NATURAL EXTRACTS AND INGREDIENTS

Full Year Results

For the year ended 30 September 2020

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TREATT PLC
FULL YEAR RESULTS
YEAR ENDED 30 SEPTEMBER 2020

Profit before tax and exceptional items[1] up 11.3% and dividend per share increased by 9.1% - a strong performance in unprecedented times

Treatt plc, the manufacturer and supplier of a diverse and sustainable portfolio of natural extracts and ingredients for the beverage, flavour and fragrance industries, today announces its results for the year ended 30 September 2020.

FINANCIAL HIGHLIGHTS[1]:

	Financial year ended 30 September 2020	Financial year ended 30 September 2019	Change
Revenue	**£109.0m**	£112.7m	(3.3)%
Gross profit	**£31.9m**	£28.7m	+11.2%
Gross profit margin	**29.2%**	25.4%	+380 bps
Profit before tax and exceptional items	**£14.8m**	£13.3m	+11.3%
Adjusted basic earnings per share	**19.72p**	17.82p	+10.7%
Final dividend per share	**4.16p**	3.80p	+9.5%
Total dividend per share	**6.00p**	5.50p	+9.1%

- Cash generated from operations in the year was £15.7m (2019: £20.5m) and free cash flow[2], excluding the costs associated with the UK relocation, was £10.0m.

OPERATIONAL HIGHLIGHTS:

- Profit before tax and exceptional items exceeded pre COVID-19 Board expectations.
- Delivering good progress against 2022 strategy.
    - ❖ 74% of Group revenue from natural and clean-label products.
- Diversification of portfolio progressing well.
    - ❖ Strong growth in gross margin due to improved product mix and lower commoditised citrus revenues.
    - ❖ Revenue growth of 4.4% in non-citrus categories with 16.1% growth in health & wellness category.
- UK relocation project progressing well and on budget – transition expected to commence in mid-2021.
- In June 2020, the Group's Kenyan operations were disposed of for a nominal sum.

[1] All measures are based on continuing operations.
[2] Free cash flow is calculated as net cash from operating activities (as shown in the Group statement of cash flows) minus the purchase of property, plant, equipment and intangible assets, adjusted to exclude the UK relocation costs.

Commenting on the results, CEO Daemmon Reeve said:

"Treatt has performed strongly during what has been an unprecedented year. To have exceeded the expectations we had at the start of the year before the outbreak of the pandemic, speaks volumes about the resilience of the business, our strategy and market position. I would like to extend my thanks to all our colleagues for their efforts to help us achieve these results.

We continue to focus on new market opportunities and consumer trends including those in coffee, natural extracts and the burgeoning hard seltzer market. We remain confident in the future growth potential of the business and believe we are in a robust position to manage any further impacts from the pandemic.

Building on the excellent fundamentals of our business and broad added-value product offering, we have made a strong start to our new financial year ending 30 September 2021 and the Group continues to perform in line with the Board's expectations."

Analyst and investor conference call

A conference call for analysts and investors will be held at 11.15 a.m. today, 24 November 2020. For dial-in details, please contact MHP Communications at treatt@mhpc.com.

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About the Group

Treatt is a global, independent manufacturer and supplier of a diverse and sustainable portfolio of natural extracts and ingredients for the flavour, fragrance and multinational consumer product industries, particularly in the beverage sector. Renowned for its technical expertise and knowledge of ingredients, their origins and market conditions, Treatt is recognised as a leader in its field.

The Group employs over 300 staff in Europe, North America and Asia and has manufacturing facilities in the UK and US. Its international footprint enables the Group to deliver powerful and integrated solutions for the food, beverage and fragrance industries across the globe.

For further information about the Group, visit www.treatt.com.

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This announcement contains forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements in this announcement will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation of this announcement and the Group undertakes no obligation to update these forward-looking statements. Nothing in this announcement should be construed as a profit forecast.

Chairman's statement

I am extraordinarily proud of the Company's response to the COVID-19 crisis and its resilience

I am extraordinarily proud of Treatt's response and its resilience in a year which saw the COVID-19 pandemic impact our markets and dominate our focus. The health, safety and wellness of our employees has rightly been our absolute priority and despite multiple challenges presented by the virus, the Company has increased its profit before tax and exceptional items by 11.3% to £14.8m; the eighth consecutive year of growth. To have met our pre COVID-19 expectations without needing to call upon any government assistance is an outstanding result.

I am very grateful for the outstanding commitment of our colleagues in the US, UK and China. From the onset of the crisis, the whole Treatt team has worked diligently to keep our plants fully operational and our customers served. Whether having to adjust to working from home, or to abiding by new safety measures in our manufacturing facilities, everyone at Treatt has had to adapt to new ways of working and has demonstrated remarkable resilience and dedication in doing so.

Performance

The first half saw good strategic progress and strong performance with volumes holding up well. Stockpiling of certain products may have contributed to strong sales as the pandemic loomed. Then, as expected, volumes were hit during the second half, largely due to the drop in on-trade sales in the US and disrupted operations for the hospitality sector, but the impact has not been anything like we feared when our markets first went into lockdown.

Treatt has long been proud of its global expertise in citrus markets and, as we anticipated, the orange oil price recovered from last year and our margins improved as a result, which helped to further offset the fall in demand caused by the pandemic.

We continue to diversify the business, building on its defensive characteristics, and we saw ongoing strength in our growing health & wellness (up 16.1%) and fruit & vegetables (up 9.9%) categories, partly as a result of the increasing consumer appetite for natural and 'better-for-you' products.

People, culture and stakeholder engagement

In the face of many new challenges, Treatt's supportive and collaborative culture has been central to our ability to respond. The willingness of our people to work as a team, as well as their desire to rise to a challenge, has really come to the fore across the business and played a significant role in our strong performance.

Structured and effective stakeholder engagement has become more vital than ever during the pandemic. We have worked in close partnership with our customers and suppliers to understand and meet their changing needs. Gaining a better understanding of our suppliers and the issues that are important to them will continue to be a focus during the coming year.

As the designated employee representatives on the Board, David Johnston and I continued with our Employee Voice sessions this year; they remain an excellent channel for gathering employee feedback and answering questions. A striking outcome of this open-door policy during the crisis has been staff flagging concern for colleagues who may have been feeling under pressure so that the Company could be mindful and supportive.

We've also been mindful of our local communities in Suffolk and Florida. We were delighted to be able to use our facilities to produce hand sanitiser for local care homes and other organisations helping those most at risk. We were proud to assist COVID-19 care at Bury St. Edmunds hospital by enabling our Health & Safety Manager, who is a qualified nurse, to return to the NHS.

In the wake of the pandemic, ESG (environmental, social and governance) matters remain high on the Board agenda, with a formal strategy currently in development.

Board changes during the period

I am delighted to welcome Vijay Thakrar to the Board as an independent Non-executive Director. Vijay is a Chartered Accountant with extensive strategy, commercial and governance experience in fast-moving consumer goods (FMCG) and I'm confident he will prove a strong addition to the team.

Dividend

The Directors are pleased to propose a final dividend of 4.16p per share (2019: 3.80p), which represents an increase in the total dividend for the year of 9.1% to 6.00p (2019: 5.50p). If approved by shareholders at the Annual General

Meeting, the final dividend will be payable on 18 March 2021 to all shareholders on the register at the close of business on 5 February 2021.

Outlook

We will continue to do all we can to safeguard the health and safety of our colleagues whilst meeting the requirements of our customers and end consumers.

Notwithstanding COVID-19 related market uncertainty, we remain optimistic for the coming year. Our resilient business model and strategy for growth are delivering good results and we have further opportunities to pursue. In particular, the current trends in coffee, natural extracts, and the burgeoning hard seltzer market play to our strengths and provide us with opportunities to further innovate and diversify our portfolio.

This year has certainly demonstrated the skill and dedication of our people, the strength of our culture, our ability to adapt, and the ongoing market demand for our products even in uncertain times. Reflecting on those fundamentals gives me confidence that the business is ready to thrive in the face of future challenges.

Tim Jones

Chairman

23 November 2020

Chief Executive's review

An excellent performance in extraordinary times and well-positioned for future growth

Summary

- The underlying business performed strongly and delivered profit before tax and exceptional items ahead of pre COVID-19 expectations
- We responded to significant disruption in our markets, and to our people, demonstrating the resilience of our business model
- The UK relocation project remains on budget with the build complete and fit-out now underway

It's been quite a year for all of us. We had a strong first half, in line with our expectations, with performance driven by momentum across several categories and progress made against a number of our strategic goals. Then, just as the first half ended, the COVID-19 crisis spread across our key markets and, of course, impacted all of our lives, and we experienced the largest disruption to demand that our business has ever seen.

Despite the impact this disruption inevitably had on sales, the underlying business has performed strongly; delivering revenue of £109.0m (2019: £112.7m) and a profit before tax and exceptional items for the year of £14.8m (2019: £13.3m) which is better than our pre COVID-19 expectations and represents an increase of 11.3% compared with the prior year.

I would like to thank all of our colleagues for their dedication and agility in the face of these unprecedented circumstances. The whole Treatt team has risen to the challenge and performed to a higher level than ever before to maintain our momentum. I would also like to thank our customers and suppliers for their support during a testing time.

Ultimately, we are very pleased both with our performance for the year and with our response to a situation few people saw coming; our recent strategic initiatives have proven successful in building added resilience into the business model. I am, however, left in a dichotomy of being pleased with our results in light of COVID-19 but also reflecting on the year this would have been for the business had COVID-19 not occurred.

A strong first half

The year began well with the strong performance driven by particular momentum across our tea, health & wellness and fruit & vegetables categories. Citrus markets recovered as we expected, and though we had some important wins in the category, we also made good progress against our strategic objective of reducing our dependence on citrus. Citrus has fallen to 50% of revenue from 54% in 2019, and our other categories are growing faster, meaning the business is developing a more diversified and higher value portfolio, which our new facilities will further support.

Investing for future growth

We continued to invest in our infrastructure to increase capacity and efficiency whilst also improving our R&D capabilities to ensure we are able to provide cutting edge solutions in the growth markets we serve. The US expansion was fully up and running in the first half of the year. Our capacity for products in our fruit & vegetables, health & wellness and tea product categories doubled and came on stream in time for the new crop season, and we've immediately benefitted from the additional capacity that investment has provided, with further growth expected to continue from both existing and new customers. In addition, we have enhanced the customer experience on site as well as expanded and modernised our scientific infrastructure and office facilities, which were at full capacity. We are also investing an additional $1.5million in plant and machinery in the US to capitalise on exciting opportunities in hard seltzers*, a developing beverage category in which we're already working with a number of leading global FMCG brands.

The new UK Headquarters build progressed well in the first half. It did suffer a slow-down as a result of the UK's national lockdown, but the building work completed in October ahead of the planned move which will begin in mid-2021. We have a capable and experienced team leading the project and relocation will be a key focus for the coming year. In addition to significantly increasing our capacity, the new site will allow us to accelerate the important partnership-based model through an enhanced technical collaboration infrastructure to drive innovation, together with our customers, in line with our strategy. We believe that multiple operational efficiencies, achievable through improved site logistics, automated warehousing and computer-controlled stills, will enable the business to flourish and gives us confidence to deliver an enhanced return of profitability some 10% to 15% higher than operating from our current UK site, 3 years after completion. In addition, the modular design will enable us to add further capacity in the future as demand dictates.

Responding to COVID-19

The various restrictions implemented across many of our key markets in the second half of our financial year significantly reduced away-from-home consumption as the food service industry largely shut down and consumers were confined to their homes. Some of the world's largest beverage companies have estimated that market demand reduced by as much as 15-20% at the height of the pandemic during the April to June period, and inevitably Treatt felt that decrease in demand. At-home consumption volumes do not equal consumption in the away-from-home channels although we did benefit from growth in our customers' supermarket and retail sales channels.

That we've still been able to achieve such a strong set of results despite this extraordinary disruption is testament to the remarkable and increasing resilience in our people, culture and business model. The diversity of our portfolio yielded benefits as we saw enhanced demand for fragrances used in hand soaps and cleaning products, with strict cleaning protocols and hand washing becoming an essential part of global efforts to combat the pandemic. Our exposure to fine fragrance, severely impacted by a dramatic slowdown in global travel, is minimal.

An example that effectively illustrates the two sides of demand is within our tea extract business where one customer who formulates our product into a system for the cruise line industry has clearly suffered a complete halt in business. On the other hand, a supermarket business in a similar product has seen positive growth throughout the pandemic.

Despite some rather minimal supply chain disruption, we were able to keep supplying our customers, supported by our inventory holding, which held us in good stead throughout the worst of the crisis. Our partnership model with our customers has also worked particularly well, with strong communication playing a vital role in understanding their challenges. Helping our customers to recover from the fall in demand will be another key focus for us in the near future.

From the onset of the crisis we've taken our responsibility to our key stakeholder groups very seriously. I'm proud of how we've demonstrated our long-standing supportive and collaborative culture in our response to COVID-19, with stakeholder engagement a central part of our decision-making process. An example of this engagement saw us introduce temperature checks on arrival for staff at our US facility, a suggestion that originated internally and we were happy to facilitate.

We took the decision not to furlough any UK staff during the crisis, feeling that the scheme was not designed for a business like ours, where we have been able to remain fully operational. Around 50% of our staff have been successfully working from home since March, showing amazing flexibility and commitment. Our Operations, Technical, IT and HR teams stepped up and made it an almost seamless transition, with digital presentations, meetings and initiatives held over video to stay in touch and keep staff informed of our ongoing response to the situation. In order to protect staff who have remained on site, our health and safety protocols have been robust, with various systems in place including one-way systems, hand sanitising stations and the wearing of face coverings. We've supported staff in many other ways too, even helping to get hold of basic essentials as they became unavailable in shops.

With close ties to our local communities from many years of activities and initiatives, we were keen to help out where we could. Our community support during the crisis included making and supplying hand sanitiser to local care homes and helping a number of charities who were unable to fundraise.

Reflecting on the importance of ESG

The pandemic has reiterated the importance of ESG matters for Treatt, and we're currently developing a formal strategy to build on the existing and long-standing sustainability initiatives already present in the business. The importance of ESG issues is nothing new to Treatt and is part of our DNA and fundamental to our approach for an increasingly sustainable growth strategy. COVID-19 and Treatt's response to it has proved that again, but there's work to do on improving our reporting and communication in this area, and we are committing to this in the coming year.

Brexit

Brexit uncertainty remains in our thoughts as the UK's transition period after Brexit comes to an end this year. Potential trade tariff changes are the main cause for concern, but we have strategic manufacturing agility in the business to mitigate any new tariffs. Though we're not downplaying the potential disruption that Brexit could cause, we've experienced turbulence before and are comfortable that we're well prepared.

Strategic Priorities

Having successfully and progressively repositioned ourselves as a natural extracts business, with over 70% of our business now from natural products, we're well placed to capitalise on growing consumer trends around products that are better for consumers and for the planet. We believe that these trends will only be strengthened by the COVID-19 pandemic.

As we continue to diversify into new categories, we will maintain our focus on increasing our provision of added-value solutions across our portfolio, leveraging our close customer partnerships, technical capabilities, and new facilities. We anticipate that this will drive further margin improvement over the medium-term.

We see many strong opportunities in the North American market, including the continuing optimisation of our coffee platform, as well as the growing alcoholic seltzer market which is already valued at over $4bn* globally, and expected to further penetrate Europe. We are also encouraged by a number of exciting opportunities in China, where our business continues to perform very well.

The prospect of moving into our new UK Headquarters in the next financial year, after nearly 50 years at our current facility, is another major development for the business. Having a purpose-built, world-class facility to reflect the science- led, customer partner model we are practicing today, we hope will have a big impact on what we can achieve in the short, medium and long-term.

Looking beyond COVID-19 and the relocation, our focus will be on filling capacity at our expanded global facilities, embedding all the advantages those infrastructure projects bring and continuing to build upon the various strategic opportunities we see to provide important taste differentiators to our growing customer base.

Outlook

As economies begin to reopen and lockdown restrictions ease across our key markets, we expect to see demand and consumption slowly improve and we began to see this during our fourth quarter, albeit from a low base. Though it's very difficult to predict, it would be a surprise if demand across all segments returned to normal levels before the end of 2021 or into 2022. However, should ongoing subdued demand prove to be the case, I'm confident we're in the best possible shape to endure it and I am looking forward with cautious optimism.

Building on the excellent fundamentals of our business and broad added-value product offering, we have made a strong start to our new financial year ending 30 September 2021 and the Group continues to perform in line with the Board's expectations.

Daemmon Reeve

Chief Executive Officer

23 November 2020

* The global alcoholic seltzer market size was valued at USD 4.4 billion in 2019 and is expected to grow at a compound annual growth rate (CAGR) of 16.2% from 2020 to 2027. (Source: Grand View Research www.grandviewresearch.com).

Financial review

A robust performance in spite of COVID-19 uncertainty with adjusted[1] earnings per share up 10.7% and dividend per share increased by 9.1%

Overview

The Group delivered a strong set of financial results for the year. Whilst revenues were lower, as expected due to lower orange oil prices, growth in higher margin categories and an improved performance from the citrus category resulted in profit before exceptional items[1] increasing for the eighth successive year.

The year also saw a good cash performance with the Group remaining in a net positive cash position, despite having invested almost £25m in capital projects, including over £20m on the new UK headquarters.

Income statement[1]

Revenue and profit

Revenue for the year from continuing operations fell by 3.3% to £109.0m (2019: £112.7m). Whilst citrus volumes increased by 25%, revenue in citrus, which represents 50.3% (2019: 54.0%) of Group sales, fell by 9.8% as a result of the sharp fall in orange oil prices during the prior year. Across non-citrus categories, revenue grew by 4.4% with health & wellness (which includes sugar reduction) driving performance with growth of 16.1%. The tea category was impacted by the effective closure, due to COVID-19, of some significant on-trade channels, such as the hospitality sector - bars, restaurants and theatres, reflected in the much lower growth rate than seen in the prior year. The fruit & vegetables category continued to perform well, with growth of 9.9%, with passion fruit, watermelon and cucumber natural extracts leading the way. Within other categories, whilst more than 70% of the Group's revenue now comes from our natural and clean-label product ranges, revenue from our aroma and high impact chemical (HIC) category into the synthetic flavour and fragrance market fell by 2.4% compared with the prior year. The Group's traditional range of herbs, spices & florals, many of which are traded, grew by 7.6% to £11.5m.

% Change in sales – 2020 v 2019:

	CITRUS	TEA	HEALTH & WELLNESS	FRUIT & VEGETABLES	HERBS, SPICES & FLORALS	AROMA & HIC'S
2019	£60.9m	£6.2m	£6.4m	£7.2m	£10.7m	£21.3m
2020	£54.9m	£6.4m	£7.4m	£7.9m	£11.5m	£20.9m
Change %	-9.8%	+2.8%	+16.1%	+9.9%	+7.6%	-2.4%
% of revenue	50.3%	5.9%	6.8%	7.3%	10.6%	19.1%

In constant currency terms, revenue from continuing operations also fell by 3.3%, in line with the reduction in reported revenue, as there was no material change to the average Pound Sterling/US Dollar exchange rate as compared to the prior year.

A geographical analysis of revenues shows that the fall in citrus prices impacted all geographic markets to a level broadly consistent with the relative proportions of citrus revenues to the whole. Whilst COVID-19 is also a factor that has impacted individual product lines, generally speaking we have benefitted from the resilience of demand from the end-user markets which we serve.

The Group's strategic focus continued to be on China and the US. As a relatively unpenetrated market for Treatt, revenues in China were impacted by COVID-19, but recovered as the market did generally. Consequently, reported revenue to China was broadly unchanged at £6.9m (2019: £6.8m). In the Group's largest market, representing 40% of Group revenue, revenue in the US remained consistent at £43.7m (2019: £43.7m). Within the US market, the Group benefitted from particularly strong growth in the alcoholic seltzer market which continues to provide material opportunities. Whilst mainland Europe represented 21.2% of Group revenue (2019: 23.4%), the impact of lower orange oil prices and falling on-trade sales of carbonated soft drinks due to COVID-19, resulted in a 12.7% fall in revenue. In the UK, revenues contain a disproportionate volume (compared with other markets) of traded citrus by-products, which therefore resulted in a notable, price-led, fall in revenue of 6.1%. Also impacted by lower orange oil prices and COVID-19, sales to the Rest of the World (excluding China) fell by 3.5% to £19.4m (2019: £20.1m).

Gross profit grew by 11.2% with gross profit margins increasing from 25.4% to 29.2%. The increase in margins resulted from the combined effect of growth in higher margin product categories, such as health & wellness and fruit & vegetables, coupled with improved citrus margin rates as compared to the prior year. The focus on higher margin, added-value solutions supports the Group's strategy of diversifying the product portfolio away from traded and minimally processed citrus products, building additional resilience into the business. There was a notable slowdown in new product innovation from our customer base due to the impact of COVID-19, however, we continued to grow margins with new clients through our collaborative, science-led approach.

Administrative expenses grew by 10.7% in the year to £16.8m (2019: £15.2m). The £1.6m net increase in administrative expenses is after a £1.1m favourable movement in foreign exchange gains and losses compared to the prior year, partially offsetting a £2.4m increase in employment costs, reflecting the targeted retention and recruitment of highly skilled scientists and a focus on strengthening the commercial team to drive continued growth in the business. Headcount numbers across the Group have increased by 8% globally, with the Group's recruitment and induction processes having successfully adapted to the current restrictions imposed in response to COVID-19.

Net operating margin[2] increased in the year to 13.8% (2019: 12.0%). This compares with 10.8% five years ago. Consequently, operating profit[1] increased by 11.8% to £15.1m (2019: £13.5m).

Return on capital employed[3] decreased to 16.7% (2019: 19.0%) as a direct consequence of the continued investment in the Group's capacity increasing the amount of capital employed.

As plans progressed towards the relocation of the Group's UK headquarters to a new ten-acre site in Bury St. Edmunds, non-capital costs relating to the relocation were incurred during the year totalling £1.1m (2019: £0.8m) which are included in exceptional items (see note 7). These included legal fees, planning consultants, architects and manufacturing plant and machinery design and installation specialists.

Earnings before interest, tax, depreciation and amortisation (EBITDA[5]) for the year increased by 14.2% to £17.0m (2019: £14.9m). Profit before tax and exceptional items from continuing operations rose by 11.3% to £14.8m (2019: £13.3m). Reported profit for the year of £9.8m represents an increase of 11.1% on the prior year.

Foreign exchange gains and losses

Whilst the Group's functional currency is the British Pound ('Sterling'), the amount of business which is transacted in other currencies creates foreign exchange exposure, particularly the US Dollar and, to a lesser extent, the Euro. During the year Sterling gradually strengthened against the US Dollar which ended the year 5% stronger at £1=$1.29 (2019: £1=$1.23); however there was no material change to the average Pound Sterling/US Dollar exchange rate as compared to the prior year. The Group hedges its foreign exchange risk at our UK business by holding and managing US Dollar borrowings and taking out forward currency contracts and options. This can result in timing differences in the short-term, giving rise to re-translation gains or losses in the income statement. The impact in 2020 was a gain on foreign exchange contracts and re-translation in aggregate of £0.3m (2019: £0.8m loss). There was a foreign exchange loss of £2.1m (2019: £2.1m gain), in the 'Statement of Comprehensive Income' in relation to the Group's investment in Treatt USA.

Finance costs

The Group's net finance costs increased to £0.3m (2019: £0.2m) as, after total capital expenditure and related exceptional costs of £24.8m, the Group's net cash positive position fell from £16.0m at the start of the year, to close at £1.1m (excluding IFRS 16 lease liabilities). In addition, £0.1m of finance costs were capitalised in accordance with IAS 23, 'Borrowing costs', as part of the US expansion project. Within the net cash positive position, the Group has in place a $6.5m seven-year term loan in the US to part fund the $15m US expansion which completed in 2019, of which $5.4m remains outstanding. In addition, although in a cash positive position, there were a number of fixed costs for maintaining facilities for future use including facility fees and non-utilisation fees which were funded from operating cash flows. Following the increase in net finance costs, interest cover for the year before exceptional items and discontinued operations reduced to a still very healthy 44.9 times (2019: 67.8 times).

Group tax charge

After providing for deferred tax, the overall tax charge increased by £0.2m to £2.9m (2019: £2.7m); an overall effective tax rate (after exceptional items) of 21.1% (2019: 21.3%). There were also adjustments reducing this year's tax charge by £0.4m (2019: £0.4m reduction) relating to revisions to the previous year's tax estimates. The Group now benefits from a US corporation tax rate of 21% which means that the main rates of corporation tax which affect the Group are now broadly similar in both the UK and the US, with the UK rate currently at 19%. The UK deferred tax rate increased from 17% to 19% following the UK Government's decision to cancel a previously enacted reduction in the main rate of UK corporation tax.

Discontinued activities

The disposal of Earthoil Plantations Limited was completed in 2018 for an enterprise value of £11.3m and since that time the Kenyan operations, which remained part of the Group, have been held as discontinued activities in accordance with IFRS 5, 'Non-current assets held for sale and discontinued activities'. It did not prove possible to attract a suitable acquirer for those businesses and since support for the local management, employees and their families was a priority throughout the sales process, a buy-out of the business by local management took place during the year for a nominal sum. As reported in May 2020, there was an exceptional impairment of the Kenyan businesses of £0.6m in the year which took place prior to the sale. In addition, there was a trading loss for the year of £0.3m (2019: £0.2m) and a loss on disposal of £0.3m. The loss after tax from discontinued activities (all of which related to the Kenyan businesses) totalled £1.1m.

Earnings per share

Basic earnings per share from continuing operations (as set out in note 11) increased by 8.6% to 18.12p (2019: 16.69p). Adjusted basic earnings per share excluding exceptional items and discontinued operations for the year increased by 10.7% to 19.72p (2019: 17.82p). The calculation of earnings per share excludes those shares which are held by the Treatt Employee Benefit Trust (EBT) and Treatt SIP Trust (SIP), which are not beneficially owned by employees since they do not rank for dividend, and is based upon adjusted profit after tax.

Dividends

The proposed final dividend of 4.16p per share (2019: 3.80p) increases the total dividend per share for the year to 6.00p, a 9.1% increase on the prior year (2019: 5.50p), representing dividend cover of 3.3 times continuing pre-exceptional earnings for the year and a rolling three-year cover after exceptional items of 3.1 times. The Board's long-term policy is to maintain dividend cover on a consistent basis at between 2.0 and 2.5 times three-year rolling cover. However, in light of the Group's capital investment programme, this year's dividend increase has, as in the preceding year, been set with a more prudent level of dividend cover. The Board considers this to be appropriate given the equity fund raise which took place in 2017 and the forthcoming cash requirements of the business in order to fund the remaining costs of the UK site relocation. The Board is also mindful of the economic uncertainty in respect of the COVID-19 pandemic.

Balance sheet

Shareholders' funds grew in the year by £4.0m to £91.1m (2019: £87.1m), with net assets per share increasing by 4% to 151p (2019: 145p). Over the last five years net assets per share have grown by 140%. The Board has chosen not to avail itself of the option under IFRS to revalue land and buildings annually and, therefore, all the Group's land and buildings are held at historical cost, net of depreciation, on the balance sheet.

Cash flow

During the year the Group invested £24.8m (2019: £10.6m) on capital projects, of which £20.3m was incurred on the UK relocation project. The balance of the capital expenditure related to further expansionary capex in the US on building out our coffee platform, the final regulatory-driven refinements on our expanded US facility and the normal investment in on-going routine renewal and maintenance capex. Despite a year of significant investment, the Group ended the year with a net cash position of £1.1m (2019: net cash of £16.0m), excluding IFRS 16 lease liabilities. Excluding the impact of the expenditure on the UK relocation, free cash flow[4] was a strong £10.0m for the year.

Working capital remained at a similar level to the prior year, with an overall outflow in the year of £0.2m (2019: inflow £5.6m); the £1.3m increase in receivables being compensated by a £1.5m increase in payables.

Inventory held at the year-end was £36.1m (2019: £36.8m), a decrease of £0.7m. The level of inventory, which is highly significant in cash terms, arises because as an ingredients specialist, Treatt takes many annual, and in some cases longer-term, contracts with customers as well as servicing the immediate spot needs of its diverse customer base. The success of the business has been built upon managing geographic, political and climatic risk of supply for our customers by judicious purchasing and inventory management to ensure continuity of supply and availability. Therefore, it is part of the Group's business model to hold significant levels of inventory.

The cash flow benefit of delaying certain capital projects in the UK in anticipation of the new site will inevitably reverse as both delayed projects, and brought forward capital expenditure, will occur on the relocation of the UK business.

Net cash position

The Group's net positive cash position is in part due to the fact that there remains approximately £12.2m (prior to the sale of the existing site) to be spent on the new UK facility. The Group therefore retains a mix of secured and unsecured borrowing facilities totalling £20.4m, of which £2.3m expires in one year or less. During the year, the Group closed its facilities totalling £6.5m with Lloyds Banking Group. Post year-end the Group are in the process of arranging an additional £7.0m three-year revolving credit facility (which can be extended ultimately to five years) with HSBC together with a £6.5m accordion (a pre-approved facility). This change to the structure of the Group's UK banking facilities is being undertaken to both match some of the Group's expected borrowings over the next year to the assets which they have been used to finance, as well as to reduce the cost of facilities. Consequently, the Group's borrowing facilities are now held with HSBC and Bank of America with the majority held on three to five-year terms with expiry dates staggered to fall in different years. The Group continues to enjoy positive relationships with its banks and expects all facilities to be renewed when they fall due.

Capital investment programme

In 2017 the Group announced a capital investment programme to expand the US facility (a $15.0m capacity-driven project) and a once-in-a-generation relocation of the UK facility (a net £36.1m investment). This programme of investment is now approximately 75% complete as follows:

US site expansion

In 2019 we completed the expansion of our facility in Lakeland, Florida, resulting in a total footprint of 130,500 square feet compared to the previous size of 65,500 square feet. The total cost of the expansion was $15.3m, of which $3.3m relates to new plant and machinery. This project was multi-faceted, primarily resulting in a substantially larger natural extracts manufacturing facility, doubling our capacity for the key product categories of tea, health & wellness (including sugar reduction) and fruit & vegetables, with space for further expansion.

UK relocation

During the year we made significant progress relocating our UK business from its current site in Bury St. Edmunds, to a brand-new purpose-built facility nearby. The Group acquired a ten-acre greenfield site on the new Suffolk Park in Bury St. Edmunds in mid-2017. Readie Construction Limited began work on site in September 2019 and whilst COVID-19 has impacted the original timescales for completing the project, work continued on site throughout the financial year. Due to the previously announced delays caused by COVID-19 we now expect to begin relocating to the site in mid-2021.

Practical completion of the buildings part of the project occurred after the financial year-end and we are pleased to confirm that the project remains on budget. As well as the land and buildings infrastructure, the project also incorporates significant investment in new and upgraded plant and machinery, including the implementation of a number of new technologies for the UK business such as automated warehousing, clean-in-place and computer-controlled stills. As a business we keep abreast of new technologies which can add value to our operations and the move gives us the opportunity to incorporate some of these in the design and build of the new facility. Of the £16.9m of planned plant and machinery capex at the new UK site, approximately £7.0m relates to projects which would have been undertaken at the current site in the last five years, had the impending site move not been on the horizon; the balance relates to new and enhanced technologies.

The overall estimated costs (and the basis of these estimates) of the UK relocation are set out below:

Capital expenditure:	Note	Budget £'000	Spend to date (£'000) To 30/9/19	Year to 30/9/20	Total spend to date
Land		3,823	3,823	–	3,823
Buildings		17,483	1,033	14,858	15,891
Plant & machinery		16,863	1,259	5,035	6,294
Existing site disposal		(4,965)	–	–	–
Net capital expenditure		33,204	6,115	19,893	26,008
Procurement, installation & commissioning	1	2,884	640	730	1,370
Net relocation costs		36,088	6,755	20,623	27,378
Other exceptional items:					
Accelerated depreciation (non-cash)	2	434	434	–	434
Relocation costs	3	2,052	786	330	1,116
		2,486	1,220	330	1,550

Note 1: These costs relate to expenditure which does not fall to be capitalised and will be expensed as exceptional items with the remaining costs expected to be incurred in the year ending 30 September 2021.

Note 2: Accelerated depreciation relates to the reduction in the estimated useful lives of assets which will not transition to the new site and was accounted for in the years ended 30 September 2018 and 2019.

Note 3: Other exceptional items include initial design costs, parallel running costs, additional staffing resources and costs associated with the physical transfer of the business to the new site. The remaining costs are expected to be incurred in the years ending 30 September 2021 and 2022.

It should be noted that in accordance with IAS 23 'Borrowing costs', and in addition to the above, the interest charges incurred on funds utilised on the relocation project prior to its completion, expected to total £0.1m, fall to be capitalised in the year ending 30 September 2021 rather than expensed.

We expect the project to be completed and transition to the new site to commence in mid-2021 and consequently the cash outflows for the project are expected to result in rolling Group net debt to EBITDA[5] peaking at less than 0.5x EBITDA[5].

Whilst the detailed costs for the project have been prepared in full quantity surveyor detail, and the design and build contract is at a fixed price, the Board recognises the risks inherent in a project of this scale. The Board is pleased with the fact that, with the building part of the project virtually complete, the project continues to track in line with the previously announced budget, whilst still maintaining appropriate levels of contingency on future expenditure. The Board have also taken appropriate advice from risk management consultants who monitor the project on a regular basis. These factors, combined with the funding provided by the share placing in 2017, give the Board confidence that risks inherent in the UK relocation project have been mitigated as far as practicable.

Treatt Employee Benefit Trust and Treatt SIP Trust

The Group has an HMRC-approved Share Incentive Plan (SIP) for its UK employees, and as far as practicable, also offers a similar scheme to its US staff. All UK staff with a year's service were awarded £625 (2019: £600) of 'Free Shares' during the year as part of the Group's employee incentive and engagement programme as the Board is firmly of the view that increased employee share ownership is an important tool for driving positive employee engagement in the business. A similar scheme exists for US staff who were awarded $925 (2019: $900) of Restricted Stock Units during the year. These shares are forfeited by employees who leave within three years from the date of grant.

Under the SIP, UK employees could also purchase up to £1,800 (or 10% of salary, whichever is lower) of Treatt shares out of gross income at no cost to the Company which the Company matched on a one and a half for one basis. In the year, a total of 48,000 (2019: 33,000) matching shares were granted.

During the year, nil (2019: nil) shares were issued to the SIP at par (2 pence per share). The SIP currently holds 444,000 shares (2019: 507,000), of which nil (2019: 138,000) are beneficially owned by the Company and are available for future awards. It is anticipated that going forward the obligations under the SIP will be satisfied through the issue of new shares.

In addition, the Group continued its annual programme of offering share option saving schemes to staff in the UK and US. Under US tax legislation, staff at Treatt USA are able to exercise options annually, whilst the UK schemes provide for three-year saving plans.

Under the Long Term Incentive Plan, which was approved by shareholders at the 2019 Annual General Meeting, Executive Directors and certain key employees were granted 245,000 (2019: 251,000) nil cost share options during the year which will vest after three years on a sliding scale, subject to performance conditions. In total, options were granted over 389,000 (2019: 401,000) shares during the year, whilst 348,000 (2019: 760,000) were exercised from options awarded in prior years which have now vested.

During the year, 100,000 (2019: 700,000) shares were issued to the Employee Benefit Trust (EBT) at par (2 pence per share). The EBT currently holds 219,000 shares (2019: 454,000) in order to satisfy future option schemes. It is anticipated that going forward, all-employee savings-related share schemes will continue to be satisfied by shares held within the EBT, to which further shares will be issued as necessary.

Final salary pension scheme

The R C Treatt final salary pension scheme (the 'scheme') has not been subject to any further accruals since 31 December 2012 and instead members of the scheme were offered membership of the UK defined contribution pension plan with effect from 1 January 2013. This means that the defined benefit scheme has been de-risked as far as it is practicable and reasonable to do so.

The last three-year actuarial review of the scheme was carried out as at 1 January 2018, the result of which was that the scheme had an actuarial surplus of £473,000 (1 January 2015: £314,000). This represented a funding level of 102%. Consequently, the Group was able to agree with the trustees that with effect from 1 October 2018 it would continue not to make any further contributions to the scheme. It was further agreed that if the annual actuarial funding updates, before the next full actuarial review in 2021, revealed that the funding level had fallen to 95% or less of the scheme liabilities, then the Company would voluntarily resume contributions.

In this regard, and as required by The Pension Regulator, the actuarial review was updated on a consistent basis as at 30 September 2020 which showed a deficit of £4.5m (2019: deficit of £2.5m), being a funding level of 82% (2019: 90%). This has arisen due to a reduction in discount rate used to calculate future liabilities as well as lower than expected asset returns in the last year. Consequently, the Company has agreed with the trustees to make contributions of £0.5m (2019: £0.3m) per annum until the next full actuarial review is concluded. The next full triennial valuation will be carried out as at 1 January 2021 the results of which are expected towards the middle of 2021.

The IAS 19, 'Employee Benefits' pension liability in the balance sheet, net of deferred tax, increased in the year from £6.5m to £8.1m. The increase in the deficit was also largely the result of a significant fall in the discount rate used to measure the liabilities of the scheme.

Financial risk management

The Group operates conservative treasury policies to ensure that no unnecessary risks are taken with the Group’s assets.

No investments other than cash and other short-term deposits are permitted. Where appropriate a proportion of these balances are held in foreign currencies, but only as part of the Group’s overall hedging activity as explained herein.

The nature of Treatt’s activities is such that the Group could be affected by movements in certain exchange rates, principally between Sterling and the US Dollar, but other currencies such as the Euro can also have a material effect. This risk manifests itself in a number of ways.

Firstly, the value of the foreign currency net assets of Treatt USA (the Group’s main overseas subsidiary) can fluctuate with Sterling.

Secondly, with R C Treatt (the Group’s main UK subsidiary) exporting throughout the world, fluctuations in the value of Sterling can affect both the gross margin and operating costs. Sales are principally made in two currencies in addition to Sterling, with the US Dollar being the most significant. Even if a sale is made in Sterling, its price may be set by reference to its US Dollar denominated raw material price which therefore can have an impact on the Sterling

gross margin. Raw materials are also mainly purchased in US Dollars and bank accounts are operated through which US Dollar denominated sales and purchases flow. Hence it is the relative strength of Sterling against the US Dollar that is of prime importance. As well as affecting the cash value of sales, US Dollar exchange movements can also have a significant effect on the replacement cost of stocks, which affects future profitability and competitive advantage.

When the Group is in a net debt position, the Group has a policy of maintaining the majority of cash balances, including the main Group overdraft facilities, in US Dollars and, to a lesser extent in Euros, as this is the most cost-effective means of providing a natural hedge against movements in exchange rates. Where it is more cost effective to do so, the Group will also enter into forward currency contracts and options. Consequently, during the year forward currency contracts have been entered into which hedge part of R C Treatt's foreign exchange risk. These contracts (and options if applicable) have been designated as formal hedge arrangements, with movements in mark-to-market valuations initially taken to equity and re-cycled to the income statement to match with the appropriately hedged currency receipts. Under the technical provisions of IFRS, if any options or forward contracts are deemed to be ineffective hedges then the related foreign exchange gain or loss is included within 'other gains and losses' in the income statement. The foreign exchange gains or losses charged to 'other gains and losses' in the year was £0.05m (2019: £nil). Currency accounts are also run for the other main currencies to which R C Treatt is exposed. This policy helps manage against short-term fluctuations in currencies.

Summary

Over the last two years the business has continued to perform well, despite being faced with the sharp market shocks caused by, firstly, the 50% fall in orange oil prices in 2019, and secondly the biggest sudden change in global consumer behaviour caused by the COVID-19 pandemic. Since the business was re-shaped in 2012, profit before tax and exceptional items has increased every year which is testament to the underlying strength and resilience of our business model.

Of particular note is that whilst the impact of COVID-19 resulted in some temporary reduction in demand in 2020, this was more than offset by increased market share in sectors of the beverage market which are growing strongly in response to consumer trends such as health and wellness (driven by our sugar reduction offerings) and the fast growing market for alcoholic seltzers.

Over the last year we have continued to make excellent progress on our capital investment programme with the US expansion complete, the UK facility now built and with the fit-out underway. To end the year in a net cash positive position puts the Group in an excellent position to continue to deliver in the years to come.

Richard Hope

Chief Financial Officer

23 November 2020

1 Unless indicated otherwise all measures are based on continuing operations.

2 Net operating margin is calculated as operating profit divided by revenue from continuing operations, both of which are shown in the Group income statement.

3 Return on capital employed is calculated as operating profit, net of 'other gains and losses', from continuing operations (as shown in the Group income statement) divided by the capital employed in the business which we calculate as total equity (as shown in the Group balance sheet) minus net cash (as shown in the Group reconciliation of net cash flow to movement in net cash).

4 Free cash flow is calculated as net cash from operating activities (as shown in the Group statement of cash flows) minus the purchase of property, plant, equipment and intangible assets, adjusted to exclude the UK relocation costs.

5 EBITDA is calculated as profit before interest, tax, depreciation and amortisation from continuing operations. This is calculated as operating profit (as shown in the Group income statement) plus depreciation and amortisation from continuing operations.

GROUP INCOME STATEMENT

for the year ended 30 September 2020

	Notes	2020 £'000	2019 £'000
CONTINUING OPERATIONS			
Revenue	6	**109,016**	112,717
Cost of sales		**(77,140)**	(84,060)
Gross profit		**31,876**	28,657
Administrative expenses		**(16,784)**	(15,158)
Operating profit[1]		**15,092**	13,499
Other gains – hedge ineffectiveness		**45**	–
Finance income		**67**	141
Finance costs		**(403)**	(340)
Profit before taxation and exceptional items		**14,801**	13,300
Exceptional items	7	**(1,060)**	(755)
Profit before taxation		**13,741**	12,545
Taxation	8	**(2,896)**	(2,673)
Profit for the year from continuing operations		**10,845**	9,872
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	9	**(1,080)**	(1,084)
Profit for the year attributable to owners of the Parent Company		**9,765**	8,788
Earnings per share			
From continuing and discontinued operations:			
Basic	11	**16.32p**	14.86p
Diluted	11	**16.16p**	14.66p
Adjusted basic[2,3]	11	**19.42p**	17.38p
Adjusted diluted[2,3]	11	**19.24p**	17.15p
From continuing operations:			
Basic	11	**18.12p**	16.69p
Diluted	11	**17.95p**	16.47p
Adjusted basic[2]	11	**19.72p**	17.82p
Adjusted diluted[2]	11	**19.53p**	17.58p

1 Operating profit is calculated as profit before other gains, net finance costs, exceptional items and taxation.

2 All adjusted earnings per share measures exclude exceptional items and the related tax effect, details of which are given in note 7.

3 Excludes the impairment of discontinued operations as detailed in note 9.

Notes 1 to 13 form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2020

	Notes	2020 £'000	2019 £'000
Profit for the year attributable to owners of the Parent Company		**9,765**	8,788
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences on foreign currency net investments		**(2,094)**	2,123
Current tax on foreign currency translation differences	8	**82**	(72)
Fair value movement on cash flow hedges		**(6)**	93
Deferred tax on fair value movement	8	**2**	(16)
		(2,016)	2,128
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss on defined benefit pension scheme		**(2,418)**	(4,230)
Current tax on defined benefit pension scheme liability	8	**(29)**	–
Deferred tax on actuarial loss	8	**586**	719
		(1,861)	(3,511)
Other comprehensive expense for the year		**(3,877)**	(1,383)
Total comprehensive income for the year attributable to owners of the Parent Company		**5,888**	7,405

Notes 1 to 13 form part of these financial statements.

GROUP STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 September 2020

	Share capital £'000	Share premium account £'000	Own shares in share trusts £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
1 October 2018	1,189	23,484	(34)	50	3,515	53,421	81,625
Profit for the year	–	–	–	–	–	8,788	8,788
Other comprehensive income:							
Exchange differences	–	–	–	–	2,123	–	2,123
Fair value movement on cash flow hedges	–	–	–	93	–	–	93
Actuarial loss on defined benefit pension scheme	–	–	–	–	–	(4,230)	(4,230)
Taxation relating to items above	–	–	–	(16)	(72)	719	631
Total comprehensive income	–	–	–	77	2,051	5,277	7,405
Transactions with owners:							
Dividends	–	–	–	–	–	(3,080)	(3,080)
Share-based payments	–	–	–	–	–	653	653
Movement in own shares in share trusts	–	–	33	–	–	–	33
Gain on release of shares in share trusts	–	–	–	–	–	506	506
Issue of share capital	14	–	(14)	–	–	–	–
Taxation relating to items recognised directly in equity	–	–	–	–	–	(35)	(35)
Total transactions with owners	14	–	19	–	–	(1,956)	(1,923)
30 September 2019	1,203	23,484	(15)	127	5,566	56,742	87,107
Adoption of IFRS 16[1]	–	–	–	–	–	(37)	(37)
1 October 2019	1,203	23,484	(15)	127	5,566	56,705	87,070
Profit for the year	–	–	–	–	–	9,765	**9,765**
Other comprehensive income:							
Exchange differences	–	–	–	–	(2,094)	–	**(2,094)**
Fair value movement on cash flow hedges	–	–	–	(6)	–	–	**(6)**
Actuarial loss on defined benefit pension scheme	–	–	–	–	–	(2,418)	**(2,418)**
Taxation relating to items above	–	–	–	2	82	557	**641**
Total comprehensive (expense)/income	–	–	–	(4)	(2,012)	7,904	**5,888**
Transactions with owners:							
Dividends	–	–	–	–	–	(3,378)	**(3,378)**
Share-based payments	–	–	–	–	–	875	**875**
Movement in own shares in share trusts	–	–	12	–	–	–	**12**
Gain on release of shares in share trusts	–	–	–	–	–	537	**537**
Issue of share capital	2		(2)	–	–	–	**–**
Taxation relating to items recognised directly in equity	–	–	–	–	–	116	**116**
Total transactions with owners	**2**	**–**	**10**	**–**	**–**	**(1,850)**	**(1,838)**
30 September 2020	**1,205**	**23,484**	**(5)**	**123**	**3,554**	**62,759**	**91,120**

1 The opening retained earnings balance is restated for the adoption of IFRS 16; more information is provided in note 2.

Notes 1 to 13 form part of these financial statements.

GROUP BALANCE SHEET

as at 30 September 2020

Registered Number: 01568937

	2020 £'000	2019 £'000
ASSETS		
Non-current assets		
Intangible assets	**1,358**	845
Property, plant and equipment	**50,159**	29,485
Right-of-use assets	**1,173**	–
Investment in subsidiaries	**–**	–
Deferred tax assets	**1,358**	1,400
	54,048	31,730
Current assets		
Inventories	**36,050**	36,799
Trade and other receivables	**24,167**	23,020
Current tax assets	**1,057**	455
Derivative financial instruments	**459**	–
Cash and bank balances	**7,739**	37,187
Assets classified as held for sale	**–**	697
	69,472	98,158
Total assets	**123,520**	129,888
LIABILITIES		
Current liabilities		
Borrowings	**(3,203)**	(16,860)
Provisions	**(146)**	(261)
Trade and other payables	**(12,441)**	(11,331)
Lease liabilities	**(31)**	–
Current tax liabilities	**–**	(124)
Derivative financial instruments	**(168)**	(315)
Liabilities classified as held for sale	**–**	(14)
	(15,989)	(28,905)
Net current assets	**53,483**	69,253
Non-current liabilities		
Borrowings	**(3,450)**	(4,369)
Lease liabilities	**(628)**	–
Post-employment benefits	**(10,051)**	(7,788)
Deferred tax liabilities	**(2,282)**	(1,719)
	(16,411)	(13,876)
Total liabilities	**(32,400)**	(42,781)
Net assets	**91,120**	87,107

GROUP BALANCE SHEET (continued)

		2020 £'000	2019 £'000
EQUITY			
Share capital	12	**1,205**	1,203
Share premium account		**23,484**	23,484
Own shares in share trusts		**(5)**	(15)
Hedging reserve		**123**	127
Foreign exchange reserve		**3,554**	5,566
Retained earnings		**62,759**	56,742
Total equity attributable to owners of the Parent Company		**91,120**	87,107

Notes 1 to 13 form part of these financial statements.

GROUP STATEMENT OF CASH FLOWS

for the year ended 30 September 2020

		2020 £'000	2019 £'000
Cash flow from operating activities			
Profit before taxation including discontinued activities		**12,584**	11,477
Adjusted for:			
Depreciation of property, plant and equipment		**1,809**	1,559
Amortisation of intangible assets		**75**	90
Impairment of discontinued operations	9	**638**	825
Loss on disposal of subsidiary	9	**185**	–
Net finance costs/(income)		**191**	199
Share-based payments		**886**	637
(Decrease)/increase in fair value of derivatives		**(611)**	7
Increase in post-employment benefit obligations		**145**	101
Operating cash flow before movements in working capital		**15,902**	14,895
Movements in working capital:			
(Increase)/decrease in inventories		**(458)**	3,970
(Increase)/decrease in receivables		**(1,278)**	5,293
Increase/(decrease) in payables		**1,511**	(3,614)
Cash generated from operations		**15,677**	20,544
Taxation paid		**(2,191)**	(2,208)
Net cash from operating activities		**13,486**	18,336
Cash flow from investing activities			
Disposal of subsidiaries		**(136)**	1,033
Purchase of property, plant and equipment		**(23,909)**	(10,392)
Purchase of intangible assets		**(905)**	(178)
Interest received		**67**	141
		(24,883)	(9,396)

GROUP STATEMENT OF CASH FLOWS (continued)

		2020 £'000	2019 £'000
Cash flow from financing activities			
(Repayment)/increase in bank loans		**(724)**	1,874
Interest paid		**(258)**	(340)
Employer contributions to defined benefit pension scheme		**(300)**	–
Dividends paid		**(3,378)**	(3,080)
Proceeds on issue of shares	12	**2**	14
Net sale of own shares by share trusts		**547**	526
		(4,111)	(1,006)
Net (decrease)/increase in cash and cash equivalents		**(15,508)**	7,934
Effect of foreign exchange rates		**(318)**	82
Movement in cash and cash equivalents in the year		**(15,826)**	8,016
Cash and cash equivalents at beginning of year		**21,076**	13,060
Cash and cash equivalents at end of year		**5,250**	21,076
Cash and cash equivalents comprise:			
Cash and bank balances		**7,739**	37,187
Bank borrowings		**(2,489)**	(16,111)
		5,250	21,076

Notes 1 to 13 form part of these financial statements.

GROUP RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH

for the year ended 30 September 2020

	2020 £'000	2019 £'000
Movement in cash and cash equivalents in the year	**(15,826)**	8,016
Repayment/(increase) in bank loans	**724**	(1,874)
Cash (outflow)/inflow from changes in net cash in the year	**(15,102)**	6,142
Effect of foreign exchange rates	**230**	(243)
Movement in net cash in the year	**(14,872)**	5,899
Net cash at beginning of year	**15,958**	10,059
Lease liability recognised as debt[1]	**(659)**	–
Net cash at end of year	**427**	15,958

Analysis of movement in net cash during the year:

	At 30 September 2019 £'000	IFRS 16 lease liabilities at 1 October 2019 £'000	At 1 October 2019 £'000	Cash flow £'000	Foreign exchange movements £'000	At 30 September 2020 £'000
Cash and bank balances	37,187	–	37,187	(29,130)	(318)	**7,739**
Bank borrowings	(16,111)	–	(16,111)	13,622	–	**(2,489)**
Cash and cash equivalents	21,076	–	21,076	(15,508)	(318)	**5,250**
Bank loans and overdrafts	(5,118)	–	(5,118)	724	230	**(4,164)**
Lease liabilities[1]	–	(660)	(660)	(1)	2	**(659)**
Net cash at end of year	15,958	(660)	15,298	(14,785)	(86)	**427**

	At 1 October 2018 £'000	Cash flow £'000	Foreign exchange movements £'000	At 30 September 2019 £'000
Cash and bank balances	32,304	4,801	82	37,187
Bank borrowings	(19,244)	3,133	–	(16,111)
Cash and cash equivalents	13,060	7,934	82	21,076
Bank loans and overdrafts	(3,001)	(1,874)	(243)	(5,118)
Net cash at end of year	10,059	6,060	(161)	15,958

Notes 1 to 13 form part of these financial statements

1 Lease liabilities are recognised following the adoption of IFRS 16; more information is provided in note 2.

This statement of reconciliation of net cash flow to movement in net cash above does not form part of the primary statements.

NOTES TO THE FULL YEAR RESULTS

1. BASIS OF PREPARATION

In accordance with Section 435 of the Companies Act 2006, the Group confirms that the financial information for the years ended 30 September 2020 and 2019 are derived from the Group's audited financial statements and that these are not statutory accounts and, as such, do not contain all information required to be disclosed in the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The statutory accounts for the year ended 30 September 2019 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2020 have been audited and approved but have not yet been filed.

The Group's audited financial statements for the year ended 30 September 2020 received an unqualified audit opinion and the auditor's report contained no statement under section 498(2) or 498(3) of the Companies Act 2006.

The financial information contained within this full year results statement was approved and authorised for issue by the Board on 23 November 2020.

2. ACCOUNTING POLICIES

The Group has adopted IFRS 16 "Leases" with effect from 1 October 2019 using the modified retrospective approach which means that the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised within opening retained earnings and comparative information is not restated. This standard is mandatory for financial periods beginning on or after 1 January 2019 and, therefore, relevant to the Group for the first time for the financial year ended 30 September 2020. The adoption of these amended accounting standards has not had a material effect on this full year results statement. Details of the changes in accounting policies are as follows:

IFRS 16 Leases

IFRS 16 replaces IAS 17 and removes the distinction between operating leases and finance leases, instead introducing a single lessee accounting model requiring a lessee to recognise liabilities ('lease liabilities') and assets ('right-of-use assets') for all leases with a term of more than twelve months, unless the underlying asset is of low value.

Lease liabilities

A lease liability is recognised at the inception of a contract at an amount equal to the present value of payments due under the lease, discounted at an incremental borrowing rate that reflects the nature and duration of the lease in question. The lease liability is subsequently measured using the effective interest rate method with an associated finance cost charged to the income statement.

On transition to IFRS 16, the liability associated with existing leases is calculated at the transition date of 1 October 2019 as the present value of the remaining lease payments, discounted at an incremental borrowing rate specific to the lease.

Right-of-use assets

At the inception of the contract, a right-of-use asset is recognised equal to the lease liability, adjusted to reflect any lease incentives or associated direct costs. The right-of-use asset is depreciated over the useful life of the asset, which can be no longer than the lease term, and the depreciation cost is charged to the income statement.

On transition to IFRS 16, the Group was permitted to choose to measure the value of right-of-use assets of existing leases at an amount equal to the lease liability; or as if IFRS 16 had always been applied but using the incremental borrowing rate at the date of transition.

The Group adopted the latter approach and has also applied the following practical expedients allowable under IFRS 16 when applying the standard to leases previously classified as operating leases under IAS 17:

- The exclusion of low-value leases and leases with a remaining lease term of less than twelve months at 1 October 2019 from its transition workings.
- The decision not to reassess whether a contract is, or contains, a lease at the date of initial application and instead has relied on its assessment whether an arrangement contains a lease previously made under the application of IAS 17.

3. ACCOUNTING ESTIMATES

The preparation of this statement requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In preparing this preliminary statement, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty (other than Revenue Recognition which is not considered to involve significant judgment) were the same as those applied to the audited Group financial statements as at, and for the year ended 30 September 2019.

4. GOING CONCERN

The Directors have concluded that it is reasonable to adopt the going concern basis in preparing these financial statements based on the expectation that the Group and Parent Company have adequate resources to continue as a going concern for a period of twelve months from the date of these financial statements.

The process adopted to assess the viability of the Group involved the modelling of a series of theoretical 'stress test' scenarios linked to the Group's principal risks and also a number of scenarios specifically related to the impact of the continuing global COVID-19 pandemic at varying degrees of severity. In assessing the Group's prospects and resilience, the Directors have done so with reference to its current financial position and prospects, its recent and historical financial performance, and forecasts.

The ongoing global COVID-19 pandemic presents a unique and unforeseeable variety of outcomes, and its impact on markets now and in the next twelve to twenty-four months is highly uncertain. While detailed scenario planning is difficult, the Directors have modelled four scenarios representing varying degrees of severity. All four scenarios assume that the chief factor to consider is lost sales volume, which would adversely impact cash generation and profitability, and that this decline in sales volume will be felt over the first twenty-four months of the viability period, before the Group returns to growth at a rate commensurate with un-stressed forecasts. Using these assumptions, headroom and covenant compliance have been assessed throughout the going concern (twelve months) and viability (five years) periods. These scenarios have then been stress-tested further by overlaying the adverse impact of a decline in profit margins.

The first scenario is a base case scenario and represents the current experienced decline in sales growth due to COVID-19 between March 2020 and September 2020 and applies this to the next twenty-four months before the business returns to growth as expected. The next two scenarios were incrementally more severe over the first twenty four months before returning to growth. For the fourth test, a particularly severe scenario was determined in which banking covenant requirements would be breached during the next twenty-four months,

Under the first three scenarios neither headroom or covenant requirements were breached, and sufficient headroom and cash resources were in place to meet the expected needs of the business over the going concern and viability periods. Flexing the first scenario for other variables, such as a potential overspend on the UK relocation or variability in FX rates, the Directors still consider that the business would remain a going concern and viable under these circumstances over the period.

The fourth scenario, which leads to a breach of banking covenants, represented an equivalent to a 36% drop in sales volume in 2021, and continued impact in 2022 before growth in years three to five. Based on the Group's experience over the past eight months since COVID-19 impacted its main markets and the Group's current trading performance whilst many countries are in their second national lockdowns, the possibility of this severe scenario materialising is considered remote. In addition, it is implausible that the Group would not act swiftly and decisively to activate mitigations such as operating cost savings, reduction in capital expenditure, accessing Government support and delaying or cancelling future dividend payments to avoid a breach of its banking covenants.

Having considered the current cash and liquidity position of the Group, the range of scenarios discussed above in more detail and the Group's proven ability to adapt to and manage adversity, the Directors have not identified any material uncertainties which would affect the Group and Parent Company's ability to continue as a going concern for a period of at least twelve months from the date of this announcement. Accordingly, this statement has been prepared on the going concern basis.

5. RISKS AND UNCERTAINTIES

The operation of a public company involves a series of risks and uncertainties across a range of strategic, commercial, operational and financial areas. The principal risks and uncertainties, notwithstanding COVID-19, that could have a material impact on the Group's performance over the next twelve months (for example, causing actual results to differ materially from expected results or from those experienced previously) are the same in all material respects as those detailed on pages 36 to 41 of the 2019 Annual Report and Financial Statements.

During the year, COVID-19 was identified as a principal risk factor and has the potential to have a profound impact on people and businesses globally. The key related risks identified due to the pandemic are a reduction in demand, changes in consumer habits, supply chain and logistical disruption as well as the welfare of all employees in the Group. The Board believes that the Group is well placed to deal with the disruption that COVID-19 may bring. The Group retains a strong focus on keeping its employees safe and working closely with customers, suppliers and other stakeholders, whilst helping our communities where we can.

6. SEGMENTAL INFORMATION

Group

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 Group'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 Group accounts of segmental information is consistent with the information used by the CODM in order to assess the profit performance from the Group's operations.

The Group operates one global business segment engaging in the manufacture and supply of a diverse and sustainable portfolio of natural extracts and ingredients for the beverage, flavour and fragrance industries with manufacturing sites in the UK, US and until the end of May 2020, Kenya. Many of the Group's activities, including sales, manufacturing, technical, IT and finance are managed globally on a Group basis.

Geographical segments

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

Revenue by destination		2020 £'000 Continuing	2020 £'000 Discontinued	2020 £'000 Total	2019 £'000 Continuing	2019 £'000 Discontinued	2019 £'000 Total
United Kingdom		**7,434**	**649**	**8,083**	7,920	1,496	9,416
Rest of Europe	– Germany	**4,383**	**–**	**4,383**	6,142	–	6,142
	– Ireland	**6,782**	**–**	**6,782**	7,434	–	7,434
	– Other	**11,914**	**–**	**11,914**	12,846	–	12,846
The Americas	– USA	**43,701**	**–**	**43,701**	43,689	–	43,689
	– Other	**8,457**	**–**	**8,457**	7,787	–	7,787
Rest of the World	– China	**6,915**	**–**	**6,915**	6,766	–	6,766
	– Other	**19,430**	**89**	**19,519**	20,133	81	20,214
		109,016	**738**	**109,754**	112,717	1,577	114,294

All Group revenue is in respect of the sale of goods, other than property rental income of £18,000 (2019: £23,000). No country included within 'Other' contributes more than 5% of the Group's total revenue. The largest customer represented 10.1% of Group revenue (2019: 9.8%).

Non-current assets by geographical location, excluding deferred tax assets, were as follows:

Continuing operations	2020 £'000	2019 £'000
United Kingdom	30,357	10,412
United States	22,333	19,918
	52,690	30,330

7. EXCEPTIONAL ITEMS

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

	2020 £'000	2019 £'000
Accelerated depreciation expense	–	217
UK relocation expenses	1,060	538
	1,060	755
Less: tax effect of exceptional items	(104)	(91)
	956	664

The exceptional items all relate to non-recurring items. Relocation expenses relate to one-off costs incurred in connection with the relocation of the Group's UK operations which is expected to take place in mid-2021, and which in management's view do not fall to be capitalised. The accelerated depreciation and amortisation in the prior year was in relation to the reduction in the estimated useful lives of UK assets which are not to transition to the new UK facility.

8. TAXATION

Analysis of tax charge in income statement:

	2020 £'000 Continuing	2020 £'000 Discontinued	2020 £'000 Total	2019 £'000 Continuing	2019 £'000 Discontinued	2019 £'000 Total
Current tax:						
UK corporation tax on profits for the year	249	–	249	685	–	685
Adjustments to UK tax in respect of previous periods	(251)	–	(251)	(298)	–	(298)
Overseas corporation tax on profits for the year	1,957	–	1,957	1,166	–	1,166
Adjustments to overseas tax in respect of previous periods	(368)	–	(368)	(59)	–	(59)
Total current tax	1,587	–	1,587	1,494	–	1,494
Deferred tax:						
Origination and reversal of temporary differences	1,120	(47)	1,073	1,198	16	1,214
Effect of increasing/(decreasing) tax rate on opening deferred tax	(43)	–	(43)	(14)	–	(14)
Adjustments in respect of previous periods	232	(30)	202	(5)	–	(5)
Total deferred tax	1,309	(77)	1,232	1,179	16	1,195
Tax on profit on ordinary activities	2,896	(77)	2,819	2,673	16	2,689

8. TAXATION (continued)

Analysis of tax credit in other comprehensive income:

	2020 £'000	2019 £'000
Current tax:		
Foreign currency translation differences	(82)	72
Actuarial loss on defined benefit pension scheme	29	–
Total current tax	(53)	72
Deferred tax:		
Cash flow hedges	(2)	16
Defined benefit pension scheme	(586)	(719)
Total deferred tax	(588)	(703)
Total tax credit recognised in other comprehensive income	(641)	(631)

Analysis of tax (credit)/charge in equity:

	2020 £'000	2019 £'000
Current tax:		
Share-based payments	(88)	(418)
Deferred tax:		
Share-based payments	(28)	453
Total tax (credit)/charge recognised in equity	(116)	35

8. 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% (2019: 19.0%).

The differences are explained below:

	2020 £'000 Continuing	2020 £'000 Discontinued	2020 £'000 Total	2019 £'000 Continuing	2019 £'000 Discontinued	2019 £'000 Total
Profit before tax multiplied by standard rate of UK corporation tax at 19% (2019: 19%)	2,611	(220)	2,391	2,384	(203)	2,181
Effects of:						
Expenses not deductible in determining taxable profit and other items	421	47	468	359	(6)	353
Research and development tax credits	(39)	–	(39)	(47)	–	(47)
Difference in tax rates on overseas earnings	332	4	336	354	68	422
Adjustments to tax charge in respect of prior years	(386)	(30)	(416)	(362)	–	(362)
Effect of increased rate on opening deferred tax	(43)	–	(43)	(15)	–	(15)
Impairment of discontinued operations not tax allowable	–	122	122	–	157	157
Total tax charge/(credit) for the year	2,896	(77)	2,819	2,673	16	2,689

The Group's effective UK corporation tax rate for the year was 22.5% (2019: 19.2%). The effective tax rate of US-based earnings is 21.7% (2019: 25.4%). The adjustments in respect of prior years relate to the finalisation of previous year's tax computations.

9. DISCONTINUED OPERATIONS

On 1 June 2020, the Group completed the sale of its Kenyan operations to local management for a nominal sum. Since the sale of Earthoil Plantations Limited in May 2018, these operations have not been considered core to the Group's existing business and growth strategy and were consequently classified as a disposal group held for sale.

On 31 March 2020, all assets were written down to a net book value of zero and an impairment charge of £0.6m was recognised within the income statement, this is reflected in the earnings per share figures below and the earnings per share from continuing and discontinued operations figures shown in note 11. Costs directly associated with the final sale are recognised as part of the loss on disposal of subsidiaries and general costs relating to the disposal in the year are recognised as exceptional items.

The results of the discontinued operations, which have been included in the income statement, were as follows:

	2020 £'000	2019 £'000
Revenue	738	1,577
Cost of sales	(852)	(1,587)
Gross loss	(114)	(10)
Administrative expenses	(142)	(233)
Operating loss and loss before taxation and exceptional items	(256)	(243)
Exceptional items – impairment of disposal group	(638)	(825)
Exceptional items – disposal costs	(78)	–
Loss on disposal of subsidiaries	(185)	–
Loss before taxation	(1,157)	(1,068)
Taxation	77	(16)
Loss for the period attributable to owners of the Parent Company	(1,080)	(1,084)

Earnings per share from discontinued operations: basic 1.80p loss (2019: 1.83p loss); diluted 1.79p loss (2019: 1.81p loss). Adjusted earnings per share (excluding exceptional items shown above) from discontinued operations: basic 0.61p loss (2019: 0.44p loss); diluted 0.60p loss (2019: 0.43p loss).

During the year, the discontinued operations contributed an outflow of £0.2m (2019: £0.3m) to the Group's net operating cash flow, paid £nil (2019: £nil) in respect of investing activities and received £nil (2019: £nil) in respect of financing activities.

The adoption of IFRS 16 has had no impact on the results of the discontinued operations as reported.

10. DIVIDENDS

Equity dividends on ordinary shares:

	Dividend per share for years ended 30 September				
	2020 Pence	2019 Pence	2018 Pence	2020 £'000	2019 £'000
Interim dividend	1.84p[3]	1.70p[2]	1.60p[1]	1,103	1,009
Final dividend	4.16p[4]	3.80p[3]	3.50p[2]	2,275	2,071
	6.00p	5.50p	5.10p	3,378	3,080

1 Accounted for in the year ended 30 September 2018.

2 Accounted for in the year ended 30 September 2019.

3 Accounted for in the year ended 30 September 2020.

4 The proposed final dividend for the year ended 30 September 2020 of 4.16 pence per share will be voted on at the Annual General Meeting on 29 January 2021 and will therefore be accounted for in the financial statements for the year ending 30 September 2021.

11. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is based on the weighted average number of ordinary shares in issue and ranking for dividend during the year. The weighted average number of shares excludes shares held by the Treatt Employee Benefit Trust ('EBT'), together with shares held by the Treatt SIP Trust ('SIP Trust'), which do not rank for dividend.

	2020	2019
Profit after taxation attributable to owners of the Parent Company (£'000)	9,765	8,788
Loss from discontinued operations (£'000)	1,080	1,084
Profit from continuing operations attributable to owners of the Parent Company (£'000)	10,845	9,872
Weighted average number of ordinary shares in issue (No: '000)	59,841	59,140
Basic earnings per share – continuing and discontinued (pence)	16.32p	14.86p
Basic earnings per share – continuing (pence)	18.12p	16.69p

Diluted earnings per share

Diluted earnings per share is based on the weighted average number of ordinary shares in issue and ranking for dividend during the year, adjusted for the effect of all dilutive potential ordinary shares.

The number of shares used to calculate earnings per share (EPS) have been derived as follows:

	2020 No ('000)	2019 No ('000)
Weighted average number of shares	60,188	59,681
Weighted average number of shares held in the EBT and SIP	(347)	(541)
Weighted average number of shares used for calculating basic EPS	59,841	59,140
Executive share option schemes	499	639
All-employee share options	72	152
Weighted average number of shares used for calculating diluted EPS	60,412	59,931
Diluted earnings per share – continuing and discontinued (pence)	16.16p	14.66p
Diluted earnings per share – continuing (pence)	17.95p	16.47p

11. EARNINGS PER SHARE (continued)

Adjusted earnings per share

Adjusted earnings per share measures are calculated based on profits for the year attributable to owners of the Parent Company before exceptional items as follows:

	2020 £'000	2019 £'000
Profit after taxation attributable to owners of the Parent Company	9,765	8,788
Adjusted for:		
Exceptional items (see note 7)	1,060	755
Taxation thereon	(104)	(91)
Impairment of discontinued operations (see note 9)	638	825
Loss on disposal of subsidiary including disposal costs (see note 9)	263	–
Earnings for calculating adjusted earnings per share:		
From continuing and discontinued operations	11,622	10,277
Less: Loss from discontinued operations (see note 9)	179	259
Adjusted earnings from continuing operations	11,801	10,536
Adjusted basic earnings per share (pence)		
– Continuing and discontinued operations	19.42p	17.38p
– Continuing operations	19.72p	17.82p
Adjusted diluted earnings per share (pence)		
– Continuing and discontinued operations	19.24p	17.15p
– Continuing operations	19.53p	17.58p

12. SHARE CAPITAL

Called up, allotted and fully paid	2020 £'000	2020 Number	2019 £'000	2019 Number
At start of year	1,203	60,170,670	1,189	59,470,670
Issued in year	2	100,000	14	700,000
At end of year	1,205	60,270,670	1,203	60,170,670

The Parent Company has one class of ordinary shares with a nominal value of 2p each, which carry no right to fixed income.

During the year the Parent Company issued nil (2019: nil) ordinary shares to the Treatt SIP Trust for the purpose of meeting its obligations under an HMRC-approved share incentive plan in the UK as well as 100,000 (2019: 700,000) ordinary shares to the Employee Benefit Trust for the purpose of meeting obligations under employee share option schemes.

13. ALTERNATIVE PERFORMANCE MEASURES

The Group has defined certain measures that it uses to understand and manage performance. These non-GAAP measures are not defined under IFRS and are not intended to be a substitute for any IFRS measures of performance. They have been included to provide stakeholders with additional helpful information on the performance of the business.