

**R.C. Treatt & Co. Limited**

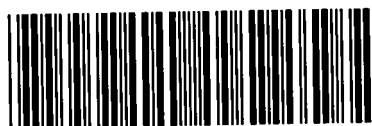
Annual Report and Financial Statements

Year Ended

30 September 2018

Registered number: 00131429

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# **R.C. TREATT & CO. LIMITED**

## **Annual report and financial statements for the year ended 30 September 2018**

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#### **Directors**

Daemmon Reeve (Chief Executive Officer)

Richard Hope (Chief Financial Officer)

#### **Secretary and registered office**

Anita Steer, Northern Way, Bury St Edmunds, Suffolk, IP32 6NL

#### **Registered number**

00131429

#### **Auditors**

RSM UK Audit LLP, Abbotsgate House, Hollow Road, Bury St Edmunds, Suffolk, IP32 7FA

**Strategic Report for the year ended 30 September 2018**

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The Directors are pleased to present their Strategic Report for the year ended 30 September 2018.

**Principal activity**

The Company's principal activity is the supply of flavour and fragrance ingredient solutions. This involves blending and distilling essential oils, the marketing of aroma chemicals and the production of other natural distillates for the flavour, fragrance and 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 long-term sustainable value. The strategy places a strong focus on building close, long-term relationships with customers in the beverage sector, providing them with 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](http://www.treatt.com).

**Business review**

The Company's trading has continued satisfactorily during the year. Revenue for the year was £65.9m (2017: £57.5m) with operating profit of £5.3m (2017: £6.0m). Growth continued in all key market sectors although margins were lower at 20.1% (2017: 23.9%). The reduction in margins resulted from a change in product mix and higher raw material prices. The on-going profitability of the business reflects the successful execution of the Company's strategy through focusing on its core product categories and through the continued support and development of a motivated workforce. The Company has continued its significant investment in research and development and has invested further in areas such as marketing and customer support.

As a result of the lower margins referred to above, profit before tax decreased to £4.3m (2017: £5.5m) before exceptional items. The taxation charge for the year of £0.5m (2017: £0.9m) reflects an effective pre-exceptional taxation rate of 15.5% (2017: 16.9%). Exceptional items in the year of £1.1m (2017: £nil) relate to accelerated depreciation and one-off costs in relation to the impending UK site relocation.

The balance sheet of the Company remains strong with total equity increasing to £22.9m (2017: £18.6m). Net debt has increased to £19.1m (2017: £9.7m) and reflects a material increase in receivables of £13.8m of which £3.7m relates to the transfer of the new site to Treatt Development Company Limited, a fellow subsidiary undertaking. Inventory has reduced to £20.9m (2017: £22.5m). During the year the Company repaid a \$9m revolving credit facility with HSBC.

**Strategic Report for the year ended 30 September 2018 (continued)**

**Key performance indicators**

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

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Revenue	65,943	57,500
Gross profit	13,254	13,755
Gross profit % *	20.1%	23.9%
Operating profit before exceptional items	5,269	6,030
Profit before taxation and exceptional items	4,320	5,464
Profit for the year	2,677	4,541
Number of reportable accidents	1	1
Average number of sick days per employee	2.15	2.37

\*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 and legal/regulatory. 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.

**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.

**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 mispicks, product contamination testing and supplier risk assessment.

**Legal/regulatory:** Failure to comply with relevant environmental, health & 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.

## **R.C. TREATT & CO. LIMITED**

### **Strategic Report for the year ended 30 September 2018 (continued)**

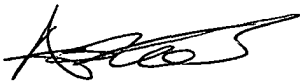
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#### **Future developments and outlook**

The Company is relocating to a new headquarters located in Bury St Edmunds, which will help achieve operational and cultural benefits as well as drive future growth. Land for the new site was acquired in 2017, and plans are progressing well. The Company is expected to move to the new site in 2020.

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

**Approved and signed by order of the Board.**



Anita Steer  
**Secretary**

26 November 2018

**Directors' Report for the year ended 30 September 2018**

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The Directors present their report together with the audited financial statements for the year ended 30 September 2018.

**Results and dividends**

The Income Statement is set out on page 9 and shows the profit for the year.

A breakdown of dividend payments made during the year can be found on page 25.

The Directors recommend a final dividend amounting to £1,053,500 to be voted on at the Annual General Meeting on 25 January 2019, and the Directors propose the said final dividend be paid on 21 March 2019.

**Directors**

The Directors of the Company during the year were:

Daemmon Reeve (Chief Executive Officer)

Richard Hope (Chief Financial Officer)

**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" ("FRS101").

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable UK Accounting Standards, including FRS101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

**Directors' Report for the year ended 30 September 2018 (continued)**

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**Directors' responsibilities (continued)**

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**

RSM UK Audit 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 and R&D activities.

**Approved and signed on behalf of the Board.**



Anita Steer  
**Secretary**

26 November 2018

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

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**Opinion**

We have audited the financial statements of R.C. Treatt & Co. Limited (the 'Company') for the year ended 30 September 2018 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, 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 FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

**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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

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

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

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information. 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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.



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

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**Opinions on other matters prescribed by the Companies Act 2006**

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.

**Matters on which we are required to report by exception**

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 and 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 statement set out on pages 4 and 5, 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities> This description forms part of our auditor's report.

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

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**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.

RSM UK Audit LLP

Neil Stephenson (Senior Statutory Auditor)  
For and on behalf of RSM UK Audit LLP, Statutory Auditor  
Chartered Accountants  
Abbotsgate House  
Hollow Road  
Bury St. Edmunds  
Suffolk IP32 7FA

26 November 2018

**INCOME STATEMENT**

**for the year ended 30 September 2018**

	Notes	2018 £'000	2017 £'000
Revenue	3	65,943	57,500
Cost of sales		(52,689)	(43,745)
<b>Gross profit</b>		<b>13,254</b>	<b>13,755</b>
Administrative expenses		(7,985)	(7,724)
<b>Operating profit *</b>	4	<b>5,269</b>	<b>6,031</b>
Other losses	6	(734)	-
Net finance costs	7	(215)	(567)
<b>Profit before taxation and exceptional items</b>		<b>4,320</b>	<b>5,464</b>
Exceptional items	8	(1,105)	-
<b>Profit before taxation</b>		<b>3,215</b>	<b>5,464</b>
Taxation	9	(538)	(923)
<b>Profit for the year</b>		<b>2,677</b>	<b>4,541</b>

\*Operating profit is calculated as profit before net finance costs, exceptional items and taxation.

All amounts relate to continuing operations.

Notes 1 - 27 form part of these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2018

	Notes	2018 £'000	2017 £'000
Profit for the year		2,677	4,541
Other comprehensive income/(expense):			
Items that may be reclassified subsequently to profit or loss:			
Fair value movement on cash flow hedges		(70)	659
Deferred tax on fair value movement		(27)	(112)
		(97)	547
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on defined benefit pension scheme	23	2,505	1,468
Deferred tax on actuarial gain		(426)	(250)
		2,079	1,218
Other comprehensive income for the year		1,982	1,765
Total comprehensive income for the year		4,659	6,306

Notes 1 - 27 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2018

	Notes	Share capital £'000	Hedging Reserve £'000	Retained earnings £'000	Total equity £'000
<b>1 October 2016</b>		<b>50</b>	<b>(627)</b>	<b>13,636</b>	<b>13,059</b>
Net profit for the year		-	-	4,541	4,541
Other comprehensive income:					
Fair value movement on cash flow hedges		-	659	-	659
Actuarial gain on defined benefit pension scheme		-	-	1,468	1,468
Taxation relating to items above		-	(112)	(250)	(362)
<b>Total comprehensive income</b>		<b>-</b>	<b>547</b>	<b>5,759</b>	<b>6,306</b>
Transactions with owners:					
Dividends	10	-	-	(1,977)	(1,977)
Share-based payments	22	-	-	730	730
Taxation relating to items recognised directly in equity		-	-	487	487
<b>Total transactions with owners</b>		<b>-</b>	<b>-</b>	<b>(760)</b>	<b>(760)</b>
<b>1 October 2017</b>		<b>50</b>	<b>(80)</b>	<b>18,635</b>	<b>18,605</b>
Net profit for the year		-	-	2,677	2,677
Other comprehensive income:					
Fair value movement on cash flow hedges		-	(70)	-	(70)
Transfer between reserves		-	227	(227)	-
Actuarial gain on defined benefit pension scheme		-	-	2,505	2,505
Taxation relating to items above		-	(27)	(426)	(453)
<b>Total comprehensive income</b>		<b>-</b>	<b>130</b>	<b>4,529</b>	<b>4,659</b>
Transactions with owners:					
Dividends	10	-	-	(1,600)	(1,600)
Share-based payments	22	-	-	808	808
Taxation relating to items recognised directly in equity		-	-	397	397
<b>Total transactions with owners</b>		<b>-</b>	<b>-</b>	<b>(395)</b>	<b>(395)</b>
<b>30 September 2018</b>		<b>50</b>	<b>50</b>	<b>22,769</b>	<b>22,869</b>

Notes 1 – 27 form part of these financial statements.

# R.C. TREATT & CO. LIMITED

Registered Number: 00131429

## BALANCE SHEET

as at 30 September 2018

	Notes	2018 £'000	2017 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	11	607	572
Property, plant and equipment	12	4,100	8,059
Deferred tax assets	13	1,074	1,358
		5,781	9,989
<b>Current assets</b>			
Inventories	14	20,863	22,469
Trade and other receivables	15	28,234	14,389
Current tax assets		29	144
Derivative financial instruments	20	-	483
Cash and bank balances	16	193	1,349
		49,319	38,834
<b>Total assets</b>		<b>55,100</b>	<b>48,823</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	17	(19,244)	(4,387)
Provisions	18	-	(4)
Trade and other payables	19	(9,129)	(12,895)
Derivative financial instruments	20	(401)	-
		(28,774)	(17,286)
<b>Net current assets</b>		<b>20,545</b>	<b>21,548</b>
<b>Non-current liabilities</b>			
Borrowings	17	-	(6,708)
Post-employment benefits	23	(3,457)	(5,821)
Derivative financial instruments	20	-	(403)
		(3,457)	(12,932)
<b>Total liabilities</b>		<b>(32,231)</b>	<b>(30,218)</b>
<b>Net assets</b>		<b>22,869</b>	<b>18,605</b>

## R.C. TREATT & CO. LIMITED


### BALANCE SHEET (continued)

as at 30 September 2018

	Notes	2018 £'000	2017 £'000
<b>EQUITY</b>			
Share capital	21	50	50
Hedging reserve		50	(80)
Retained earnings		22,769	18,635
<b>Total equity</b>		<b>22,869</b>	<b>18,605</b>

Notes 1 - 27 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 26 November 2018 and were signed on its behalf by:



Richard Hope  
Chief Financial Officer

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018**

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**1. GENERAL INFORMATION**

R.C. Treatt & Co. Ltd ('the Company') is a private limited company incorporated in the United Kingdom and domiciled in England and Wales. The address of the registered office is Northern Way, Bury St. Edmunds, Suffolk, IP32 6NL.

**2. 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. The financial statements have also been prepared under the historical cost convention (unless a fair value basis is required by FRS 101) and the Companies Act 2006.

In preparing these financial statements, the company applies the recognition and measurement requirements of International Financial Reporting Standards as adopted by the EU ("IFRS"), amended where necessary in order to comply with Companies Act 2006.

**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 number of shares outstanding and the carrying amounts of property, plant and equipment and intangible assets;
- Disclosure of the future impact of new International Financial Reporting Standards in issue but not yet effective at the reporting date;
- 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;
- Comparative narrative information; 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, Northern Way, Bury St Edmunds, Suffolk, IP32 6NL and can also be found at [www.treatt.com](http://www.treatt.com).

**Going concern**

The Directors have, at the time of approving the financial statements, 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.



**NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018**

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

**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 despatched from the Company's premises or other storage depots, irrespective of the terms of trade, as the Directors believe that this is the point at which the significant risks and rewards of ownership are transferred to the customer in accordance with IAS 18, 'Revenue Recognition'.

**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.

**Leases**

Rentals receivable under operating leases are recognised in the income statement as and when they fall due. Rentals payable under operating leases, where substantially all of the benefit and risks of ownership remain with the lessor, are charged against profits on a straight-line basis over the term of the lease.

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax attributable to current profits.

**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 (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax is measured at the average 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.

**2. 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 period.

**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 cost less depreciation.

Depreciation is provided on all property, plant and equipment, except freehold and long leasehold land, using the straight-line basis to write off the cost of the asset, less estimated residual value, as follows:

- Plant and machinery: 4-10 years
- Buildings: 50 years

**Intangible assets**

*Other intangible assets*

Amortisation (which is included within administrative expenses) is provided on all intangible assets, other than goodwill, using the straight-line basis to write off the cost of the asset, less estimated residual value, as follows:

- Software licenses: 4 years
- Lease premium: 85 years

**Impairment of property, plant and equipment and intangible assets**

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment.

The need for any non-current asset impairment write down is assessed by comparison of the carrying value of the asset against the higher of net realisable value and value in use.

**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.

**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.

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

**Financial assets**

Financial assets held by the Company are either classified as held for trading or are accounted for as trade receivables, loans, other receivables and cash and cash equivalents at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Trade and other receivables*

Trade and other receivables are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment. A provision for impairment is made where there is objective evidence, (including customers with financial difficulties or in default on payments), that amounts will not be recovered in accordance with original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the income statement.

*Loans receivable*

All loans receivable are initially recognised at fair value. After initial recognition, interest-bearing loans are measured at amortised cost less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the loan's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the loan at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

*Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks, 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.

**Financial liabilities and equity instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. 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.

*Trade payables*

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

*Equity instruments*

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

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

**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 its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly 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, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedging transaction is no longer expected to occur, the net cumulative gain or loss that was recognised in equity is recognised immediately in profit or loss for the period. 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 recognised directly in equity. The ineffective portion is recognised immediately in the income statement. 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. For transactions that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

**Pension costs**

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

For the defined benefit retirement plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out every three years and updated at each balance sheet date. The post-employment benefits obligation recognised in the balance sheet represents the present value of the defined benefit pension obligations adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service costs, plus 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 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 defined contribution pension scheme. The contributions for this scheme are charged to the income statement in the year in which they become payable.

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

**Share-based payments**

Part of the remuneration of certain employees of the Company is provided through the grant of options in the shares of the ultimate Parent Company.

IFRS 2, 'Share-based Payments', requires that an expense for equity instruments granted be recognised 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 fair value of options under IFRS. The fair value excludes the effect of non market-based vesting conditions. This expense 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 equity.

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 also has an HMRC-approved share incentive plan ('SIP') for its 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 recognised on a straight-line basis over the vesting period.

**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 12 months include the following:

*Critical accounting estimates and assumptions*

*Pensions* – movements in equity markets, interest rates and life expectancy could materially affect the level of surpluses and deficits in the defined benefit pension scheme. The key assumptions used to value pension assets and liabilities are set out in note 23 'Post-employment benefits';

*Useful economic life and residual value estimates* – the Company reviews the useful economic lives and residual values attributed to assets on an on-going basis to ensure they are appropriate. Changes in economic lives or residual values could impact the carrying value and charges to the income statement in future periods;

*Provisions* – using information available at the balance sheet date, the Directors make judgements based on experience on the level of provision required against assets, including inventory and trade receivables, and for liabilities including onerous contracts. Further information received after the balance sheet date may impact the level of provision required;

*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 judgements 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 22 'Share-based payments'. Changes in these assumptions could lead to changes in the income statement expense in future periods;

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Taxation* – estimation is required of taxable profit in order to determine the Company's current tax liability. There are transactions and calculations for which the ultimate tax determination can be uncertain. The Company periodically evaluates situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

*Critical accounting judgements*

*Deferred tax assets* - deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

**Description of the nature and purpose of each reserve within equity**

*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 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.

## 3. SEGMENTAL INFORMATION

*Business segments*

IFRS 8 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		2018 £'000	2017 £'000
United Kingdom		10,856	7,571
Rest of Europe	- Germany	6,834	6,116
	- Ireland	6,379	5,844
	- Other	10,729	8,256
The Americas	- USA	4,717	4,161
	- Other	4,979	4,957
Rest of the World	- China	4,631	5,241
	- Singapore	4,110	3,905
	- Japan	3,704	3,048
	- Other	9,004	8,401
		65,943	57,500

All Company revenue is in respect of the sale of goods, other than property rental income of £44,000 (2017: £43,000). 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 12.8% (2017: 14.2%) of Company revenue. There were no other customers which represented more than 10% of Company revenue.

**R.C. TREATT & CO. LIMITED****NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018****4. PROFIT FOR THE YEAR**

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

	2018 £'000	2017 £'000
Depreciation of property, plant & equipment	763	582
Amortisation of intangible assets <sup>1</sup>	102	112
Research and development costs	1,166	775
Research and development government grant <sup>3</sup>	(137)	-
Operating leases		
- plant & machinery	6	6
- land & buildings	22	22
Net foreign exchange gains <sup>2</sup>	(780)	(142)
Rent receivable	(44)	(43)
Cost of inventories recognised as expense <sup>3</sup>	45,897	36,851
Net write downs of inventories recognised as an expense	773	802
Shipping costs	982	903
IT & telephony costs	413	373
Insurance costs	376	372
Energy & utility costs	258	202

<sup>1</sup> Included in administrative expenses.

<sup>2</sup> Excludes foreign exchange gains or losses on financial instruments disclosed in note 20.

<sup>3</sup> Included in cost of sales.

The analysis of auditor's remuneration is as follows:

**Fees payable to the Company's auditors and their associates for the audit of:**

- the Company accounts	59	82
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**NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018****5. EMPLOYEES***Number of employees*

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

	2018 Number	2017 Number
Technical and production	94	90
Administration and sales	104	93
	198	183

*Employment costs*

The following costs were incurred in respect of the above:

	2018 £'000	2017 £'000
Wages and salaries	7,797	7,696
Social security costs	1,177	1,120
Pension costs (see note 23)	572	556
Share-based payments (see note 22)	808	730
	10,354	10,102

*Directors*

The remuneration of the Directors was as follows:

	2018 £'000	2017 £'000
Fees and remuneration	1,007	935
Pension contributions	56	53
	1,063	988

In respect of the highest paid Director was as follows:

	2018 £'000	2017 £'000
Remuneration	603	565
Pension contributions	40	38
	643	603

The number of Directors for whom money purchase pension contributions were made during the year was two (2017: 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 (2017: one). The highest paid Director exercised 243,377 (2017: nil) share options and has 402,489 (2017: 578,389) shares which are receivable under a rolling programme of three year Save As You Earn, HMRC approved and unapproved share option schemes.



## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018

## 6. OTHER LOSSES

	2018 £'000	2017 £'000
Hedge ineffectiveness on cash flow hedges	734	-

The ineffectiveness of certain cash flow hedges in the year arose as a consequence of increased payment terms with certain large customers.

## 7. NET FINANCE COSTS

	2018 £'000	2017 £'000
<b>Finance costs</b>		
Bank overdraft interest paid	148	384
Other bank finance costs	167	151
Pension finance cost (see note 23)	166	188
	481	723
<b>Finance revenue</b>		
Loan to fellow subsidiary undertaking	(259)	(145)
Bank interest received	(7)	(11)
	(266)	(156)
<b>Net finance costs</b>	215	567

## 8. EXCEPTIONAL ITEMS

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

	2018 £'000	2017 £'000
New site legal and professional fees	888	-
Accelerated depreciation	217	-
	1,105	-
Less: tax effect of exceptional items	(130)	-
	975	-

The accelerated depreciation is in relation to the reduction in the estimated useful lives of assets which will not transition to the new site. New site legal and professional fees relate to one-off costs incurred in connection with the relocation of the Company's operations which is expected to take place in 2020.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018

## 9. TAXATION

	2018 £'000	2017 £'000
<b>Analysis of tax charge in income statement:</b>		
<b>Current tax:</b>		
UK corporation tax on profits for the year	744	940
Adjustments to UK tax in respect of previous periods	(33)	(84)
<b>Total current tax</b>	<b>711</b>	<b>856</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(172)	45
Adjustments in respect of previous periods	(1)	22
<b>Total deferred tax (see note 13)</b>	<b>(173)</b>	<b>67</b>
<b>Tax on profit on ordinary activities</b>	<b>538</b>	<b>923</b>
<b>Analysis of tax charge in other comprehensive income:</b>		
<b>Deferred tax:</b>		
Cash flow hedges	27	112
Actuarial gain or loss on defined benefit pension scheme	426	250
<b>Total deferred tax</b>	<b>453</b>	<b>362</b>
<b>Total tax charge recognised in other comprehensive income</b>	<b>453</b>	<b>362</b>
<b>Analysis of tax credit in equity:</b>		
<b>Current tax:</b>		
Share-based payments	(401)	(129)
<b>Deferred tax:</b>		
Share-based payments	4	(358)
<b>Total tax credit recognised in equity</b>	<b>(397)</b>	<b>(487)</b>

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018****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% (2017: 19.5%). The differences are explained below:

	2018 £'000	2017 £'000
Profit before tax multiplied by standard rate of UK corporation tax at 19% (2017: 19.5%)	611	1,065
Effects of:		
Expenses not deductible in determining taxable profit and other items	(39)	116
Research and development tax credits	-	(196)
Adjustments to tax charge in respect of prior years	(34)	(62)
<b>Total tax charge for the year</b>	<b>538</b>	<b>923</b>

During the year the Company qualified as a large company and therefore the research and development tax credit is included within cost of sales.

**10. DIVIDENDS****Equity dividends on ordinary shares:**

	Dividend per share for years ended 30 September			2018 £'000	2017 £'000
	2018 £	2017 <sup>1</sup> £	2016 £		
Interim dividend	9.65 <sup>2</sup>	8.00 <sup>1</sup>	14.05 <sup>1</sup>	483	1,102
Final dividend	21.07 <sup>3</sup>	22.34 <sup>2</sup>	17.49 <sup>1</sup>	1,117	875
	30.72	30.34	31.54	1,600	1,977

<sup>1</sup>Accounted for in the year ended 30 September 2017.

<sup>2</sup>Accounted for in the year ended 30 September 2018.

<sup>3</sup>The proposed final dividend for the year ended 30 September 2018 of £21.07 per share will be voted on at the Annual General Meeting on 25 January 2019 and will, therefore, be accounted for in the financial statements for the year ending 30 September 2019.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018

## 11. INTANGIBLE ASSETS

	Lease premium £'000	Software licences £'000	Total £'000
<b>Cost</b>			
1 October 2017	343	649	992
Additions	-	168	168
Disposals	-	(157)	(157)
<b>30 September 2018</b>	<b>343</b>	<b>660</b>	<b>1,003</b>
<b>Amortisation</b>			
1 October 2017	29	391	420
Charge for year	4	98	102
Disposals	-	(126)	(126)
<b>30 September 2018</b>	<b>33</b>	<b>363</b>	<b>396</b>
<b>Net book value</b>			
<b>30 September 2018</b>	<b>310</b>	<b>297</b>	<b>607</b>
30 September 2017	314	258	572

# R.C. TREATT & CO. LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018

### 12. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings £'000	Plant & machinery £'000	Total £'000
<b>Cost</b>			
1 October 2017	6,568	4,803	11,371
Reclassification	31	(31)	-
Additions	171	337	508
Disposals	(3,704)	(573)	(4,277)
<b>30 September 2018</b>	<b>3,066</b>	<b>4,536</b>	<b>7,602</b>

<b>Depreciation</b>			
1 October 2017	530	2,782	3,312
Charge for year	76	687	763
Disposals	-	(573)	(573)
<b>30 September 2018</b>	<b>606</b>	<b>2,896</b>	<b>3,502</b>

<b>Net book value</b>			
<b>30 September 2018</b>	<b>2,460</b>	<b>1,640</b>	<b>4,100</b>
30 September 2017	6,038	2,021	8,059

<b>Analysis of land &amp; buildings</b>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Net book value</b>		
Freehold	1,786	5,348
Long leasehold	674	690
	<b>2,460</b>	<b>6,038</b>

Included in land & buildings are assets in the course of construction totalling £202,000 (2017: nil) and plant and machinery assets in the course of construction totalling £436,000 (2017: £348,000) which are not yet subject to depreciation.

<b>Capital commitments</b>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Contracted but not provided for	27	200

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018****13. 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	Total £'000
<i>1 October 2016</i>	1,258	(130)	130	171	1,429
(Charge)/credit to income statement	(18)	(24)	(32)	7	(67)
Charge to other comprehensive income for the year	(250)	-	(112)	-	(362)
Credit direct to equity for the year	-	-	-	358	358
<i>1 October 2017</i>	990	(154)	(14)	536	1,358
Credit to income statement for the year	24	36	109	4	173
Charge to other comprehensive income for the year	(426)	-	(27)	-	(453)
Charge direct to equity for the year	-	-	-	(4)	(4)
<b>30 September 2018</b>	<b>588</b>	<b>(118)</b>	<b>68</b>	<b>536</b>	<b>1,074</b>

At the balance sheet date, the Company had a deferred tax asset in relation to its pension liability. The Company has a specific plan in place to reverse the deficit and so this deferred tax asset has been recognised.

The deferred tax rate which has been applied for the year is 17% (2017: 17%) as legislation has been substantively enacted which reduces the main rate of UK corporation tax from 19% to 17% for the 2020/21 tax year.

**14. INVENTORIES**

	2018 £'000	2017 £'000
Raw materials	12,149	13,714
Work in progress and intermediate products	6,889	6,129
Finished goods	1,825	2,626
	<b>20,863</b>	<b>22,469</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018

## 15. TRADE AND OTHER RECEIVABLES

Current	2018 £'000	2017 £'000
Trade receivables	13,862	8,887
Amounts owed by group undertakings	12,796	3,967
Other receivables	1,037	1,109
Prepayments	539	426
	28,234	14,389

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.

An impairment review has been undertaken at the balance sheet date to assess whether the carrying amount of financial assets is deemed recoverable. The primary credit risk relates to customers which have amounts due outside of their credit period. A provision for impairment is made when there is objective evidence of impairment which is usually indicated by a delay in the expected cash flows or non-payment from customers. The amounts presented in the balance sheet are net of amounts that are individually determined to be impaired as follows:

	2018 £'000	2017 £'000
<b>Impairment provision</b>		
At start of year	208	202
Released in year	(112)	(82)
Provided in year	64	88
Balance at end of year	160	208

The impairment of trade receivables has been carried out by the Company's management based on prior experience and their assessment of the current economic environment.

Amounts owed by group undertakings are unsecured, have no fixed repayment date and are repayable on demand. Interest is charged at 5% per annum.

## 16. CASH AND BANK BALANCES

Cash and bank balances of £193,000 (2017: £1,349,000) 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 banks, being Lloyds Banking Group and HSBC. A right of set-off exists with both HSBC and Lloyds Banking Group between accounts with positive and negative balances. The credit ratings of these banks are considered to be satisfactory.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018

## 17. BORROWINGS

Current	2018 £'000	2017 £'000
Term loan	-	3,000
Bank borrowings	19,244	1,387
	19,244	4,387
Non-current	2018 £'000	2017 £'000
Revolving credit facilities	-	6,708

The bank borrowings with HSBC and Lloyds Banking Group are secured by a guarantee provided by the Parent Company, Treatt plc. The Company simultaneously provides a cross-guarantee on all such facilities. As at 30 September 2018 the Company has contingent liabilities in respect of the Treatt plc Group's banking facilities totalling £Nil (2017: £490,000).

The loan of £3m was repaid during the prior year.

Borrowings of US\$12m are held on a five year revolving credit facility which expires in 2023 with an interest rate of LIBOR plus 1.5% per annum. As at 30 September 2018 this facility was undrawn. A non-utilisation fee of 0.35% per annum is charged on the undrawn amount.

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

	2018 £'000	2017 £'000
- in one year or less	19,244	4,387
- in more than one year but not more than two years	-	6,708
	19,244	11,095

## 18. PROVISIONS

	2018 £'000	2017 £'000
<b>Onerous contract provision:</b>		
At start of year	4	60
Utilised in year	(4)	(60)
Additional provision in year	-	4
Balance at end of year	-	4

Onerous contract provisions relate to losses which are or were expected to materialise in the following twelve months on fixed price contracts as a result of significant increases in certain raw material prices. The onerous contract provision expense is included in cost of sales within the income statement.



# R.C. TREATT & CO. LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018

### 19. TRADE AND OTHER PAYABLES

Current	2018 £'000	2017 £'000
Trade payables	6,122	9,307
Amounts owed to group undertakings	-	516
Other taxes and social security costs	551	533
Accruals and other creditors	2,456	2,539
	9,129	12,895

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.

### 20. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 £'000	2017 £'000
<b>Derivative financial assets:</b>		
<b>Current:</b>		
Foreign exchange contracts	-	483
	-	483
<b>Derivative financial liabilities:</b>		
<b>Current:</b>		
Foreign exchange contracts	401	-
<b>Non-current:</b>		
Interest rate swaps	-	403
	401	403

The gains/(losses) on derivative financial instruments were as follows:

	2018 £'000	2017 £'000
<b>Income statement:</b>		
Foreign exchange contracts	(1,633)	119
<b>Other comprehensive income:</b>		
Interest rate swaps	176	351
Foreign exchange contracts	(246)	308
	(70)	659

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

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018****21. SHARE CAPITAL**

Called up, allotted and fully paid	2018 £'000	2018 Number	2017 £'000	2017 Number
At start and end of year	50	50,000	50	50,000

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

**22. 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:

	2018 £'000	2017 £'000
Share option schemes – see (a) below	578	636
Share incentive plans – see (b) below	230	94
	808	730

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018****22. 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	Number exercised in year	Exercise price per share	Date option exercisable
SAYE <sup>1</sup> Scheme 2014	-	42,250	138.0p	Sep 2017 - Feb 2018
SAYE Scheme 2015	4,772	157,747	132.0p	Sep 2018 - Feb 2019
SAYE Scheme 2016	209,590	10,448	138.0p	Sep 2019 - Feb 2020
SAYE Scheme 2017	90,341	1,221	413.0p	Sep 2020 - Feb 2021
SAYE Scheme 2018	108,021	-	373.0p	Sep 2021 - Feb 2022
LTIP <sup>2</sup> Scheme 2014	12,565	35,566	Nil	June 2017 - June 2024
LTIP Scheme 2015	17,484	94,039	Nil	June 2018 - June 2025
LTIP Scheme 2016	93,089	9,701	Nil	Dec 2019 - Dec 2026
LTIP Scheme 2017	32,018	1,977	Nil	Dec 2020 - Dec 2027
LTIP Scheme 2018	38,647	-	Nil	Dec 2021 - Dec 2028
UK Executive <sup>3</sup> Options 2014	-	128,400	Nil	Dec 2017 - Dec 2024
UK Executive Options 2015	110,678	-	Nil	Dec 2018 - Dec 2025
UK Executive Options 2016	172,746	-	Nil	Dec 2019 - Dec 2026
UK Executive Options 2017	112,167	-	Nil	Dec 2020 - Dec 2027
US Executive <sup>4</sup> Options 2012	-	78,195	79.0p	Dec 2017 - Mar 2021
US Executive Options 2013	41,575	-	147.2p	Dec 2018 - Dec 2023
US Executive Options 2014	-	164,816	Nil	Dec 2017 - Dec 2024
US Executive Options 2015	175,708	-	Nil	Dec 2018 - Mar 2019

<sup>1</sup>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.

<sup>2</sup>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.

<sup>3</sup> Details of the Executive options are provided in the Directors' Remuneration Report in the financial statements of Treatt plc.

<sup>4</sup> US Executive Options transferred following the relocation of the Chief Executive Officer to the UK.

The options outstanding had a weighted average remaining contractual period of 5.7 years (2017: 6.0 years). The weighted average actual market share price on date of exercise for share options exercised during the year was 474.0 pence (2017: 469.4 pence). The number of share options exercisable at the year end was 34,821 (2017: Nil).

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018****22. 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 £575 (2017: £525) 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 (2017: one) 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.

	No of free shares		No of matching shares	
	2018	2017	2018	2017
Outstanding at end of year	82,266	115,595	102,579	65,259

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 44,831 Free Shares vested (2017: Nil). No Matching Shares vested during the year. All Free and Matching Shares are granted at an exercise price of £Nil.

**23. 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:

	2018 £'000	2017 £'000
Defined contribution schemes	548	532
Other pension costs	24	24
	572	556

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018**

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**23. POST-EMPLOYMENT BENEFITS (continued)**

*Defined benefit pension scheme*

The Company accounts for pensions in accordance with IAS 19, 'Employee Benefits', details of which are as follows:

The valuation used for IAS 19 disclosures in respect of the defined benefit pension scheme ('the scheme') has been based on the most recent actuarial valuation at 1 January 2018 (2017: 1 January 2015) carried out by Barnett Waddingham and updated by Mrs L Lawson, a Fellow of the Institute and Faculty of Actuaries, to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at 30 September 2018. 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 advisers 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 the 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 significant 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.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018

## 23. POST-EMPLOYMENT BENEFITS (continued)

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

	2018	2017
Discount rate	2.90%	2.85%
Rate of inflation (RPI)	3.35%	3.40%
Rate of inflation (CPI)	2.35%	2.40%
Rate of increase in pensions in payment – CPI max 5%	2.30%	2.40%
Rate of increase in pensions in payment – CPI max 3%	2.00%	2.20%
Rate of increase in pensions in payment – CPI max 2.5%	1.85%	2.05%
Revaluation in deferment	2.35%	2.40%
	100% of S2PxA table with CMI_2016 projections with a long term average rate of improvement of 1.25% pa	100% of S2PxA table with CMI_2015 projections with a long term average rate of improvement of 1.25% pa
Mortality table		
Commutation allowance	20%	20%
Rate of increase in salaries	N/A	N/A
Life expectancy for male aged 65 in 20 years' time	23.6	24.0
Life expectancy for female aged 65 in 20 years' time	25.6	26.0
Life expectancy for male aged 65 now	22.2	22.3
Life expectancy for female aged 65 now	24.0	24.3

*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 valuation which must be carried out at least once every three years. The latest valuation of the scheme took place as at 1 January 2018. The valuation revealed that there was a funding surplus in the scheme as at that date of £473,000, being a funding level of 103%. It has been agreed with the trustees that, consequently, the Company could continue not to make contributions to the scheme for the foreseeable future. It was further agreed that if the annual actuarial funding update revealed that the scheme funding level had fallen to below 95%, then contributions would be resumed. The actuarial funding update as at 30 September 2018 revealed an actuarial surplus of £695,000 (2017: deficit of £336,000), being a funding level of 103% (2017: 98%). The Company expects to make on-going contributions to its defined benefit pension scheme in 2019 of £nil (2018: £nil). The weighted average duration of the defined benefit obligation is approximately 19 years.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018

## 23. POST-EMPLOYMENT BENEFITS (continued)

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

	2018 £'000	2017 £'000
<i>Scheme assets:</i>		
Equities	11,515	11,135
Target return funds	5,492	5,599
Bonds	4,172	4,152
Other	106	83
<b>Fair value of scheme assets</b>	<b>21,285</b>	<b>20,969</b>
Present value of funded obligations (scheme liabilities)	(24,742)	(26,790)
Deficit in the scheme recognised in the balance sheet	(3,457)	(5,821)
Related deferred tax	588	990
<b>Net pension liability</b>	<b>(2,869)</b>	<b>(4,831)</b>
<b>Changes in scheme liabilities</b>		
Balance at start of year	(26,790)	(27,252)
Interest cost	(756)	(699)
Benefits paid	548	719
Remeasurement losses:		
Experience gain on obligation	1,272	-
Actuarial gain arising from changes to demographic assumptions	399	-
Actuarial gain arising from changes in financial assumptions	585	442
Balance at end of year	(24,742)	(26,790)
<b>Changes in scheme assets</b>		
Balance at start of period	20,969	19,851
Interest on scheme assets	590	511
Employer contributions	25	300
Benefits paid	(548)	(719)
Remeasurement gains:		
Return on plan assets (excluding amounts included in interest expense)	249	1,026
Balance at end of year	21,285	20,969
	2018 £'000	2017 £'000
<b>Amount charged to finance costs</b>		
Interest on scheme assets	590	511
Interest on scheme liabilities	(756)	(699)
<b>Net finance expense</b>	<b>(166)</b>	<b>(188)</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018

## 23. POST-EMPLOYMENT BENEFITS (continued)

	2018 £'000	2017 £'000
<b>Net expense recognised in income statement</b>	<b>(166)</b>	<b>(188)</b>
<b>Amount recognised in statement of comprehensive income</b>		
Gain on scheme assets in excess of interest	249	1,026
Gain on obligation	1,272	-
Gain from changes to demographic assumptions	399	-
Gain from changes to financial assumptions	585	442
<b>Remeasurement gain recognised in statement of comprehensive income</b>	<b>2,505</b>	<b>1,468</b>
<b>Actual return on scheme assets</b>	<b>839</b>	<b>1,537</b>
<b>Cumulative remeasurement loss recognised in statement of comprehensive income</b>	<b>(4,475)</b>	<b>(6,980)</b>

Approximate effect of change of assumptions on liability values at 30 September 2018:

	Increase liability by: £'000
Reduce discount rate by 0.25% pa	1,110
Increase inflation and all related assumptions by 0.1% pa	271
Increase life expectancy by one year	937

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.



**NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018****24. COMMITMENTS UNDER OPERATING LEASES****The Company as lessee**

As at 30 September 2018, the Company had total commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 £'000	2017 £'000
Within one year	7	7
In one to two years	6	7
In two to five years	-	6
	<b>13</b>	<b>20</b>

**The Company as lessor**

As at 30 September 2018, the Company had contracted with tenants for the following future minimum lease payments which fall due as follows:

	2018 £'000	2017 £'000
Within one year	9	9

Details of lease payments under operating leases recognised as an expense in the year are disclosed in note 4.

**25. FINANCIAL INSTRUMENTS***Interest rate risk management*

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

Derivative financial instruments	2018	2017
Non-current liabilities	£'000	£'000
Interest rate swaps	-	403

The fair value of the interest rate swap equated to the mark-to-market valuation of the swap provided by HSBC and represents the amount which the Company would expect to pay in order to close the swap contract at the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018****25. FINANCIAL INSTRUMENTS (continued)**

The gain/(loss) on interest rate swaps was as follows:

	2018 £'000	2017 £'000
Other comprehensive income	176	351

Interest on floating rate bank deposits is based on UK base rates or currency LIBOR as applicable. Interest on bank overdrafts is charged at 1.35%-2.75% above bank base or currency LIBOR rates.

*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. Board policy is for the Company to mitigate US Dollar transactional exposures by holding borrowings in US Dollars and Euros as well as by entering into foreign currency forward contracts and options.

The following table details the forward and option contracts outstanding at the year end:

As at 30 September 2018	Average Contract Rate	Nominal currency '000	Contract GBP £'000	Fair value asset/(liability) £'000
<b>US Dollars:</b>				
Forward contract to sell US Dollars in 6 months	1.360	\$17,500	12,872	(549)
Forward contract to sell US Dollars in 6 months	1.361	\$3,500	2,573	(112)
Forward contract to sell US Dollars in 6 months	1.278	\$14,700	11,503	281
<b>Euros:</b>				
Forward contract to sell Euros in 6 months	1.138	€2,000	1,758	(27)
Forward contract to sell Euros in 6 months	1.114	€1,800	1,616	6
				(401)
<b>As at 30 September 2017</b>				
	Average Rate	Nominal currency '000	Contract GBP £'000	Fair value asset/(liability) £'000
<b>US Dollars:</b>				
Forward contract to sell US Dollars in 3 months	1.296	\$8,400	6,481	205
Forward contract to sell US Dollars in 6 months	1.301	\$8,400	6,456	196
<b>Euros:</b>				
Forward contract to sell Euros in 3 months	1.097	€1,500	1,367	42
Forward contract to sell Euros in 6 months	1.096	€1,500	1,369	40
				483

## R.C. TREATT & CO. LIMITED

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2018

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#### 25. FINANCIAL INSTRUMENTS (continued)

The fair value of the foreign currency contracts at the year end equate to the mark-to-market valuation of the contracts and options provided by HSBC and Lloyds Banking Company and represent the amount which the Company would expect to pay in order to close the contracts at the balance sheet date.

The gain/(loss) on foreign currency financial instruments during the year was as follows:

	2018 £'000	2017 £'000
Income statement	(1,633)	(119)
Other comprehensive income	(246)	308
	(1,879)	189

#### 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 2018 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](http://www.treatt.com).