred tax:		
Cash flow hedges	(4)	(93)
Actuarial gain on defined benefit pension scheme	2,068	738
Effect of increasing tax rate on opening liability	-	(603)
Total deferred tax charge	2,064	42
Total tax charge recognised in other comprehensive income	2,064	42

Analysis of tax charge/(credit) in equity:	2022 £'000	2021 £'000
Current tax:		
Share-based payments	-	(111)
Deferred tax:		
Share-based payments	300	(427)
Effect of increasing tax rate on opening assets	-	(35)
Total deferred tax charge/(credit)	300	(462)
Total tax charge/(credit) recognised in equity	300	(573)

9. TAXATION (continued)

Factors affecting tax charge for the year:
The tax assessed for the year is different from that calculated at the standard rate of corporation tax in the UK of 19.0% (2021: 19.0%). The differences are explained below:

	2022 £'000	2021 £'000
Profit before tax multiplied by standard rate of UK corporation tax at 19% (2021: 19.0%)	**1,072**	606
Effects of:		
Expenses not deductible in determining taxable profit and other items	**44**	350
Income not deductible for tax purposes	**(694)**	-
Foreign tax credit	**2**	-
R&D tax credits	**(141)**	(181)
Adjustments to tax charge in respect of prior years	**13**	(164)
Effect of increased tax rate on opening deferred tax liability	**6**	383
Total tax charge for the year	**302**	994

The Company's effective UK corporation tax rate for the year was 5.9% (2020: 31.2%). The decrease in the effective tax rate was due in most part to the £3.3m gain on disposal of sale of Northern Way premises which is not taxable due to the availability of indexation allowances.

10. DIVIDENDS

Equity dividends on ordinary shares:

	Dividend per share[1] for years ended 30 September				
	2022 pence	2021 pence	2020 pence	**2022 £'000**	2021 £'000
Interim dividend	**4.0[4]**	1.0[4]	3.0[3]	**802**	**201**
Final dividend	**6.5[5]**	6.0[5]	6.0[4]	**1,203**	**1,203**
	40.10	28.07	35.06	**2,005**	**1,404**

[1] At 30 September 2020, 20,000,000 shares were issued to Treatt plc which took the total share capital from 50,000 to 20,050,000. The dividend per share in respect of the 2020 interim dividend has been stated relative to the new share capital of 20,050,000 for comparability purposes.
[2] Accounted for in the year ended 30 September 2020.
[3] Accounted for in the year ended 30 September 2021.
[4] Accounted for in the year ended 30 September 2022.
[5] The proposed final dividend for the year ended 30 September 2022 of 6.5p per share will be accounted for in the financial statements for the year ending 30 September 2023.

11. INTANGIBLE ASSETS

	Software £'000	Development costs £'000	**Total £'000**
Cost			
1 October 2021	2,062	210	2,272
Additions	**641**	**278**	**919**
Disposals	**(38)**	**-**	**(38)**
30 September 2022	**2,665**	**488**	**3,153**
Amortisation			
1 October 2021	222	-	222
Charge for year	**170**	**-**	**170**
Disposals	**(38)**	**-**	**(38)**
30 September 2022	**354**	**-**	**354**
Net book value			
30 September 2022	**2,311**	**488**	**2,799**
30 September 2021	1,840	210	2,050

Included in intangible assets is software in the course of construction totalling £53,000 (2021: £1,699,000), and development costs of £488,000 (2021: £210,000) which are not yet subject to amortisation.

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land & buildings £'000	Plant & machinery £'000	Fixtures, fittings & equipment £'000	Laboratory equipment £'000	**Total £'000**
Cost					
1 October 2021	24,003	13,096	3,369	1,236	41,704
Reclassification	**-**	**-**	**540**	**(540)**	**-**
Additions	**21**	**5,581**	**284**	**302**	**6,188**
Disposals	**(2,611)**	**(513)**	**(562)**	**(94)**	**(3,780)**
30 September 2022	**21,413**	**18,164**	**3,631**	**904**	**44,112**
Depreciation					
1 October 2021	828	1,515	1,063	243	3,649
Charge for year	**99**	**132**	**315**	**94**	**640**
Disposals	**(840)**	**(513)**	**(562)**	**(94)**	**(2,009)**
30 September 2022	**87**	**1,134**	**816**	**243**	**2,280**
Net book value					
30 September 2022	**21,326**	**17,030**	**2,815**	**661**	**41,832**
30 September 2021	23,175	11,581	2,306	993	38,055

Included within freehold land and buildings is £4,227,000 (2021: £4,227,000) of land which is not depreciated.

Included in freehold land and buildings are assets in the course of construction totalling £7,363,000 (2021: £14,853,000), plant and machinery assets in the course of construction totalling £15,230,000 (2021: £10,880,000) fixtures, fittings and equipment in the course of construction totalling £559,000 (2021: £1,445,000), and laboratory equipment in the course of construction totalling £222,000 (2021: £861,000) which are not yet being depreciated.

Capital commitments	**2022 £'000**	2021 £'000
Contracted but not provided for	**1,922**	3,474

Included in the capital commitments at the year-end date were commitments totalling £1,819,000 in respect of the new site relocation project.

13. LEASES

Company as lessee

The Company reports right-of-use assets and lease liabilities for all lease arrangements it is party to, excluding those with less than a twelve month duration or those of low value.

Right-of-use assets

Net carrying value	Plant & machinery £'000	Fixtures & Fittings £'000	Leasehold land & buildings £'000	**Total £'000**
1 October 2021	388	-	1,129	1,517
Additions	**-**	**16**	**-**	**16**
Depreciation charge	**(79)**	**(4)**	**(3)**	**(86)**
Disposal			**(1,126)**	**(1,126)**
30 September 2022	**309**	**12**	**-**	**321**

Lease liabilities

	2022 £'000	2021 £'000
1 October 2021	**1,012**	623
Additions	**16**	388
Interest on lease liabilities	**11**	23
Disposals	**(622)**	-
Repayments of lease liabilities	**(77)**	(22)
30 September 2022	**340**	1,012
Of which:		
Current lease liabilities	**83**	82
Non-current lease liabilities	**257**	930

The lease liability is determined by discounting the lease payments over the life of the leases using an incremental borrowing rate applicable to the respective lease. The weighted average incremental borrowing rate associated with the lease liabilities is 2.9% (2021: 3.3%).

13. LEASES (continued)

Following the disposal of the Company's former UK Headquarters at Northern Way and its associated leases in February 2022, the Company's leasing activities now primarily comprise equipment hire agreements. There are no residual value guarantees, variable lease payments or extension options in any of the lease arrangements.

The maturity analysis of the undiscounted contractual lease commitments is shown below for the current and prior year:

	2022 £'000	**2021 £'000**
Maturity analysis – undiscounted lease commitments		
Within one year	**83**	83
In one to two years	**76**	95
In two to five years	**192**	286
In more than five years	**-**	2,994

14. DEFERRED TAXATION

A reconciliation of the net deferred tax asset is shown below:

	Post-employment benefits £'000	Fixed assets £'000	Cash flow hedge £'000	Other temporary differences £'000	Losses £'000	**Total £'000**
1 October 2020	1,910	(672)	8	110	-	1,356
Credit/(charge) to income statement						
For the year	(73)	(844)	(33)	176	-	(774)
For change in tax rate	-	(212)	-	-	-	(212)
Credit/(charge) to other comprehensive income						
For the year	(738)	-	93	-	-	(645)
For change in tax rate	603	-	-	-	-	603
Charge to equity						
For the year	-	-	-	427	-	427
For change in tax rate	-	-	-	35	-	35
1 October 2021	**1,702**	**(1,728)**	**68**	**748**	**-**	**790**
Credit/(charge) to income statement						
For the year	(80)	(1,344)	-	(72)	1,260	**(236)**
In respect of prior period	-	(232)	1	(30)	17	**(244)**
For change in tax rate	-	-	-	-	-	-
Credit/(charge) to other comprehensive income						
For the year	(2,068)	-	4	-	-	**(2,064)**
For change in tax rate	-	-	-	-	-	-
Credit to equity						
For the year	-	-	-	(300)	-	**(300)**
For change in tax rate	-	-	-	-	-	-
30 September 2022	**(446)**	**(3,304)**	**73**	**346**	**1,277**	**(2,054)**

Legislation was substantively enacted that set out the main rate of UK corporation tax as 25.0% from 1 April 2023. The deferred tax rate applied to the Company is 19.0% (2021: 19.0%) if the tax asset or liability is expected to unwind before 1 April 2023, and is 25.0% for those unwinding after that date.

15. INVENTORIES

	2022 £'000	2021 £'000
Raw materials	12,058	9,977
Work in progress and intermediate products	8,595	6,130
Finished goods	7,412	3,363
	28,065	19,470

Inventories are stated after provisions for impairment of £853,000 (2021: £851,000).

16. TRADE AND OTHER RECEIVABLES

Current	2022 £'000	2021 £'000
Trade receivables	22,250	14,383
Other receivables	256	606
Prepayments	1,114	1,205
	23,620	16,194

The Company's credit risk is primarily attributable to its trade receivables. Before accepting any new customer, the Company uses a range of information, including credit reports, industry data and other publicly or privately available information in order to assess the potential customer's credit quality and determine credit limits by customer, and where appropriate will only accept orders on the basis of cash in advance, or if secured through a bank letter of credit. Processes are in place to manage trade receivables and overdue debt and to ensure that appropriate action is taken to resolve issues on a timely basis. Credit control operating procedures are in place to review all new customers. Existing customers are reviewed as management become aware of any specific changes in circumstances.

The Company recognises the lifetime expected credit losses ('ECLs') based on the difference between the contractual cash flows due and the cash flows the Company expects to receive over the life of the receivable. An ECL loss rate has been calculated based on the historical credit losses of the past five accounting years and adjusted to reflect current and forward-looking information. The carrying amount of receivables is reduced by the value of the provision, as determined by applying the ECL loss rate and providing for any specific provisions. A specific provision for impairment is made when there is objective evidence of impairment which is usually indicated by a significant delay in the expected cash flows or non-payment from customers.

An impairment review has been undertaken at the balance sheet date to assess whether the carrying amount of financial assets is deemed recoverable.

16. TRADE AND OTHER RECEIVABLES (continued)

The amounts presented in the balance sheet are net of amounts that are individually determined to be impaired as follows:

	2022 £'000	2021 £'000
Impairment provision		
At start of year	355	302
Released in year	(219)	(109)
Provided in year	607	162
Balance at end of year	743	355

17. CASH AND BANK BALANCES

Cash and bank balances of £59,000 (2021: £792,000) comprise cash held by the Company and short term deposits with an original maturity of one month or less. The carrying amount of these assets approximates to their fair value.

All material cash balances are held with the Company's main bank, being HSBC. A right of set-off exists with HSBC between accounts with positive and negative balances. The credit ratings of these banks are considered to be satisfactory.

18. BORROWINGS

Current	2022 £'000	2021 £'000
Bank borrowings	19,174	12,013

The Company's facilities at the balance sheet date consisted of a £7.0 million three-year revolving credit facility (RCF) alongside a £6.5m accordion facility, secured on the value of the freehold land and buildings of the new UK Headquarters at Skyliner Way, renewing in March 2024 and a $9.0 million unsecured RCF and an unsecured overdraft facility of $6.0 million which both come for renewal in April 2023. The Company completed the refinancing of its bank facilities in June 2023, more details of the new arrangements are included in note 28 of the financial statements and in the strategic report.

The Company's bank borrowings and cash balances denominated in Sterling are operated on a pooling basis, whereby interest is only charged on the net overdrawn balance of the Company's UK-based accounts. At the year-end date, the £6,174,000 balance on the UK overdraft was offset against UK cash balances within the overdraft pool, and was incurring interest.

Borrowings are repayable, other than by instalments, as follows:

	2022 £'000	2021 £'000
- in one year or less	19,174	12,013

19. PROVISIONS

	2022 £'000	2021 £'000
Onerous contract provision:		
At start of year	77	120
Utilised in year	(77)	(120)
Additional provision in year	81	77
Balance at end of year	81	77

Onerous contract provisions relate to losses which are or were expected to materialise in the future on fixed price contracts as a result of raw material price increases or market pressure on selling prices. The onerous contract provision expense is included in cost of sales within the income statement and is expected to be utilised in the following financial year.

20. TRADE AND OTHER PAYABLES

Current	2022 £'000	2021 £'000
Trade payables	9,775	6,715
Amounts owed to group undertakings	7,719	2,574
Other taxes and social security costs	319	345
Accruals and other creditors	2,487	3,352
	20,300	12,986

Trade payables principally comprise amounts for trade purchases and on-going costs. The Directors consider that the carrying amount of trade and other payables approximates to their fair values.

21. DERIVATIVE FINANCIAL INSTRUMENTS

The assets and liabilities on derivative financial instruments in the balance sheet are as follows:

	2022 £'000	2021 £'000
Derivative financial assets:		
Current:		
Foreign exchange contracts	-	11
Derivative financial liabilities:		
Current:		
Foreign exchange contracts	(666)	(593)

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The gains/(losses) on derivative financial instruments in the income statement were as follows:

	2022 £'000	2021 £'000
Income statement:		
Foreign exchange contracts	(2,336)	1,355
Other comprehensive income:		
Foreign exchange contracts	(23)	(508)

Further details on the Company's hedging policies and derivative financial instruments are disclosed in note 25, 'Financial Instruments'.

22. SHARE CAPITAL

Called up, allotted and fully paid	2022 £'000	2022 Number	2021 £'000	2021 Number
At start of year	20,050	20,050,000	20,050	20,050,000
Issued in year	-	-	-	-
At end of year	20,050	20,050,000	20,050	20,050,000

The Company has one class of ordinary shares with a nominal value of £1 each, which carry no right to fixed income.

23. SHARE-BASED PAYMENTS

The Company has applied the requirements of IFRS2, 'Share-based payments'. The Company recognises a share-based payments expense based on the fair value of the awards granted, and an equivalent credit directly in equity as a capital contribution.

The Company operates executive share option schemes for Directors, senior management and other key employees within the Company in addition to issuing HMRC approved savings-related share options for employees. Options are granted with a fixed exercise price and will lapse when an employee leaves the Company subject to certain 'good leaver' provisions.

The share-based payments charge was as follows:

	2022 £'000	2021 £'000
Share option schemes – see (a) below	585	1,036
Share incentive plans – see (b) below	334	278
	919	1,314

23. SHARE-BASED PAYMENTS (continued)

(a) Share option schemes

Under the schemes listed below, options have been granted to subscribe for the following number of existing ordinary shares of 2p each in the capital of the Parent Company, Treatt Plc. These share options are expected to be settled via the transfer of shares out of the 'Treatt Employee Benefit Trust'.

The equity-settled options which existed during the year were as follows:

	Number of shares outstanding at 30 September 2021	Number exercised in year	Exercise price per share	Date option exercisable
SAYE[1] Scheme 2018	-	7,138	373.0p	Sep 2021 – Feb 2022
SAYE[1] Scheme 2019	14,301	102,622	361.0p	Sep 2022 – Feb 2023
SAYE[1] Scheme 2020	110,545	-	409.0p	Sep 2023 – Feb 2024
SAYE[1] Scheme 2021	51,077	-	932.0p	Sep 2024 – Feb 2025
SAYE[1] Scheme 2022	113,095	-	610.0p	Sep 2025 – Feb 2026
LTIP[2] Scheme 2014	12,565	-	Nil	Jun 2017 – Jun 2024
LTIP[2] Scheme 2015	14,045	-	Nil	Jun 2018 – Jun 2025
LTIP[2] Scheme 2016	15,984	-	Nil	Jun 2019 – Jun 2026
LTIP[2] Scheme 2017	2,137	-	Nil	Jun 2020 – Jun 2027
LTIP[2] Scheme 2019	14,102	33,486	Nil	Jun 2022 – Jun 2029
LTIP[2] Scheme 2020	39,934	-	Nil	Jun 2023 – Jun 2030
LTIP[2] Scheme 2021	16,962	-	Nil	Jun 2024 – Jun 2031
LTIP[2] Scheme 2021	5,578	-	Nil	Dec 2023 – Dec 2030
LTIP[2] Scheme 2021	20,124	-	Nil	Dec 2024 – Dec 2031
UK[3] Executive Options 2018	-	134,145	Nil	Dec 2021 – Dec 2028
UK[3] Executive Options 2019	120,014	-	Nil	Dec 2022 – Dec 2029
UK[3] Executive Options 2020	63,755	-	Nil	Dec 2023 – Dec 2030
UK[3] Executive Options 2022	52,232	-	Nil	Feb 2025 – Feb 2032

[1] The SAYE schemes are HMRC-approved Save As You Earn share option plans, which vest after three years. Options are forfeited where employees choose to leave the Company before the end of the three year period.

[2] Share options are awarded to certain key employees under a Long Term Incentive Plan. All awards are nil-cost options which vest, subject to achievement of the relevant performance conditions, after three years and can be exercised over the following seven years. Save as permitted in the LTIP rules, awards lapse on an employee leaving the Company.

[3] Details of the Executive options are provided in the Directors' Remuneration Report in the financial statements of Treatt plc.

The options outstanding had a weighted average remaining contractual period of 4.6 years (2021: 5.6 years). The weighted average actual market share price on date of exercise for share options exercised during the year was 826.8 pence (2021: 1,080.8 pence). The number of share options exercisable at the year end was 51,627 (2021: 51,869).

23. SHARE-BASED PAYMENTS (continued)

(b) Share incentive plans

All employees are eligible to participate in an HMRC-approved SIP once they have been with the Company for a qualifying period of up to twelve months. During the year employees were awarded £700 (2021: £650) of 'Free Shares' in Treatt plc. There are no vesting conditions attached to the Free Shares other than being continuously employed by the Company for three years from the date of grant. Employees can also buy shares in Treatt Plc out of pre-tax income, subject to an annual HMRC limit, currently £1,800. These shares are called Partnership Shares and are held in trust on behalf of the employee. For every partnership share awarded, the Company issued one and a half (2021: one and a half) free 'Matching' shares with the same rules of forfeiture as for Free Shares. The employees must take their shares out of the plan on leaving the Company.

	Number of free shares		Number of matching shares	
	2022	2021	**2022**	2021
Unvested at end of year	**49,549**	61,006	**92,741**	106,457

In accordance with IFRS 2, no valuation model is required to calculate the fair value of awards under the SIPs. The fair value of an equity-based payment under the SIPs is the face value of the award on the date of grant because the participants are entitled to receive the full value of the shares and there are no market-based performance conditions attached to the awards.

During the year 21,756 Free Shares vested (2021: 13,236) and 30,882 (2021: 37,716) Matching Shares vested during the year. All Free and Matching Shares are granted at an exercise price of £nil.

24. POST-EMPLOYMENT BENEFITS

The Company operates a wholly-funded defined benefit pension scheme for certain UK employees. The scheme's assets are held separately from the assets of the Company and are administered by trustees and managed professionally. From 1 October 2001 this scheme was closed to new entrants and from 1 January 2013 was not subject to any further accruals. Instead, members of the final salary pension scheme became eligible for membership of a defined contribution pension plan with effect from 1 January 2013.

Defined contribution schemes are operated on behalf of eligible employees, the assets of which are held separately from those of the Company in independently administered funds.

The pension charge for the year was made up as follows:

	2022 **£'000**	2021 £'000
Defined contribution schemes	**676**	**703**
Other pension costs	**24**	**24**
	700	**727**

24. POST-EMPLOYMENT BENEFITS (continued)

Defined benefit pension scheme

The Company accounts for pensions in accordance with IAS 19, 'Employee Benefits'. The valuation used for IAS 19 disclosures in respect of the defined benefit pension scheme (the scheme) for the current year has been calculated by updating the valuation calculations used in the actuarial valuation as at 1 January 2021. The liabilities in last year's disclosures were calculated by updating the valuation calculations used in the initial results of the same actuarial valuation.

The actuarial valuation as at 1 January 2021 was carried out by Barnett Waddingham, and the updates made to them to take account of the requirements of IAS 19 in order to assess the assets and liabilities of the scheme at 30 September 2022, are carried out by Mrs L Lawson, a Fellow of the Institute and Faculty of Actuaries. Scheme assets are stated at their market value as at that date.

The scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the trustees of the scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the scheme in these financial statements.

The scheme is managed by a board of trustees appointed in part by the Company and part from elections by members of the scheme. The trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the scheme's assets. The trustees delegate some of these functions to their professional advisors where appropriate.

The scheme exposes the Company to a number of risks:

• Investment risk: The scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.

• Interest rate risk: The scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the scheme holds assets such as equities the value of the assets and liabilities may not move in the same way.

• Inflation risk: A proportion of the benefits under the scheme are linked to inflation. Although the scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging.

• Mortality risk: In the event that members live longer than assumed a greater deficit will emerge in the scheme.

• Member options: Certain benefit options may be exercised by members without requiring the consent of the trustees or the Company, for example exchanging pension for cash at retirement. In this example, if fewer members than expected exchange pension for cash at retirement then a funding strain will emerge. The assets do not include any investment in shares of the Company and there were no plan amendments, curtailments or settlements during the period. The disclosed liability makes no allowance for discretionary benefits.

24. POST-EMPLOYMENT BENEFITS (continued)

The financial assumptions used to calculate scheme liabilities and assets under IAS 19 are:

	2022	2021
Discount rate	5.50%	2.05%
Rate of inflation (RPI)	3.75%	3.50%
Rate of inflation (CPI)	3.35%	3.10%
Rate of increase in pensions in payment – CPI max 5%	3.20%	3.00%
Rate of increase in pensions in payment – CPI max 3%	2.60%	2.45%
Rate of increase in pensions in payment – CPI max 2.5%	2.25%	2.20%
Mortality table	S3PA tables with CMI 2019 projections using a long-term improvement rate of 1.25% pa & initial addition parameter of 0.25% pa	S3PA tables with CMI 2019 projections using a long-term improvement rate of 1.25% pa & initial addition parameter of 0.25% pa
Commutation allowance	20%	20%
Proportion married at retirement	75%	75%
GMP equalisation allowance	0.5% of liability value	0.5% of liability value
Rate of increase in salaries	N/A	N/A
Life expectancy for male aged 65 in 20 years' time	23.6	23.6
Life expectancy for female aged 65 in 20 years' time	26.0	25.9
Life expectancy for male aged 65 now	22.3	22.2
Life expectancy for female aged 65 now	24.6	24.5

Effect of the scheme on future cash flows

The Company is required to agree a schedule of contributions with the trustees of the scheme following a full valuation which must be carried out at least once every three years. The latest valuation of the scheme took place as at 1 January 2021. The valuation revealed that there was a funding deficit in the scheme as at that date of £4,924,000, being a funding level of 82%. The Company has agreed with the Trustees to continue to make deficit funding contributions of £450,000 (2021: £450,000). The weighted average duration of the defined benefit obligation is approximately 14 years.

Recognition of pension surplus

The Company obtained legal advice over the recognition of a pension surplus, and determined that per the scheme rules the Company has an unconditional right to a refund of any surplus that may arise on cessation of the scheme in context of IFRIC 14 paragraph 11b. The full net pension surplus has been recognised on the Company balance sheet.

24. POST-EMPLOYMENT BENEFITS (continued)

A summary of the fair values of the scheme at the balance sheet date was as follows:

	2022 £'000	2021 £'000
Scheme assets:		
Equities	**11,073**	12,025
Target return funds	**3,776**	4,834
Bonds	**6,300**	6,882
Other	**63**	71
Fair value of scheme assets	**21,212**	23,812
Present value of funded obligations (scheme liabilities)	**(19,430)**	(30,618)
Surplus/(deficit) in the scheme recognised in the balance sheet	**1,782**	(6,806)
Related deferred tax	**(446)**	1,702
Net pension surplus/(liability)	**1,336**	(5,104)
Changes in scheme liabilities		
Balance at start of year	**(30,618)**	(31,166)
Interest cost	**(621)**	(493)
Benefits paid	**704**	671
Remeasurement gains/(losses):		
Experience (loss)/gain on liabilities	**(548)**	246
Actuarial gain arising from changes to demographic assumptions	**-**	109
Actuarial gain arising from changes in financial assumptions	**11,653**	15
Balance at end of year	**(19,430)**	(30,618)
Changes in scheme assets		
Balance at start of year	**23,812**	21,115
Interest on scheme assets	**486**	336
Employer contributions	**450**	450
Benefits paid	**(704)**	(671)
Remeasurement gains:		
-(Loss)/return on plan assets (excluding amounts included in interest expense)	**(2,832)**	2,582
Balance at end of year	**21,212**	23,812

24. POST-EMPLOYMENT BENEFITS (continued)

	2022 £'000	2021 £'000
Amount charged to finance costs		
Interest on scheme assets	**486**	336
Interest on scheme liabilities	**(621)**	(493)
Net expense recognised in income statement	**(135)**	(157)
Amount recognised in statement of comprehensive income		
Loss/(gain) on scheme assets in excess of interest	**(2,832)**	2,582
Experience loss/(gain) on liabilities	**(548)**	246
Gain from changes to demographic assumptions	**-**	109
Gain from changes to financial assumptions	**11,653**	15
Remeasurement gain recognised in statement of comprehensive income	**8,273**	2,952
Actual (loss)/return on scheme assets	**(2,346)**	2,918
Cumulative remeasurement gain/(loss) recognised in statement of comprehensive income	**102**	(8,171)

Approximate effect of change of assumptions on surplus values at 30 September 2022:

	Reduce surplus by: £'000
Reduce discount rate by 0.25% pa	**633**
Increase inflation and all related assumptions by 0.1% pa	**135**
Increase life expectancy by one year	**584**

The above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same. The assumptions used in preparing this sensitivity analysis are unchanged from the prior year.

25. FINANCIAL INSTRUMENTS

Interest rate risk management

The Company is exposed to interest rate risk on short to medium-term borrowings with HSBC. The risk is managed by maintaining borrowings across a number of currencies, principally US Dollar and Sterling. Long-term financing is primarily used to finance long-term capital investment.

At the balance sheet date, the Company had facilities denominated in various currencies, all of which attract floating rate interest. Interest on the Company's $9.0m unsecured RCF, £7.0m secured RCF and $6.0m overdraft facility are charged at SONIA plus 2.25%, SONIA plus 1.20% and Bank of England base rate plus 2.00% respectively for borrowings denominated in Sterling.

Foreign currency risk management

Foreign currency risk management occurs at a transactional level on revenues and purchases in foreign currencies. The Company's main foreign exchange risk is the US Dollar. The Company has a risk management strategy with regards to the hedging of foreign currency transactions which is approved by the Audit Committee.

The policy for the UK business is to mitigate foreign currency transactional exposures by managing foreign currency borrowings, and by entering into foreign currency forward contracts and options on a rolling basis with the aim to provide a hedge on the Company's margin exposure where both purchases and sales are made in the same currencies, and gross revenue exposure where only the selling price is exposed. This is achieved by matching the value of the contracts, the hedging instrument, to the expected amount of foreign currency margin received in the period, the hedged item.

Where the hedged item and hedging instrument are aligned economically and matched in a 1:1 ratio, a hedge is considered effective and is accounted for using the principles of hedge accounting. Ineffectiveness can occur as a result of a mismatch between the hedged item and instrument, for example as a result of credit risk deterioration in the Company or counterparty's credit risk, or more likely a shortfall in the amount of expected receipts or payments.

The following table details the forward and option contracts outstanding at the year end as well as information regarding their related hedged items. Foreign currency contract assets and liabilities are shown under the heading of 'derivative financial instruments', in current assets and liabilities respectively within the Company balance sheet.

As at 30 September 2022	**Average contract rate**	**Nominal currency '000**	**Contract GBP £'000**	**Fair value asset/(liability) £'000**
US Dollars:				
Forward contract to sell USD within 4 – 6 months	1.2457	$7,000	**5,642**	**(616)**
Euros:				
Forward contract to sell EUR within 1 – 3 months	1.1661	€2,500	**2,144**	**(50)**
				(666)

As at 30 September 2021	Average rate	Nominal currency '000	Contract GBP £'000	Fair value asset/(liability) £'000
US Dollars:				
Forward contract to sell USD within 1 – 3 months	1.413	$9,000	**6,369**	**(301)**
Forward contract to sell USD within 4 – 6 months	1.382	$9,000	**6,512**	**(162)**
Forward contract to sell USD within 6 – 9 months	1.414	$3,500	**2,475**	**(123)**
Euros:				
Forward contract to sell EUR within 1 – 3 months	1.157	€2,500	**2,160**	**11**
Forward contract to sell EUR within 4 – 6 months	1.168	€1,500	**1,284**	**(7)**
				(582)

25. FINANCIAL INSTRUMENTS (continued)

The derivative financial instruments for the foreign currency contracts and options described above are all held as cash flow hedges and are classified as level 2. The fair value of the foreign currency contracts at the year-end equate to the mark-to-market valuation of the contracts and options. These represent the amounts which the Company would expect to pay or receive in order to close these contracts at the balance sheet date.

The gain/(loss) recognised in the statement of comprehensive income on cash flow hedges of foreign currency receipts during the year, is as follows:

Line item	**2022 £'000**	2021 £'000
Revenue	**(2,336)**	1,355
Other gains – hedge ineffectiveness	**-**	-
Other comprehensive income	**(23)**	(508)
	(2,359)	847

26. RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of Treatt plc.

The Company has taken advantage of the exemption under FRS 101, 'Reduced Disclosures Framework' not to disclose transactions with entities that are included in the Treatt plc Group financial statements, unless the Group's ownership is less than 100%.

27. ULTIMATE PARENT UNDERTAKING

At 30 September 2022 the smallest and largest undertaking for which Group accounts are prepared, and of which R.C. Treatt & Co. Limited is a member, is Treatt plc, the Company's ultimate parent undertaking.

Copies of the financial statements of Treatt plc are available from Companies House and at www.treatt.com.

28. SUBSEQUENT EVENTS

On 13 June 2023, the Company successfully refinanced its banking facilities and now has access to a £25.0m multi-currency asset-based lending ("ABL") facility with HSBC Invoice Finance (UK) Ltd in which the available borrowing is referenced off the quantity and quality of the Company's inventory and receivables. This facility replaces all banking facilities the Company previously held and is secured by a fixed and floating charge on all assets, except for land and buildings which are covered by a legal charge in the event of termination, and an equitable charge in the event of a default. As at 13 June 2023 the Company had drawn £14.0m of the available balance.