



TREATT

Annual Report & Financial Statements

2017



TREATT

ANNUAL REPORT & FINANCIAL STATEMENTS 2017

We are a leading independent ingredients manufacturer and solutions provider to the global flavour, fragrance and consumer goods markets from our bases in the UK, US, China and Kenya.

We have been making the world taste better since our foundation in 1886, but this is just the beginning. Committed to continuous improvement, we have deeply established roots and a clear strategic path that drives us forward.

Our people are creative, technically excellent and dedicated, allowing us to develop and supply a range of ready-made or bespoke systems to suit even the most adventurous needs.

*"Collaborating at the crossroads of science and art,
we make the ordinary extraordinary."*

2017 REVIEW

FINANCIAL PERFORMANCE

REVENUE

£109.6M

Revenue represents the total sales of all businesses in the Group, and reflects both underlying business growth as well as the impact of movements in raw material prices and foreign exchange rates.



ADJUSTED PROFIT BEFORE TAX*

£12.9M

Adjusted profit before tax shows the trend in profits before tax (but ignoring exceptional items).



DIVIDENDS PER SHARE** (PENCE)

4.80P

Dividends per share shows the total dividend (interim plus final) per share relating to each financial year.



*All adjusted figures exclude exceptional items, details of which are given in note 8.

**The dividend per share relates to the interim dividend declared and final dividend proposed in relation to the corresponding financial year.

KEY PERFORMANCE INDICATORS

NET OPERATING MARGIN

12.6%

Net operating margin reflects the overall profitability of the business before financing costs.



RETURN ON CAPITAL EMPLOYED

24.3%

Return on capital employed is a measure of the Group's profitability relative to the assets invested in the business.



AVERAGE NET DEBT TO EBITDA***

0.39

Average net debt to EBITDA measures the debt of the Group relative to its profitability. The lower the ratio is, the more manageable the level of debt.



***EBITDA is calculated as profit before interest, tax, depreciation, amortisation and exceptional items. Average net debt is calculated as the average of the opening and closing net debt for the financial year.

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WHAT STANDS US APART

We partner with the world's largest flavour and fragrance companies and the most well-known consumer beverage brands to deliver innovative solutions that excite and inspire. Competing at the highest level every day, we have engineered our business to consistently bring its best to exceed our customers' expectations. Our empowering, energetic and performance-driven culture fuels the growing success of the Group and is how we're different.

TEAMWORK

A global network of over 370 talented colleagues work and grow together to deliver against our business strategy. We work as high-performing teams, whether in our own departments or as cross-functional groups collaborating on a project. Customers recognise the momentum we create together in each interaction with us.

Everyone from the global management team to the chemists in the lab and the forklift truck drivers in our warehouses understand where our business is going and take responsibility for their part in helping to get us there. By sharing common goals, we are efficient and highly focused, championing the importance of great communication at every turn.

We happily share our knowledge with colleagues and customers alike, allowing us to become part of their organisations too. Our people get a kick out of helping others and believe in their shared ability to effect real change.

CHALLENGE

You will never find our people resting on their laurels. We believe in our ability to improve and are 'always on' when it comes to opportunities to develop and evolve.

We are proactive problem solvers who look for a better way. Whether it's a process improvement, an innovative way of supply chain mapping or new product development; our teams are inventing ways to increase efficiency and deliver excellence for our customers.

This attitude is not restricted by role, experience or department. Our innovation culture ensures this responsibility is shared by the whole Group. We now have almost 100 people in the UK working on a range of projects, each with the sole objective of finding a better way at its heart.





INTEGRITY

Our people define and maintain the highest standards across the business as well as the industries in which we operate. Our reputation has been earned over the last 130 years by delivering consistently high-quality results. Customers have peace of mind that they're working with people and products they can empirically trust.

Travelling the world and building personal relationships with our processors and farmers gives us first-hand detailed knowledge of our supply chain, which is invaluable to our customers. We share this information with our customers via market intelligence reports, presentations and workshops as part of our service.

We have earned their confidence in our rigorous quality assurance, composition and containment analysis, together with appropriate labelling for smooth, safe transportation across the globe.

This commitment to standards extends to the professional and personal development of staff.

81%

**of staff attended
developmental
training**

36%

**of staff attended four
or more courses**

4035

hours of training

>70

**courses available
through company
Leadership &
Development
programme**

PRIDE AND PASSION

We have come a long way and the discretionary effort of our engaged people is the fuel that continually drives us forward. We love what we do and feel enormous satisfaction for our work, which is recognised and appreciated by our customers. They want to work with us because of our approach, which brings an authentic credibility to what we do every day.

Our people are truly switched on across every aspect of the business and with approximately 75% of staff owning shares in the company, we have a collective interest in our shared success.

We believe in our direction of travel and know that by working together, to the best of our abilities, we will absolutely get there.





HOW WE'RE GROWING

We continue to deliver sustainable results by increasing our market share across key product categories in growing markets.

CREATING TRENDS OF THE FUTURE

By operating at the cutting edge of sensory innovation, the market insights we share help shape our customers' new product development. Whether we're hosting innovation workshops for flavourists and perfumers, providing market data or delivering reports on what's going to be the next big hit on the supermarket shelves – customers rely on the intel we provide.

SUSTAINABLE GLOBAL SOURCING

We work hard to develop and maintain a transparent and stable supply chain across our product portfolio, mitigating risk and providing maximum traceability throughout every stage of the process.

DELIVERING QUALITY

We are governed by the highest set of industry standards which gives our customers peace of mind that they're working with people and products they can trust. Customers have confidence in our rigorous quality assurance, composition and containment analysis, partnering with our people at every stage of their project.

INNOVATION YOU CAN TASTE

We have an established heritage that grounds us, but also gives us foundations from which we can confidently launch ourselves into what's ahead. We are committed to identifying and understanding market trends driven by complex global socio-economic factors and see innovation as a responsibility of every department across the Group.

PROTECTING OUR CUSTOMERS AND THEIR CONSUMERS

Our regulatory knowledge, dedication and attention to detail enable us to deliver end-to-end quality that our customers can trust. We know we're getting it right when customers rely on our people for on-going support or come to us with a problem they need solving quickly and efficiently.

WHERE WE'RE HEADING

Having met our 2020 financial targets this year, our revised strategic pathway illustrates how we will continue to build on this success.

OUR BUSINESS

We are a company that means business, and this has never been more apparent. As a Group, we continue to improve our focus and efficiency to better our position in the value chain. This approach is bringing us closer to our customers, strategically expanding our footprint across their organisations.

By fostering a culture of innovation, we are seeing cross-departmental teams come together and identify opportunities to drive us forward. Whether it's a matter of improving processing techniques, reducing waste and maximising training to developing new ways of working, consolidating existing resources and getting the most out of our existing site – our people are delivering sustainable growth.

Our UK relocation plans continue to move forward on schedule following submission of our planning application at the end of September. An internal steering group has been appointed to support the project as it enters the next phase of development, made up of representatives from across the organisation.

The move will be the single most significant development for the Group to date and will revolutionise almost every area of the business. Our flagship site will attract the best talent in the industry and will position us as the leading, science-led, business that we are.

Expansion work has begun at our site in Lakeland, Florida, giving us increased office, lab and manufacturing space to serve our growing customer base.

OUR PEOPLE

Our people are our biggest and most important strategic asset and their happiness is integral to the success of the business. We have a culture that attracts and retains the brightest minds and once part of our growing team, we continue to cultivate our talent with a tailored training and development program that will help them reach their potential.



FLAVOUR
Ingredients

OUR INDUSTRY

There has never been a more exciting time to work in our industry as it continues to shift and evolve. The global beverage industry is expected to reach an estimated value of \$1.9 trillion by 2021 as compound growth of 3% is forecast over the next three years.

Established and emerging trends continue to have an impact on the dynamics of this sector as the use of natural flavours, sugar reduction solutions and tea blends all gain momentum.

Millennials the world over are increasingly aware of their collective buying power and are having a transformative impact on every aspect of the beverage market. New product development pipelines are shortening as competition heightens, giving rise to more opportunities for innovation.

We look to increase our market share by working with customers in regions where we can add real value.

3%

**Compound annual
growth forecast
over the next
three years**





CITRUS

Within the beverage industry, the taste for citrus flavours remains strong and will continue to grow as the familiarity of these ingredients becomes a 'gateway' for consumers trying new flavours when paired with a more traditional orange, lemon or lime. The citrus category is helping brands to revitalise and capture the imagination of consumers in new ways, while leaning on the naturalness of flavours and the provenance of their origins. As they work well in almost every beverage category, we will see more and more citrus flavours appearing in everything from juices and flavoured waters to sparkling drinks and teas.

Citrus has been a core part of our business for many decades and will continue to be as we move forward. Our Global Citrus Strategy focuses our efforts to ensure we're best placed to lead the market as it evolves. We have the best people in place from procurement, sales and purchasing to distillation, manufacturing and bulking. We take pride in working together to grow this profitable category for the business through new product development wins and matching opportunities.



SUGAR REDUCTION

Reducing sugar levels without compromising on flavour, mouth-feel, brand identity or cost will continue to become an increasingly significant concern for beverage brands across the world in the years to come. Now central to business strategy, sugar reduction is of paramount importance. Everyone from independently owned start-ups to global household names are reformulating their product ranges as sugar reduction concerns drive new product development across almost every beverage category.

As this is a core part of our growth strategy, we continue to invest in our resources, skills and equipment. A growing team of R&D chemists across the UK and the USA work in partnership with our customers to ensure their needs are met – delivering industry leading products that reduce sugar levels without sacrificing on the consumer experience. Our global presence allows us to take advantage of established opportunities in the West as well as the emerging landscape in the East.



TEA

Tea is the second most widely consumed beverage worldwide, following water. It is globally popular in different forms, with ready-to-drink iced tea and cold brew tea blends growing market share in North America, while exotic Chinese and Japanese varieties like Matcha gain huge momentum across Europe. As consumers move towards low-sugar, natural beverages that may have additional health benefits, tea has a broad appeal. It can be niche and premium, as well as suitable for every day, making it an exciting place to play.

Our team supports a growing customer base in the creation and production of some of the most exciting tea products in this fast-expanding market. Whether customers are looking for a fresh brewed flavour in their ready-to-drink iced tea or a delicate top note in a blended beverage, we supply the perfect tailored solution across a range of applications.



GROUP FIVE YEAR TRADING RECORD

	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000
Income Statement					
Revenue	74,097	79,189	85,934	88,040	109,627
EBITDA ¹	8,278	9,022	10,109	11,038	15,341
Operating profit	6,938	7,928	8,690	9,549	13,805
Adjusted ² profit before taxation	6,227	6,904	7,950	8,846	12,892
<i>Growth in adjusted² profit before taxation</i>	<i>23.1%</i>	<i>10.9%</i>	<i>15.2%</i>	<i>11.3%</i>	45.7%
Exceptional items	(1,093)	(1,402)	(174)	(553)	—
PROFIT BEFORE TAXATION	5,134	5,502	7,776	8,293	12,892
Taxation	(1,655)	(1,553)	(1,786)	(2,144)	(3,347)
Profit for the year attributable to owners of the Parent Company	3,479	3,949	5,990	6,149	9,545
Balance Sheet					
Goodwill	1,075	1,075	1,075	2,727	2,727
Other intangible assets	684	726	661	637	604
Property, plant and equipment	11,718	10,994	10,998	11,361	14,821
Net deferred tax (liability)/asset	(723)	(611)	(390)	325	619
Non-current trade and other receivables	586	586	—	—	—
Current assets	38,340	43,590	45,045	54,435	68,228
Current liabilities	(12,484)	(16,005)	(13,481)	(16,388)	(27,003)
Non-current trade and other payables	(23)	(23)	—	—	—
Non-current bank loans	(8,889)	(7,857)	(7,065)	(7,755)	(7,293)
Post-employment benefits	(1,589)	(2,529)	(2,959)	(7,401)	(5,822)
Non-current derivative financial instruments	(577)	(511)	(699)	(754)	(403)
Non-current redeemable loan notes (net)	(675)	(675)	—	—	—
Total equity	27,443	28,760	33,185	37,187	46,478
Cash Flow					
Cash generated from operations	9,250	3,528	8,667	10,804	4,683
Taxation paid	(649)	(1,552)	(1,469)	(2,022)	(2,822)
Net interest paid	(714)	(724)	(740)	(703)	(913)
Dividends paid	(1,585)	(1,899)	(1,978)	(2,095)	(3,025)
Additions to non-current assets net of proceeds	(1,578)	(746)	(1,027)	(788)	(5,203)
Acquisition of interests in joint ventures or subsidiaries	(9)	—	—	(752)	(900)
Purchase of redeemable loan notes	—	—	—	—	(675)
Net sale of own shares by share trust	91	91	180	265	355
Other	(151)	12	(204)	(208)	(71)
Movement in net debt	4,655	(1,290)	3,429	4,501	(8,571)
Total net debt	(8,294)	(9,584)	(6,155)	(1,654)	(10,225)
Ratios					
Net operating margin ³	9.4%	9.6%	10.1%	10.8%	12.6%
Return on capital employed ⁴	19.4%	19.9%	22.1%	24.6%	24.3%
Average net debt to EBITDA ⁵	1.28	0.99	0.78	0.35	0.39
Adjusted ² basic earnings per share	8.64p	9.95p	11.94p	12.84p	18.29p
<i>Growth in adjusted² basic earnings per share</i>	<i>25.6%</i>	<i>15.2%</i>	<i>20.0%</i>	<i>7.5%</i>	42.4%
Dividend per share ⁶	3.70p	3.84p	4.04p	4.35p	4.80p
Dividend cover (adjusted to exclude exceptionals) ⁶	2.33	2.58	2.94	2.94	3.79
Net assets per share	52.4p	55.0p	63.0p	71.0p	87.9p

Notes:

¹ EBITDA is calculated as profit before interest, tax, depreciation, amortisation and exceptional items.

² All adjusted measures exclude exceptional items – see note 8.

³ Operating profit divided by revenue.

⁴ Operating profit divided by total equity plus net debt.

⁵ Average of net debt at start and end of financial year divided by EBITDA¹.

⁶ The dividend per share shown relates to the interim dividend declared and final dividend proposed for the corresponding financial year.

CHAIRMAN'S STATEMENT

“This has been an outstanding year for Treatt, with adjusted* profit before tax up by 46%”

Strategic overview

Over the last five years we have reshaped our business and our clear strategic direction has resulted in a consistently strong financial performance. The Group's focus on the key growth drivers in the beverage sector including innovative citrus, tea and sugar reduction solutions, as well as growth markets such as China and North America, is showing clear signs of success.

As previously reported, 2017 saw the delivery of the financial objectives in our 2020 strategic plan some three years early. The Board has now approved a new five-year strategy which is evolutionary by nature and builds on the success and focus of the business over the past five years.

Notwithstanding our strong growth and market position, we operate in a highly competitive global market and to build on our success we must continue to invest in our capabilities. As such, and to support the new growth strategy, the Board consider that appropriate levels of capital investment will be required to modernise the Group's operations. Accordingly, the Group plans, as previously announced, to undertake a capital investment programme to expand the Group's US operations and to invest in the Group's UK relocation and expansion plan.

Results

2017 was an outstanding year for Treatt with significant milestones achieved in both sales and profits. For the first time in our history sales exceeded £100m at £109.6m with profit before tax reaching double figures at £12.9m.

Revenue increased in the year by 24.5% to £109.6m (2016: £88.0m) whilst gross profit margin improved by 130bps from 23.2% to 24.5% as our product mix continued to move towards higher value products and services. In constant currency, revenue increased by 18.5% and adjusted* profit before tax grew by 31.5% on a like-for-like basis.

Adjusted profit before tax* of £12.9m grew by 45.7% compared with £8.8m last year, resulting in adjusted basic earnings per share* growth of 42.4% at 18.29p (2016: 12.84p).



10%
**Increase in
dividends**

Dividends

The Directors propose to pay a final dividend of 3.35p per share (2016: 3.00p), increasing the total dividend for the year by 10.3% to 4.80p (2016: 4.35p). If approved by shareholders at the forthcoming AGM, the final dividend will be payable on 22 March 2018 to all shareholders on the register at the close of business on 9 February 2018. Shareholders who wish to participate in the dividend re-investment plan for this and future dividends should elect to do so by 1 March 2018.

UK site relocation

Outline planning permission for the new ten-acre site at the Suffolk Business Park, Bury St. Edmunds, has been granted, the land acquired, and the detailed planning application submitted with approval expected



TIM JONES
Chairman

in early 2018. Once the tendering process has taken place, work is expected to commence on the build of the new site in summer 2018 with completion in late 2019.

The site will be a purpose-built, science-led, facility designed to drive further growth with domestic and international fast-moving consumer goods companies, as well as to increase our production capacity, thereby creating a scalable business for the longer term.

US site development

Due to its success in recent years, Treatt USA is reaching the limits of its current production capacity. We last expanded capacity at this site in 2011/2012. The Board has now approved further investment in the existing site in Lakeland, Florida which will involve an extension to the manufacturing facilities to accommodate the installation of additional speciality stills. These will allow us to meet customer demand, particularly for two of our fastest growing product categories – tea and sugar reduction. We are also expanding our technical and office facilities to create a more efficient and technical workplace. Construction is underway, with completion scheduled for late 2018.

Placing

To part fund this investment programme, we have separately announced an equity placing to raise approximately £21.6m with new and existing institutional investors which is subject to shareholder approval at a general meeting on 18 December 2017.

Corporate governance

We believe strongly in the principles of good corporate governance and regularly undertake reviews to ensure that these are embedded throughout the organisation. This includes making sure that the Board has the breadth of skills and experience needed to optimise the Group's prospects and our responsibilities to all our shareholders, staff, the communities with which we work, the environment, society at large and all stakeholders. A key area of the Board's focus includes defining and communicating our risk appetite and conducting a broad assessment in respect of our business risks in the shorter, as well

as the longer, term. Significant risks, which are identified by their size of impact and probability of occurrence, are detailed on the Group risk register, which is regularly reviewed by the Board.

People – our strength

We believe adapting to change is essential for the continued growth of our Group which is why our culture sits firmly at the heart of our strategy. Over time our people continue to adapt to an ever-evolving landscape, whilst never losing sight of our core values. I would like to take this opportunity to thank them for all their hard work and enthusiasm without which I would not be able to report this truly exceptional year for Treatt.

Prospects

The Group has had an encouraging start so far to the new financial year ending 30 September 2018 with both the UK and US tracking on plan. Furthermore, with order books up compared with the same time last year, the Group continues to perform in line with the Board's expectations for the full year.

TIM JONES
Chairman
28 November 2017

CHIEF EXECUTIVE OFFICER'S REPORT

“A remarkable year for the Group as our efforts and performance delivered exciting new customer wins and give us further confidence for the future”

Review of FY17

It has been a year of strong growth for the Group with important new business wins with fast-moving consumer goods (FMCG) customers. The dedication, patience and skill of colleagues throughout the Group have achieved some notable successes and I want to thank my teams for everything they do and are achieving for the business.

We started our financial year with strong momentum from the end of the prior year and that momentum continued across the Group throughout 2017. Material new business wins in our three core areas of citrus, tea and sugar reduction have delivered growth for the business in the year.

Our progress over the last five years has been very encouraging. As Treatt transitions from its trading house roots to a more science-led, partnership approach with its customers, the collective confidence and energy of the business is growing. I am particularly encouraged that after five years of progress we have today more momentum and a greater hunger to push the business than ever before. This progress is reflected in our financial performance. In the last five years, we have more than doubled adjusted* profit before tax to £12.9m this year, having grown sales to over £100m for the first time in the Group's history.

It is worth noting that the sales cycle for some of our customer projects can, on occasions, be measured in years from initial conversations regarding a specialist ingredient solution to the final contract with a customer. Multiple rounds of stability trials, consumer acceptance testing and considerations on suitable product launch timing by our customers all have an impact. Treatt's teams have been working with customers on some of these more meaningful opportunities for some considerable time and it is pleasing to see this patience rewarded with contribution from a number of these new wins in the year.

Citrus

Citrus, which is present in a large and growing number of beverages and an area where Treatt has had strong capabilities for many years, has provided solid growth in the year and our focused strategy is

delivering notable wins. Citrus is also a good example of where we have strategically applied our deep knowledge of raw material markets to the benefit of our customer base, adding value and bringing them success. Getting our flavour solutions “designed in” at the inception stage of new beverage formulations is a key development in enabling us to achieve our objective of sustainable, profitable growth.

Tea

Through our proprietary distillation, we supply a range of natural distillates with an authentic fresh-brewed tea flavour. This has been a key driver of our success in the tea market, which is built around growth in the consumption of iced tea principally, but not exclusively, in the North American market as consumer preference moves from carbonated soft drinks.



25%
**Increase
in revenue**

A portrait of Daemmon Reeve, Chief Executive Officer, smiling. He is wearing a dark blue suit jacket over a light blue shirt. The background is a blurred outdoor setting with green foliage.

DAEMON REEVE

Chief Executive Officer

Sugar reduction

Sugar reduction remains a key focus for the entire drinks industry and our volumes and customer breadth have grown. Beverage formulators continue to find important and authentic flavour nuances from our offerings, as well as seeing the benefits of our ability to maintain flavour profiles, in the technically complex world of reducing sugar content.

Sugar reduction is a strongly developing trend as political pressure and consumer awareness drive demand for lower sugar levels. Consequently, sugar reduction remains a hot topic for the beverage industry. Manufacturers are looking to achieve reduction without sacrificing the pleasing taste experience on the palate and importantly, flavour, which is much more complex than just the notion of sweetness. It is the latter vital nuance which Treatt has focused on, and our offerings into this market play to our strengths of authentic taste, but critically without the carbohydrates and associated calories of sugar.

Other product categories and markets

While the key growth drivers of citrus, tea and sugar reduction delivered strongly during the year, it was pleasing that the wider business also performed well. Notable growth in high-impact synthetic aroma chemicals, working with our partner Endeavour Specialty Chemicals, was achieved, and a new five-year agreement signed with them during the year. Earthoil, the Group's niche fair trade and organic cosmetic ingredients business, has continued to maintain its progress of recent years. It is managed as a stand-alone business and is not considered core to the Group's operations.

Looking geographically, both the traditionally important markets of North America and Europe performed strongly. Pleasingly our newer strategic efforts in China and India are also showing encouraging progress since we have committed more locally-based sales and technical resources to cover these markets, supported by greater product focus.

Update on strategy

As detailed in the Strategic Report on page 27, in September 2017 the Board approved the latest iteration of our Group strategy. This new strategy is an evolution of the previous strategy which saw us hit internal five-year financial targets some three years early. Our focus remains on the Group's core growth areas of citrus, tea and sugar reduction, whilst ensuring sustainable growth in the Group's wider business.

Capital investment programme

To support this growth strategy, and to create a scalable business for the longer term, the Directors consider that appropriate levels of capital investment will be required to modernise the Group's operations. This will include developing an environment to promote its partnership-based client approach, and enhancing its technical capabilities to drive product innovation, margin expansion and operational efficiencies. Investment will also be required to increase capacity at the Group's facilities to meet expected customer demand.

Accordingly, as previously announced, the Group plans to undertake a capital investment programme to further expand the Group's US production and operational capacity as well as to invest in the Group's UK relocation and expansion plan.

UK site relocation and expansion

In the UK, we look forward to our site relocation with excitement and a great sense of opportunity. Our new environment will provide a fundamentally improved customer experience, enabling us to showcase our expertise and extending our capabilities. We will have an appropriate technical-led facility aligned to meet our customers' requirements, at the same time as bringing all the operational benefits of being within one coherent facility, as opposed to the six sub-optimal buildings we currently occupy.

It has not been appropriate to commit to expenditure on new capital equipment in our current location but as part of the move more modern equipment will be purchased to optimise our manufacturing capabilities in the beverage space, and deliver process improvements which will greatly improve operational efficiencies such as automated warehousing.

CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

We will also be able to build deeper relationships with customers through collaborative working in our laboratories, to make final refinements to formulations which will speed up the product approval process and improve acceptance rates.

Much of our success in the last few years has been achieved by building a collaborative culture for our work colleagues and to have achieved so much is gratifying, particularly considering our currently constrained physical environment. The new facility will be transformational in this regard and will enable us to more than meet customer expectations of a technical-led solutions provider.

This project is estimated to cost a net £35m, details of which can be found in the Financial Review on page 19.

US expansion

Significant growth in tea and sugar reduction solutions during the year and a commensurate order book and opportunity pipeline has accelerated our plan to increase production capacity and supporting infrastructure around the manufacturing of those products at our Florida facility.

We can build on land we already own and at the time of writing construction is underway on this \$14m project, with completion and commissioning estimated by the end of 2018. This enhancement will provide a platform for the next phase of our strategy as we increase our focus on the areas of consumer growth in the markets we serve.

This investment will deliver additional manufacturing capacity as well as efficiency and process improvements. It will also provide important physical expansion for our research and development teams, which are critical partners to our commercial team within key and target accounts. In addition, the expansion will provide important customer experience improvements and, as in the UK, we will be able to welcome more of our customer scientists to work in our laboratories with our own teams.



Funding

The Group capital investment programme is expected to be funded as follows:

- a new five-year revolving credit facility totalling £15m, for which the Group has already received a commitment letter from HSBC (UK);
- a new ten-year construction loan totalling US\$11m, for which the Group has already received a commitment letter from Bank of America; and
- the placing of new ordinary shares separately announced raising approximately £21.6m, subject to a general meeting on 18 December 2017.

People

We believe our strategy is right for our business but the power behind its delivery is the energy our fantastic teams give every day. We work tirelessly to ensure they are aligned and that Treatt is an attractive company to work for. We take care of our colleagues and ensure they are given opportunities to develop. Attraction and retention are of paramount importance to the business and our staff turnover remains pleasingly very low. We have increased our Global HR team in the last year which has been a crucial step in delivering our engagement strategy, with greater investments being made in bespoke training and support for staff.

We have deepened relationships with key schools and colleges in the local area as well as partner universities. As we move closer to our site relocation in the UK we are turning our focus to building relationships with our prospective near neighbours in education to ensure our talent pipeline remains robust.

As has been the case for the last five years, a core focus will be on our colleagues throughout the Treatt Group as we strive for even higher levels of engagement, passion and determination. The power of



our colleagues' efforts for the business has been clearly evident in the success of the last five years and through investment in bespoke training programs, and promoting a happy, vibrant culture where the company looks after our colleagues and engages with the community, we intend to make Treatt an even better environment in which to work, learn and drive success. The majority of our colleagues are also shareholders in the business and that connection provides tangible alignment to motivation and pride in working for Treatt.

Health and safety is of prime importance

Our culture underpins our positive work around health and safety across the Treatt Group. Health and safety is owned by all colleagues and we continue to challenge ourselves to find ways to continually improve, manage risks and develop in this critical area.

Community

Our values of teamwork, pride and passion, integrity and challenge, as well as enjoying our work, are central to how we deliver continued business success.

Supporting the communities in which we work has always been important to us; we regularly seek opportunities for staff to be involved in our communities in the UK, US and across the globe and I never fail to be impressed by our team's commitment and support for these causes.

In August, to support mental health charity Mind, colleagues demonstrated true grit and determination when they cycled 880 miles in just 104 hours in atrocious weather conditions, raising over £8,000, with the support of staff across all our global offices. Staff in the UK joined the local council's waste department on a spring cleaning project, whilst in Lakeland, Florida, the Treatt team donned their hi-vis vests and cleaned up a two-mile stretch of their local highway, collecting over 19 bags of rubbish to help their local community keep clean. The US team also provided huge support for the second year running to KidsPack, a charity that supports disadvantaged children with food packages and clothing with groups helping consistently every week.

We also welcomed the NSPCC to our UK offices to talk about keeping children safe online with further support for the charity with a 'walk a mile at lunchtime' challenge, donating £1 per mile walked by staff taking part.

We have also been shortlisted for several awards, and I was extremely proud that one of our apprentices was a finalist in the West Suffolk Trainee of the Year Awards, and that we won the Chamber of Commerce (East of England) Regional High Growth Business Award, thereby becoming a finalist in the British Chambers of Commerce Annual Business Awards. Other awards where Treatt has been shortlisted as a finalist included the Lloyds Bank Mid-Market Business of the Year Award, West Suffolk Sport in the Workplace Award and Best Brand Evolution for our re-brand in the Marketing New Thinking Awards.

Summary

The Treatt journey continues and our financial year has started positively in what can be a seasonally quieter period. We are encouraged by our order books which are up year-on-year.

Colleagues throughout the Group are working to deliver on business opportunities in our pipeline and bring to that pipeline new and exciting projects. Our two key infrastructure projects in the UK and US are moving forward and our teams are driven to deliver these projects while maintaining our excellent level of customer service. As we sharpen our focus on our three strategic growth areas of citrus, tea and sugar reduction, we are finding more opportunities to improve processes and derive value for the mutual benefit of our stakeholders.

DAEMON REEVE
Chief Executive Officer
28 November 2017



FINANCIAL REVIEW

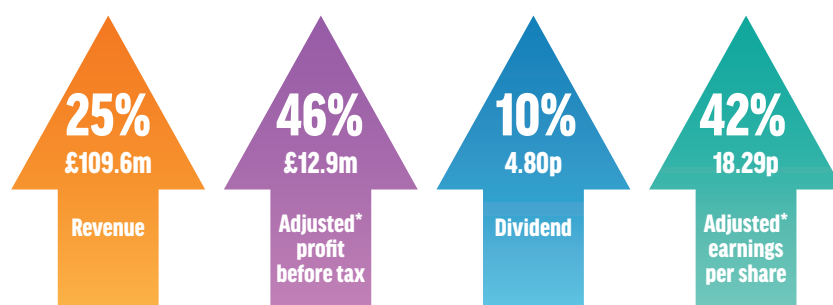
“Strong revenue growth of 25%, resulting in adjusted* earnings per share up by 42%”

Financial overview

Key performance indicators

	2017	2016
Net operating margin*	12.6%	10.8%
Return on capital employed*	24.3%	24.6%
Average net debt to EBITDA*	0.39	0.35

*All measures are adjusted to exclude exceptional items in the prior year.



Income Statement

Revenue and profit

Revenue for the year grew by 24.5% to £109.6m (2016: £88.0m) with strong growth across all of the Group's main product categories as a result of, *inter alia*, a number of new global FMCG business wins. In constant currency terms, revenue grew by 18.5%, with 6% of the revenue growth being reflective of a stronger US Dollar in 2017 as compared to 2016.

Strong revenue growth in Germany (+30%) to £7.2m, South America (+97%) to £8.2m, China (+27%) to £5.8m and in our largest market of North America (+26%) to £42.6m demonstrate the global nature of our market and broadly-based success being achieved by Treatt.

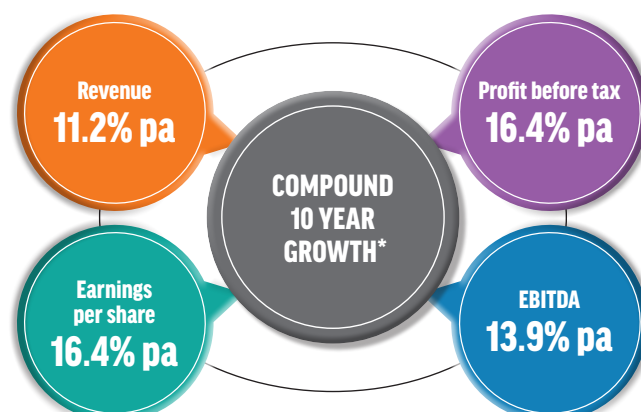
Gross profit grew significantly by 31.4% with gross profit margins increasing from 23.2% to 24.5%. Over the last three years, gross profit margins have grown by 240bps as the business has transitioned to a more added-value, solution-based offering. Alongside this, process improvement efficiencies and the removal of intermediate agency commissions has played an important part in driving the gross margin improvement.

Administrative expenses grew by 19.8% in the year to £13.0m (2016: £10.9m), although on a constant currency basis the increase was a less marked 14.1%. The £2.1m increase in administrative expenses was driven predominantly by increases in base wages and salaries of £0.9m, with headcount numbers increased across the Group;

up by 6% in the UK and by 4% in the US. The exceptionally strong financial performance in the year also resulted in higher share-based payments (up by £0.4m) and bonuses which were up by £0.8m.

Over the last five years net operating margin has grown steadily from 7.6% in 2012 to 12.6% in 2017 as the business has focused its strategy on growing revenue, replacing traded commodity business with bespoke, innovative products, whilst maintaining a tight control of costs. The success of this strategy has resulted in a 44.6% increase in operating profit* to £13.8m (2016: £9.5m).

Capital employed increased in the year from £38.8m to £56.7m as a result of the increased profits being generated, and the increased investment in inventory of £12.9m. As a consequence, return on capital employed* remained broadly unchanged at 24.3% (2016: 24.6%).



RICHARD HOPE
Chief Financial Officer



The Group looks to mitigate its foreign exchange risk. The impact of movements in foreign exchange rates on profit before tax is the net of retranslating overseas profits, retranslating foreign currency transactions in UK businesses and the gains or losses on foreign exchange hedging instruments such as forward and option contracts. When taken together the net impact on profit before tax for the year was a gain of £1.4m (2016: loss of £0.5m).

There were no exceptional costs in the year (2016: £0.6m). On an adjusted basis, which excludes last year's exceptional costs, earnings before interest, tax, depreciation and amortisation for the year increased by 39% to £15.3m (2016: £11.0m). Profit before tax after exceptional items rose by 55% to £12.9m (2016: £8.3m). Further information on the previous year's exceptional items is given in note 8.

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 more limited extent, the Euro. The US Dollar ended the year 3% weaker against GBP at £1 = \$1.34 (2016: £1 = \$1.30). As explained further under 'Financial Risk Management' set out below, the Group hedges its foreign exchange risk at R C Treatt 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. This has resulted in a small loss on trading transactions of £0.5m in 2017 (2016: £Nil) and a loss on foreign exchange contracts of £0.1m (2016: £2.2m loss) which has been netted off the revenue line in the income statement. As part of the Group's hedge accounting, a foreign exchange gain of £0.3m was taken to reserves through the Statement of Other Comprehensive Income (2016: £0.2m gain).

There was a substantial currency impact, a loss of £1.1m (2016: £2.6m gain), in the 'Statement of Comprehensive Income' in relation to the Group's investment in overseas subsidiaries, principally in respect of Treatt USA.

Finance costs

The Group's net finance costs for the year increased by 30% to £0.91m (2016: £0.70m) as a result of the higher debt levels in the year, resulting from increased investment in inventory and the acquisition of land for the UK site relocation. Although debt levels have risen, the cost of funding the higher debt has been partly mitigated by an interest rate swap (as set out in more detail below). The Board continues to be of the view that whilst a significant proportion of current banking facilities remain unutilised, the current level of these facilities remains appropriate in order to manage working capital volatility during the year and also in light of significant capital expenditure requirements over the next few years. Despite the increase in net finance costs, interest cover for the year increased to 15.1 times (2016: 13.6 times).

As part of the Group's risk management processes, R C Treatt fixed \$9m of US Dollar borrowings at 5.68% for ten years by way of an interest rate swap in 2011. This swap has been designated as a 'hedge' in accordance with IFRS and consequently any movements in the mark-to-market of the swap are taken directly to equity. At the balance sheet date, the fair value liability, net of deferred tax, of the swap was £0.4m (2016: £0.8m).

Group Tax Charge

The current tax charge of £3.4m (2016: £2.4m) represents an effective rate (based on profit before tax and exceptional items) of 26.7% (2016: 27.0%). After providing for deferred tax, the overall tax charge increased by £1.2m to £3.3m (2016: £2.1m); an overall effective tax rate (after exceptional items) of 26% (2016: 26%). There were no significant adjustments required to the previous year's tax estimates. With corporation tax rates continuing to fall in the UK until they reach an expected 17% in 2020, the Group's overall effective rate of tax is expected to fall over the course of the next three years assuming the profit mix between tax jurisdictions remains broadly unchanged.

FINANCIAL REVIEW (CONTINUED)

Earnings per share

Basic earnings per share (adjusted to exclude exceptional items, as set out in note 11 for the year increased by 42.4% to 18.29p (2016: 12.84p). 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 3.35p per share (2016: 3.00p) increases the total dividend per share for the year by 10.3% to 4.80p, representing dividend cover of 3.8 times earnings for the year and a rolling three-year cover after exceptional items of 3.6 times. The Board's policy has been to maintain dividend growth 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 been set with a more prudent level of dividend cover. The Board considers this to be appropriate given the forthcoming cash requirements of the business in order to fund the UK site relocation and expansion and the US expansion. Nevertheless, this represents an increase in the dividend of 55% over the last five years.

Balance Sheet

Group shareholders' funds grew by £9.3m (2016: £4.0m) in the year to £46.5m (2016: £37.2m), with net assets per share increasing by 24% to 88p (2016: 71p). Over the last five years, net assets per share have grown by 77%. 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, in the balance sheet. It should be noted that net assets have been reduced by £0.2m (2016: £0.3m) as a result of shares held by the EBT and SIP, due to the accounting requirements for employee trusts. This impact will be reversed when these shares are used to satisfy the exercise of employee share options.

Cash Flow

The level of capital expenditure in the year was £5.2m compared with £0.8m in 2016, and included £3.7m for the purchase of the land for the new UK site. No major projects in the UK were commenced in the year, with the UK site relocation being at the planning stage with capital expenditure tending to be related to on-going routine renewal and maintenance whilst plans progress towards the intended relocation. Preliminary work for the US site expansion commenced, but the project is at the early stages. The cash flow benefit of delaying certain capital projects in the UK in anticipation of the new site will inevitably reverse (as explained below) as both delayed projects, and brought forward capital expenditure, will occur as part of the site relocation. Of the £13m of planned capex at the new UK site, approximately £6m relates to projects which would have been undertaken at the current site in the last four years, had the impending site move not been on the horizon. This includes rationalising tanks, implementing clean-in-place technology and computer-controlled stills.

Inventory held at the year end was £42.9m (2016: £30.0m), an increase of £12.9m. This was due to a combination of the growth in the business over the last year, higher order books and higher prices for certain key raw materials. 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.

Whilst short-term working capital swings are affected by the factors referred to in the previous paragraph, and the free cash flow in the year was an outflow of £3.3m, the net free cash flow generated over the last five years totals £19.1m.

The net cash outflow in the year was also impacted by the final Earthoil settlement and related loan note redemption, totalling £1.5m, and a one-off change to the dividend timetable of £0.8m. These combined with the land of £3.7m, total £6m of non-recurring cash flow items in the year.

Net Debt

As a result of the movement in cash, as described above, the Group's net debt rose by £8.6m to £10.2m (2016: £1.7m) with a corresponding increase in the level of gearing from 4% to 22%.

At the balance sheet date the Group had a mix of secured and unsecured borrowing facilities totalling £25.9m, of which £14.0m expire in one year or less. Since the balance sheet date, all UK working capital facilities have been renewed and expiry dates extended, such that all but \$3m with HSBC and £2m with Lloyds (£4.3m approx.) of the facilities across the Group now expire more than 12 months after the balance sheet date. The Group's borrowing facilities are held with HSBC, Bank of America and Lloyds Banking Group with the majority of facilities now 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.

UK Site Relocation

As explained in the Chairman's Statement and Chief Executive Officer's Report, we continue to progress detailed plans for relocating our UK business from its current site in Bury St. Edmunds, UK, to a brand new purpose-built facility nearby. During the year we acquired a ten-acre green field site on the new Suffolk Business Park in Bury St. Edmunds. The project has outline planning permission, and a detailed reserved matters planning application has been submitted, with approval currently anticipated in early 2018. This is a project which the Board believes is essential in order to deliver our growth objectives over the medium to long term.

We want to keep shareholders apprised of developments and the following table breaks down the latest cost estimates for the project. Note that these include costs to upgrade our plant and machinery and new technologies. 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. The level of investment in this area is still subject to final review but current estimates are in the order of £13m, of which approximately half relates to projects held back from the current site, with the balance being new and enhanced technologies.

The overall estimated costs of this move break down into four key elements with the latest estimated costs (see below for further information as to the basis of these estimates) as follows:

New site acquisition and build costs	£26m
Plant, machinery and technical capability enhancements	£13m
Relocation expenses	£1m
Disposal of current site following completion of move	(£5m)
Total net relocation budget (estimate)	£35m

We hope to be in a position to appoint the main contractor in the first half of 2018, with construction expected to begin in mid-2018 and the new site being up and running by late 2019.

Whilst the detailed costs for the project have been prepared in full quantity surveyor detail in preparation for the tendering process, benchmarked against industry standards, and tested by two independent firms of architects, the Board recognises the risks inherent in a project of this scale. The Board has reviewed the level of contingency allowed for in the project, being 7.5%, and considered the flexibility built into the plant and machinery spend. These factors, combined with the level of headroom within the Group's existing banking facilities, and those currently being expected over the course of the next three years, give the Board confidence that risks inherent in the UK relocation project have been mitigated as far as practicable.

US Site Expansion

Trealt USA moved to its current site in Lakeland, Florida in 2002 where it occupies a 15-acre site. Since then, the business has experienced very strong growth, particularly in the last five years. The substantial increase in demand for our tea and sugar reduction products, which are manufactured in the US, means that we now need to increase capacity again, having last done so five years ago.

We have, therefore, begun a second expansion project which will double our capacity for these key product categories, with space for further expansion, as well as expanding our laboratory and office facilities which are now full to capacity. We expect the project to cost approximately \$14m and be completed by late 2018.

Trealt Employee Benefit Trust and Trealt 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 £550 (2016: £525) 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 \$850 (2016: \$825) 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 Trealt shares out of gross income at no cost to the company which the company matched on a one for one basis. In the year a total of 28,000 (2016: 52,000) matching shares were granted.

During the year, 150,000 (2016: 160,000) shares were issued to the SIP at par (2 pence per share). The SIP currently holds 356,000 shares (2016: 241,000), of which 84,000 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 USA. Under US tax legislation, staff at Trealt USA are able to exercise options annually, whilst the UK schemes provide for three-year saving plans.

Under the Long Term Incentive Plans which were approved by shareholders at the 2014 Annual General Meeting, Executive Directors and certain key employees were granted 252,000 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 370,000 (2016: 806,000) shares during the year, whilst 323,000 (2016: 159,000) were exercised from options awarded in prior years which have now vested.

During the year, 100,000 (2016: Nil) shares were issued to the Employee Benefit Trust (EBT) at par (2 pence per share). The EBT currently holds 353,000 shares (2016: 577,000) 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, but that when necessary further shares will be issued to the EBT.

Final Salary Pension Scheme

The R C Trealt final salary pension scheme (the "scheme") has not been subject to any further accruals since 31 December 2012 and instead members of the final salary pension 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 2015, the result of which was that the scheme had an actuarial surplus of £314,000. Consequently, the Group was able to agree with the trustees that with effect from 1 October 2015 it did not need 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 2018, reveal that the funding level has fallen to 95% or less of the scheme liabilities, then the company would voluntarily resume contributions.

As required by The Pension Regulator, the actuarial review was updated on a consistent basis as at 30 September 2017 and, in common with most other final salary pension schemes, this revealed a reduced actuarial deficit which, in the case of the scheme, was £0.3m (2016: deficit of £1.7m), being a funding level of 98% (2016: 92%). The improvement in the funding level largely resulted from an increase in the discount rate used to measure the future liabilities of the scheme. Having agreed to voluntarily resume contributions of £300k per annum for the year ended 30 September 2017, the Group has agreed with the trustees that it is not required to make contributions to the Scheme for the year ending 30 September 2018.

Alongside this, the IAS 19, "Employee Benefits" pension liability in the balance sheet, net of deferred tax, fell in the year from £6.1m to £4.8m. The decrease in the deficit was largely the result of reduced scheme liabilities caused by an increase in the discount rates applied, and an increase in the value of scheme assets.

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 currently permitted. Where appropriate these balances are held in foreign currencies, but only as part of the Group's overall hedging activity as explained below.

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 have a material effect as well. This risk manifests itself in a number of ways.

Firstly, the value of the foreign currency net assets of Treatt USA and the overseas Earthoil companies can fluctuate with Sterling. Currently these are not hedged as the risks are considered insufficient to justify the cost of putting the hedge in place.

Secondly, with R C Treatt exporting throughout the world, fluctuations in Sterling's value 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 and therefore has an impact on the Sterling gross margin. Raw materials are also mainly purchased in US Dollars and therefore US Dollar bank accounts are operated, through which US Dollar denominated sales and purchases flow. Hence it is Sterling's relative strength 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 competitiveness.

The Group therefore 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 enter into forward currency contracts and options as well. 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 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. Currency accounts are also run for the other main currencies to which R C Treatt is exposed. This policy is expected to protect the Group against short-term swings in currencies.

Summary

In 2012 we began a new journey for Treatt by establishing a focused strategy of growing our profits in a sustainable manner in the flavour, fragrance and consumer goods markets. By 2015 we had delivered good progress and we therefore refreshed our strategy through to 2020 by setting ourselves new and challenging goals.

It is therefore enormously pleasing to report that in 2017 we have delivered the financial objectives in our 2020 strategy three years early. The growth in revenue and profits sets 2017 up as the most successful year in Treatt's history with the resultant entry into the FTSE UK SmallCap index.

We now have new goals and targets to aim for with our new 2022 growth strategy. A major part of that strategy is the extensive capital investment programme in both the UK and US, which the Board believes will provide the scalable platform to drive the long-term growth in the business.

RICHARD HOPE
Chief Financial Officer
28 November 2017

*All adjusted measures exclude exceptional items in the prior year, details of which are given in note 8.

DIRECTORS' REPORT

Financial statements

The Directors present their report and the audited financial statements for the Group for the year ended 30 September 2017.

Results and dividends

The results of the Group for the year are set out on page 59. Profit before tax for the year excluding exceptional items was £12,892,000 (2016: £8,846,000).

The Directors recommend a final dividend of 3.35p (2016: 3.00p) per ordinary share. This, when taken with the interim dividend of 1.45p (2016: 1.35p) per share paid on 17 August 2017, gives a total dividend of 4.80p (2016: 4.35p) per share for the year ended 30 September 2017.

Corporate governance

The Corporate Governance Statement on pages 38 to 43 forms part of this Directors' Report.

Directors

The Directors of the Parent Company are shown on page 22.

Appointment and replacement of directors

Rules about the appointment and replacement of directors are set out in the Parent Company's Articles of Association. Further details are provided in the Corporate Governance Statement on page 39.

Details of the Executive Directors' contracts and notice periods are given in the Directors' Remuneration Report on page 51. The Executive Directors' contracts are terminable by the Group giving the required notice period of one year.

In accordance with the Parent Company's Articles of Association and as reported in the Corporate Governance Statement on page 39 (in recognition of Provision B.7.1 of the 2016 UK Corporate Governance Code) Richard Hope and Tim Jones retire by rotation. Both Directors, being eligible, offer themselves for re-election. The Nomination Committee confirms that the individuals' performances continue to be effective and to demonstrate commitment to the role, including commitment of time for Board and Committee meetings and any other duties.

Directors' interests in shares

The interests of Directors in shares of the Parent Company are shown in the Directors' Remuneration Report on page 54.

Substantial shareholders

In accordance with Rule 5 of the Disclosure and Transparency Rules of the Financial Services Authority, the Parent Company has been notified of the following holdings of 3% or more of the voting rights at 23 November 2017 (the latest practicable reporting date prior to publication of this document).

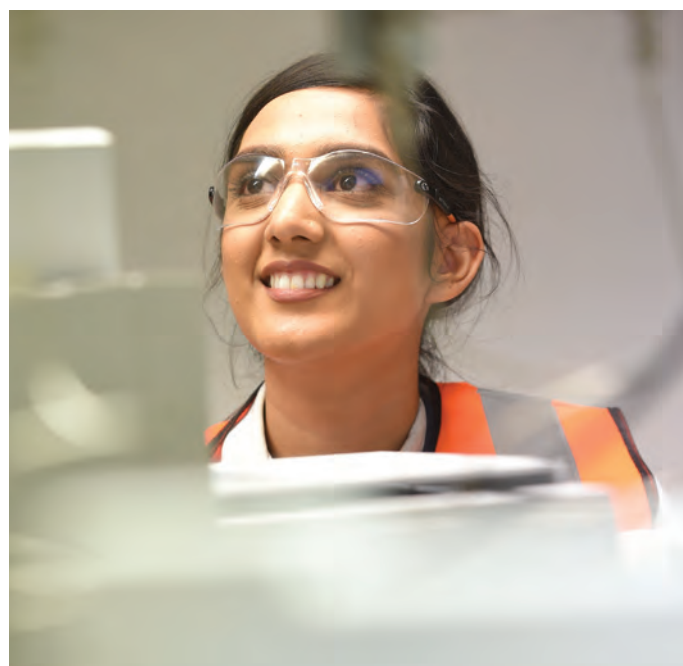
	Number	%
Rights and Issues Investment Trust	4,750,000	9.10
Blackrock Investment Management	4,468,475	8.56
Miton Asset Management	2,613,865	5.01
Schroder Investment Management	2,280,543	4.37
Hargreave Hale	1,975,124	3.78
BMO Global Asset Management	1,814,904	3.48
James Sharp & Co	1,779,588	3.41
Hargreaves Lansdown Asset Management	1,699,484	3.26
Barclays Wealth	1,659,593	3.18

Conflicts of interest

No Director had an interest in any contract of significance during the year. The Group has procedures in place for managing conflicts of interest. If a Director becomes aware that they, or a connected party, have an interest in an existing or proposed transaction with the Group, they should notify the Company Secretary as soon as possible. Directors have a continuing obligation to update any changes to conflicts and the Board formally reviews them annually.

Directors' and officers' liability insurance

The Group maintains Directors' and Officers' liability insurance which is reviewed annually. The insurance covers the directors and officers of the Parent Company and its subsidiaries against the costs of defending themselves in civil proceedings taken against them in their capacity as a director or officer of a group company and in respect of damages or civil fines or penalties resulting from the unsuccessful defence of any proceedings.





THE BOARD

TREATT plc is led by an experienced Board of Directors, which comprises two Executive Directors, one Non-executive Chairman and four Non-executive Directors. Together, the Executive Directors bring a combined 54 years' experience to the Group.

1 Daemmon Reeve



4 Jeff Iliffe



7 David Johnston



2 Tim Jones



5 Anita Haines



3 Richard Hope

6 Richard Illek



- ◆ Nomination Committee
- ◇ Chairman
- Remuneration Committee
- Chairman
- Audit Committee
- Chairman

DAEMON REEVE

Chief Executive Officer, first appointed 2012

Daemmon joined R C Treatt & Co Ltd, the Group's UK operating subsidiary, in 1991 and gained extensive industry experience and knowledge from his time in technical, operational, sales and purchasing disciplines. In July 2010 he was appointed CEO of Treatt USA and became Group CEO in August 2012. A key part of his role is to help provide the cultural environment for the success of Treatt and its fantastic team, making Treatt a fun place to work along the way. It is the output of our engaged teams which is driving the success of Treatt. Seeing our excellent team succeed is what excites Daemmon most about Treatt.

Family, craft beer and travel fill the moments Daemmon is not thinking about the business.

TIM JONES

Non-executive Chairman, first appointed 2012

Tim has led Treatt's Board as its Chairman since 2012.

He began a career in financial services with Royal Insurance and subsequently held posts in the Middle East, the US and Europe before entering the beverage/water bottling sector in the early 1990s, including a joint venture in the Balkans.

Tim is Deputy Chairman of Allia, a charitable organisation providing resources to the third sector through Stock Exchange listed Bonds, business mentoring and the provision of workspace. He is also non-executive director of Retail Charity Bonds plc and serves on a number of advisory and community interest boards. He remains actively involved in the City of London where he is a Mansion House Scholarship Scheme Mentor and a Court Assistant at the International Bankers Company.

The Judge Business School at Cambridge University awarded him its Certificate in Enterprise in May 2007, appointed him Entrepreneur in Residence in 2012 and a Fellow in Entrepreneurship in 2016.

Tim is a family man and admits to being an enthusiastic cook but incompetent skier.

RICHARD HOPE

Chief Financial Officer, first appointed 2003

Richard qualified as a Chartered Accountant in 1990 at PWC and was certified a Fellow of the Institute of Chartered Accountants in England and Wales in 2010. He held a number of senior finance positions for almost 20 years in value-added manufacturing businesses prior to joining Treatt, including Hampshire Cosmetics Limited.

He was a finalist this year for the Shares Magazine prestigious Finance Director of the Year award, part of the UK Stock Market Awards.

Richard is a passionate skier and massive Liverpool FC fan. He gets a sense of pride walking into a supermarket with the knowledge that Treatt has ingredients in a large number of well-known consumer products.

JEFF ILIFFE

Non-executive Director, first appointed 2013

Jeff Iliffe BSc ACA has widespread experience of the City, industry and internet-based businesses, including acquisitions, business integration and investor relations.

He was CFO of Abcam plc from 2007 until 2016, as the company delivered huge growth to become a world-leading life sciences business. Previously he was a corporate financier at Panmure Gordon & Co, during which time he advised Treatt, and has held senior financial positions in environmental, biotechnology and internet-based businesses. He is also a non-executive director of Cambridge Nutraceuticals Limited and a trustee of the Cambridge Arts Theatre.

Jeff really enjoys working with such a talented, knowledgeable and committed team at Treatt and has a passion for live music, particularly jazz.

ANITA HAINES

Non-executive Director, first appointed 2002

Anita joined R C Treatt & Co Ltd as Company Secretary in 1988. In 2000 she was appointed as Human Resource Manager and HR Director for the Group in October 2002. She retired as an Executive Director in February 2014 but remains on the Board as a Non-executive Director. What excites Anita about Treatt is the people. When she joined there were only 66 people on the payroll, all working out of Northern Way, and while subsequently our numbers have grown and we have become international, people are still at the heart of our businesses.

RICHARD ILLEK

Non-executive Director, first appointed 2016

Richard Illek was appointed to the Board as a Non-executive Director with effect from 1 June 2016. Richard retired from PepsiCo effective 31 March 2016, following 28 years with the company, during which time he served in various senior roles around the world including Plant Manager, QA Manager and Technical Services Director, culminating in his most recent role as Senior Director Manufacturing and Formulations.

Richard is an enthusiastic golfer, skier and gardener. He is a strong Liverpool fan and loves rock music.

DAVID JOHNSTON

Non-executive Director, first appointed 2011

Senior Independent Director

David started his career working as a biochemist for the UK government prior to transferring to Switzerland where he worked on an international programme to enhance the resistance of plants to pathogens. He then joined one of the leading flavour and fragrance companies, Firmenich SA, in a variety of commercial and technical roles over 13 years. He finished his career at Firmenich SA as head of flavour innovation globally. He then started his own company, Natural Taste Consulting SARL, focused on the development and sales of taste modifying compounds.

David also serves as a non-executive director of James Finlay Ltd. In his spare time David likes cycling and skiing.

DIRECTORS' REPORT (CONTINUED)

Research and development

Product innovation and research and development are a critical part of the Group's strategy and business model as outlined in the Strategic Report on pages 27 to 37. The main research and development activity undertaken by the Group is in the area of new product development. The Group utilises its strong technical capabilities to develop innovative products that provide solutions for customers, particularly in the food and beverage sectors. In this way it seeks to make itself indispensable to a key group of major global multi-national companies. In the opinion of the Directors, continuity of investment in this area is essential for the maintenance of the Group's market position and for future growth.

Financial instruments

Information on the Group's financial risk management objectives and policies and on the exposure of the Group to relevant risks in respect of financial instruments is set out in note 29 of the financial statements.

Going concern and viability statement

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement, Chief Executive Officer's Report and Financial Review on pages 18 to 19. Information on the principal risks and uncertainties and how they are managed can be found in the Strategic Report on pages 27 to 37.

In accordance with provision C.2.2 of the 2016 UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required by the "Going Concern" provision, C.1.3 of the 2016 UK Corporate Governance Code. The Board conducted this review for a period of five years, which is consistent with the longer-term financial plans for the Group.



In determining the longer-term viability of the Group, the Directors considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The review also included the financial position of the Group, its cash flows, and available sources of finance.

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, which are shown on pages 29 to 33. Consideration was also given to the impact of mitigating risk, as well as their interdependencies. 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 Board's risk appetite and the principal risks and mitigating factors described on pages 29 to 33.

The key factors considered by the Directors within the five-year review were:

- the implications of the challenging economic environment, the likely potential outcome of Brexit and future uncertainties on the Group's revenues and profits;
- the implications of fluctuating prices of the Group's strategic raw materials;
- the implication of the proposed site relocation in the UK and site expansion in the US;
- the impact of the competitive environment within which the Group's businesses operate;
- the potential actions that could be taken in the event that revenues are worse than expected, to ensure that operating profit and cash flows are protected;
- the Group's access to short, medium and long-term borrowing facilities to meet day-to-day working capital requirements and capital expenditure on the UK and US site projects, as well as long-term investment requirements;
- the Group's ability to access equity as a source of finance; and
- a sensitivity analysis which involves flexing a number of the main assumptions underlying the five-year plan and considering the implications of a number of risks materialising during a short-term period.

The current expectations regarding the costs of the proposed UK site relocation and US site expansion, and the funding of these projects are set out in the Financial Review on page 16. Given the levels of debt finance available to the Group to fund these investments and the possibility of raising equity finance, as at the date of this report, 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 12 months from the date of this annual report. Furthermore, the Directors have a reasonable expectation that the Group has adequate resources available to it to continue in business and meet its liabilities over the five-year period of their viability assessment.

Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

Health and safety

The Group's on-going investment in health and safety continued during the financial year and forms an integral part of the Group's strategy, remaining at the forefront of all our operations. Particular emphasis is placed upon continuous improvement by way of a comprehensive Safety Management System designed to monitor and measure overarching policies and procedures, and a range of key indicators are maintained and reported at every Board meeting.

The UK manufacturing facility is designated as a top-tier site under the Control of Major Accident Hazards Regulations 1999 ("COMAH"), which is enforced by the Competent Authority, being the Health and Safety Executive and the Environment Agency. The main aim of the regulations is to prevent and mitigate the effects of major accidents involving substances which can cause damage/harm to people and/or the environment. Accordingly, Treatt is regulated under the stringent COMAH regulations and works closely with the Health and Safety Executive and the Environment Agency, ensuring that the safety and environmental security of the site is paramount.

A top to bottom culture of safety awareness and responsibility is actively promoted within the business. Appropriate health, safety and environmental training and development is in place across the workforce. All staff are engaged to help underpin the efforts of the health and safety professionals employed within the Group. Across the Group, members of staff hold additional responsibility as Safety, Health and Environment Champions providing additional representation, monitoring capability and support to staff on a day-to-day basis. These additional responsibilities, for which the Champions receive payment, ensure that safety remains a top priority of the business.

Employee health and well-being is monitored and dedicated, bespoke support is provided where necessary.

Greenhouse gas emissions

The Group's disclosures on greenhouse gas emissions have been included within the Strategic Report on page 34.

Employees

The Group's disclosures on employees have been included in the Strategic Report on page 36.

Structure of share capital

The Parent Company's share capital comprises 52,905,170 ordinary shares with a nominal value of 2 pence each. All of the Parent Company's issued ordinary shares are fully paid up and rank equally in all respects. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Articles, a copy of which can be found on the Treatt website or obtained on request from the Company Secretary.

Details of the issued ordinary share capital of the Parent Company and movements during the year are set out in note 24 of the financial statements. During the current period the Parent Company issued 150,000 shares to Treatt SIP Trustees Limited (2016: 160,000) and 100,000 to the Employee Benefit Trust (2016: Nil).

Restrictions on transfer of securities

There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except (i) where the Parent Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Parent Company with

information requested by it in accordance with Part 22 of the Companies Act 2006 or (ii) where their holder is precluded from exercising voting rights by the Financial Services Authority's Listing Rules or the City Code on Takeovers and Mergers.

Rights and obligations of ordinary shares

On a show of hands at a general meeting every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. Subject to the relevant statutory provisions and the Articles, holders of ordinary shares are entitled to a dividend where declared or paid out of profits available for such purposes.

Articles of Association

The powers of the Directors are conferred on them by UK legislation and the Articles of Association. Changes to the Articles must be approved by shareholders passing a special resolution at a general meeting.

Powers of the Directors and purchase of own shares

At the forthcoming Annual General Meeting in 2018, the Parent Company will be seeking a renewal of the shareholder authority for the Directors to purchase up to 10% of the Parent Company's ordinary shares, although at present the Directors have no plans to buy back any shares. It is, however, considered prudent to have the authority in place so that the Parent Company is able to act at short notice if circumstances warrant.

A resolution will also be proposed at the 2018 Annual General Meeting, to renew the power given to the Directors to issue new shares up to an amount of 33% of the existing issued share capital, in line with the latest institutional guidelines issued by the Association of British Insurers (ABI), of which 5% of the existing issued share capital can be issued by disapplying pre-emption rights.

It is the Parent Company's intention to seek renewal of these general authorities annually.

Treatt Employee Benefit Trust (the "EBT")

The EBT holds ordinary shares in the Parent Company in order to meet obligations under the Group's employee share option schemes. No shares (2016: Nil) were purchased by the EBT during the year ended 30 September 2017. During the year 100,000 (2016: Nil) shares were issued under a block listing application. The trustees have waived their voting rights and their right to receive dividends in respect of the ordinary shares held by the EBT.

Treatt SIP Trustees Limited (the "SIP Trust")

The SIP Trust holds ordinary shares in the Parent Company in order to meet the obligations under the Group's Share Incentive Plan in the UK which was approved at the 2014 Annual General Meeting. During the year 150,000 (2016: 160,000) shares were issued under a block listing application. Voting rights are waived on all shares held in the SIP Trust whether or not allocated to participants under the rules of the Share Incentive Plan. Dividends are only waived in respect of shares which have not been allocated to participants; dividends received by the SIP Trust on behalf of participants are reinvested in shares at market value on the date of reinvestment.

Annual General Meeting and restrictions on voting deadlines

The Annual General Meeting of the Parent Company will be held at The Athenaeum, Angel Hill, Town Centre, Bury St. Edmunds, Suffolk, IP33 1LU on 26 January 2018. The Notice of Meeting and explanatory notes are given on pages 97 to 101. The notice of any general meeting will specify the deadline for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be proposed at a general meeting. The number of proxy votes for, against or withheld in respect of each resolution are announced and published on the Treatt website after the meeting.

Auditors

RSM UK Audit LLP has indicated its willingness to continue in office. On the recommendation of the Audit Committee, resolutions are to be proposed at the Annual General Meeting for the re-appointment of RSM UK Audit LLP as auditors of the Parent Company and its subsidiaries, and to authorise the Board to fix their remuneration. The remuneration of the auditors for the year ended 30 September 2017 is disclosed in note 5 of the financial statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report, the Strategic Report, the Directors' Remuneration Report, the Corporate Governance Statement and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. The Directors are required under the listing rules of the Financial Conduct Authority to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the Parent Company financial statements in accordance with IFRS as adopted by the EU.

The Group financial statements are required by law, and IFRS adopted by the EU, to present fairly the financial position of the Group and the Parent Company and the financial performance of the Group. The Companies Act 2006 provides, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 Group and the Parent Company and of the profit of the Group for that period.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- **select suitable accounting policies and then apply them consistently;**
- **make judgements and estimates that are reasonable and prudent;**

- **state whether they have been prepared in accordance with IFRSs adopted by the EU;**
- **prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.**

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Treatt plc website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed in the Directors' Report, confirms that, to the best of their knowledge:

- **the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Parent Company and the undertakings included in the consolidation taken as a whole; and**
- **the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.**

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 auditors.

This report was approved by the Board on 28 November 2017.

Signed on behalf of the Board.

ANITA STEER
Secretary

STRATEGIC REPORT

Overview

The Group is required to produce a strategic report complying with the requirements of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 ("the Regulations").

An overview of the Group's strategy and business model is set out below, and together with the Chairman's Statement, Chief Executive Officer's Report and Financial Review on pages 10 to 20, forms part of this Group Strategic Report. This incorporates a review of the Group's activities, its business performance and developments during the year, as well as an indication of likely future developments.

The Board approved an updated Group strategy in September 2017 and this strategy, entitled 'Strategy 1.2 – the pathway to 2022' ('Strategy 1.2'), was presented to all employees with management responsibility in the UK and US by the Executive Directors at strategy communication events held during October and November 2017. Our managers ensure that the strategy is thoroughly communicated throughout the business and that each member of their team understands how they can have a positive impact on the overall Group strategy.

The main objective of the strategy remains as reported in the 2016 report and accounts; the focus is on the delivery of long-term and consistent growth in profitability by focusing on those customers and products which can bring Treatt long-term sustainable value. The strategy is an evolution of our existing strategy, which has provided significant growth and a strong platform for the future. It provided us with direction and embedded behaviours that will continue to drive the business but with the additional focus provided by the new strategy. The strategy places significant importance on our colleagues and culture, the important product growth categories of citrus, tea and sugar reduction and looks ahead to our physical relocation and expansion plans which will provide the platform for this and subsequent strategies to manifest.

Our strategy has taken the winning elements of our existing strategy and provides greater focus to the areas which are driving our success in order to set the business up to achieve our future targets. As we grow our business it is important we maintain focus on all product categories but at the same time target increased resource on areas of the business which have strongly delivered for Treatt as well as offering growth potential in the future.

Health and Safety will always remain a key priority in the business. Without a safe business the Group cannot exist. We continuously train and re-train our staff to ensure that we operate best health and safety practices throughout the organisation. Our culture is very important in terms of health and safety as staff feel comfortable in speaking up about concerns and with suggested improvements.

Culture

Our cultural strategy focuses on enhancing the engagement of our workforce through a spectrum of methods from career development and training to support and care of our staff. We will continue to develop our employer brand to position Treatt as an employer of choice attracting the best candidates to support our growth.

Our culture generates energy and enthusiasm from our teams and importantly, continues to foster an environment which cares for, and values, the strengths of diversity. An important part of our cultural strategy is our engagement with our local communities where we are making significant strides and as a result Treatt is being much more widely recognised both as a desirable employer and a business which takes its community responsibility seriously. We have several members of staff who are engaged in local schools and colleges in STEM¹ and other initiatives which deepen our relationships as we consider our long-term talent pipeline for the business. We have recently been recognised by the Chamber of Commerce, winning regional High Growth Business of The Year and one of our apprentices was a finalist in the Bury Free Press Business Awards.

Citrus

Citrus flavours have long been at the core of our product portfolio and Strategy 1.2 supports the formation of a dedicated, cross-functional citrus team with operational, technical, commercial and other disciplines to further develop this important growing category even further. Our strategic location of Lakeland in central Florida is in the heart of a much-reduced Florida citrus belt compared with its inception a quarter of a century ago but nevertheless the importance of our long history in citrus provides a sound starting point to push this important category on further. Consumer appetite for citrus flavours remains very strong and is globally appreciated by the consumer, with regional taste nuances providing variations on the refreshing theme. Treatt has a wealth of citrus knowledge and experience and the power of effectively channelling the energy of our citrus team and those supporting it will be an important and exciting element of the strategy.

Tea

The iced tea market continues to grow and innovate. Whilst iced tea growth in North America has slowed in terms of consumption, the market is growing and Treatt has achieved some notable success with our tea portfolio which, much like sugar reduction, is centred on authenticity of the flavour. Treatt's tea solution might consist of a large volume black tea for a legacy ready-to-drink tea beverage, or the solution might take the form of an authentic matcha tea driven by consumers' desires for new tea experiences. Treatt works in an intimate relationship with key clients, utilising in-house tea sommeliers to ensure successful 'concept to commercialisation' across such a wide array of solutions.

Sugar Reduction

Sugar reduction remains a hot topic in the beverage industry and is technically complicated which suits Treatt's technical solution provision mindset. Sugar provides flavour, sweetness and mouthfeel. It is principally in the niche of flavour that Treatt operates. Sweetness is easier to replicate in a beverage if sugar is reduced or replaced but the authentic and pleasing flavour of sugar is more difficult to replicate. This is an area where Treatt has a growing reputation and is recognised for bringing that important technical sugar authenticity to the flavour profile of a beverage, coveted by consumers.

¹ Science, Technology, Engineering and Mathematics.

Capital Investment

UK site relocation

Treatt's existing UK facility has expanded significantly over the past 40 or so years. As the business expanded, more buildings were acquired at the Northern Way location, resulting in widely dispersed staff occupancy across six buildings, seven separate delivery points for materials and five separate material storage sites. A public road cuts through the facility which results in further dispersion and separation. The buildings and infrastructure are now reaching the end of their useful lifespan and are both environmentally and productively inefficient. Future business growth cannot be successfully accommodated in the current business location.

The new facility has been carefully planned. The Suffolk Business Park is just four miles from the current facility, which will result in the all-important retention of Treatt's highly skilled workforce. The buildings have been designed with the future in mind and will provide an attractive aspect from the outside and a great sense of arrival for both staff and customers. Internally, there will be enough space to accommodate medium-term growth and, through modular design, provide for longer-term expansion. The layout will significantly enhance team-working, communication and efficiency in all areas of the business. A significant investment is being made in our distillation facilities to increase both efficiency and processing capacity in line with projected business growth. Manufacturing and blending will be located in a single building, compared to four separate locations currently. Warehousing and logistics will be accommodated adjacent to manufacturing to minimise material movements and will benefit from intelligent storage systems.

A state of the art laboratory facility will provide both customer assurance and a welcoming customer experience at Treatt. The overall facility design and choice of materials meet all regulatory requirements, exceed environmental standards and provide for future expansion and growth.

US site expansion

Our site expansion in Lakeland, Florida is capacity-driven. As demand continues to grow for solutions primarily in tea and sugar reduction we must introduce further manufacturing capacity. The 60,000 sq. ft. expansion will allow for growth in key areas: Operations, Administration and Technical. In designing this expansion we have also considered our future needs and additional space has been allocated of approximately 40,000 sq. ft. to further increase capacity in the longer term. Also, a critical design criterion was to keep all Lakeland-based staff under one roof to further enhance the fantastic culture already in place.

The Operations footprint will grow by more than 80% providing additional manufacturing and storage capacity. Additional space will be allocated for future equipment that will be used to manufacture new product lines in value-added categories.

Included in the expansion is a new 10,000 sq. ft. building to house the administrative side of the business. To continue our tradition of excellent customer service, and to manage our expanded capabilities effectively, we are planning for growth in our Customer Services, IT and Regulatory functions. The design criteria for this expansion focuses not only on the customer experience, but also the staff working environment to optimise employee engagement whilst controlling costs.

Key Performance Indicators (KPIs)¹

KPIs have been set at Group level, having been devised to allow the Board and shareholders to monitor Group performance. The Group has financial KPIs which it monitors on a regular basis at Board level and, where relevant, at operational executive management meetings. The key performance indicators shown below cover a period of five years which is reflective of the Board's long-term thinking.

	2017	2016	2015	2014	2013
Growth in adjusted ¹ profit before tax	45.7%	11.3%	15.2%	10.9%	23.1%
Adjusted profit before tax is considered the most appropriate measure of the underlying performance of the Group.					
Growth in adjusted ¹ basic earnings per share	42.4%	7.5%	20.0%	15.2%	25.6%
Adjusted earnings per share is considered the most appropriate measure of performance which is aligned with shareholder value.					
Net operating margin ²	12.6%	10.8%	10.1%	9.6%	9.4%
Net operating margin is considered an important measure of the profitability of the Group.					
Return on capital employed ³	24.3%	24.6%	22.1%	19.9%	19.4%
Return on capital employed is an important measure used to assess the profitability of the Group relative to the capital being utilised.					
Average net debt to EBITDA ⁴	0.39	0.35	0.78	0.99	1.28
Average net debt is used to ensure that the level of debt is appropriate relative to the profits generated by the business.					

¹ All KPIs are calculated excluding exceptional items.

² Operating profit divided by revenue.

³ Return is defined as operating profit. Capital employed is defined as net assets plus net debt.

⁴ Average of net debt at start and end of financial year divided by EBITDA¹.

Commentary on the performance of the business with reference to the financial KPIs is given in the Chairman's Statement, Chief Executive Officer's Report and Financial Review on pages 10 to 20.

In addition, the Board monitors a number of non-financial key performance indicators relating to health and safety and employee well-being as follows:

	2017	2016	2015	2014	2013
Number of reportable accidents across the Group	3	2	5	3	3
Average number of sick days per employee	3.06	4.29	3.66	3.39	3.45

To further support the growth of our business, the quality control and research and development areas will be tripled in size. The expansion and renovation of the current office space, the first in 15 years, will provide an inspiring, updated look to support our talented scientists. As volumes grow and customer expectations for quality and new product development continue to increase, the additional space will be a highlight for customer visits and will provide collaboration opportunities on our benches with peer customer scientists.

There continues to be focus on health and safety and encouragement of the reporting of incidents. There has been one reportable accident at R C Treatt, two at Treatt USA and none at Earthoil. Although reportable, no accident resulted in serious injury to staff and appropriate actions were taken in response to reduce the likelihood of further occurrences.

The overall number of sick days across the Group has decreased significantly, which is especially encouraging as the number of employees has increased. Accordingly, there has been a decline in the average number of sick days per employee. Additional focus on absence policies in recent years may have contributed to the reduction.

As the health and safety of our workforce continues to be a priority, accident and sickness levels are reported to the Board at each meeting. A process of continuous improvement ensures that action is taken to improve the safety of the working environment at every opportunity. Occupational Health is involved with employees at an early stage in order to try and reduce long-term absence and reasonable adjustments are made to working hours and duties to assist employees in returning to work in a structured and safe manner. The Group has appropriate insurance policies in place to assist those staff on long-term absence, in order to ensure that they do not suffer financially.

Principal Risks and Uncertainties

Whilst the Board has overall responsibility for setting the risk appetite within the business and for Group risk management, day-to-day risk management responsibility is delegated to the Executive Directors who work closely with the senior management teams in reviewing and monitoring risk across the business. Risk appetite is an expression of the type and amount of risk we are willing to accept to achieve our strategic objectives. The Board sets the appetite for risk across the business by reviewing and challenging the risk register, ensuring that risks are considered and mitigated to an appropriate degree and that they are consistent with the strategic objectives of the business. The register inherently defines the level of risk the Board is content for the business to be subjected to and is a key consideration in decision-making across the Group. It also helps to define and monitor the actions required to mitigate our risks. Effective risk management is inherent in the culture of the Group and the way in which we do business. An understanding of the risks within our business and their strategic, commercial, financial and legal implications encourages clear decision-making in respect of the risks which we will and will not take.

Our risk management framework provides a consistent and structured process for identifying, assessing, responding to and monitoring risk. The senior management teams compile Group risk registers considering the effects of risks on the business and determining appropriate and proportionate risk mitigation strategies. Responsibility for monitoring and reviewing each risk is taken by a designated senior member of staff, ensuring that there is appropriate accountability. The risk register includes over 80 risks which are rated on their probability and impact and re-rated after mitigation. Those responsible for each risk will use a variety of tools to monitor their risk at a more granular level, including more detailed sub-registers and pertinent Key Performance Indicators (KPIs).

Where significant projects are undertaken, such as the pending site expansion at Treatt USA and the site relocation in the UK, specific

project risk registers are established to record all risks that could have a significant effect on the success of the project. This ensures that there is accountability for the mitigation strategies that are put in place and enables regular monitoring of risk identification and the effectiveness of mitigating actions throughout the project.

Any risks that remain classified as high or medium post mitigation form the Board risk register, providing details of those risks that may impact upon the strategic direction of the Group. The Board reviews this register twice a year and upon any material change, with any amendments, control issues, accidents or commercial, financial, regulatory or reputational issues being reported to the Board in the meantime.

To monitor and review progress, during the year the Board selected three particular risks within the Board risk register, and requested a detailed, internally-led, review to determine that the mitigation strategies committed to by management are in place and effective. These were risks associated with product quality, procurement and IT security. The Board received a comprehensive report detailing how each of the risks are managed on a day-to-day basis, which provided evidence of the systems and procedures in place, the scale of testing and monitoring undertaken, and their effectiveness. The results supported our view that risk mitigation is inherent in our policies and procedures and that those responsible for risk explore ways of continuously improving our internal systems to ensure that we work within the risk appetite set by the Board. It is intended that the Board will repeat this process in the coming year to review a number of other identified risks.

The Board has also conducted a review of the effectiveness of the Group's system of internal controls. The Board reviewed and discussed a paper detailing the effectiveness of the Group's internal controls, covering all material controls, including those which are financial, operational and compliance related. The Board has monitored and reviewed the effectiveness of the Group's overall approach to risk management and has solicited the views of a number of senior managers relating to commercial and financial matters and the management of those risks. The Board has concluded that the current risk management procedures for identifying risks and considering risk mitigation are appropriate.

Whilst foreign exchange is a risk to the business, the underlying impact of the US dollar has had a lesser effect on profits in the financial year than in the prior year. The majority of the Group's raw material purchases are made in US dollars as are the majority of the Group's sales. The Group has hedging policies in place which mitigate the impact of movements in the US dollar exchange rate. Further information on how the Group manages its foreign exchange risk is given in the Financial Review on page 17.

Following the decision of the United Kingdom to leave the European Union the Board and management team have continued to monitor the impact that this may have on the business; and beyond the impact of currency movements there remains no visible impact on the business from Brexit to date. Whilst the UK government continues to negotiate Britain's exit from the EU, management believes that Treatt's global footprint gives it flexibility to face any challenges that may arise.

STRATEGIC REPORT (CONTINUED)

We do not currently foresee any regulatory changes as a result of Brexit that we would expect to have a material impact on our business. Nevertheless, we will continue to monitor the situation closely, including the following areas of potential impact on our business:

- **Short-term volatility in exchange rates.** The continued weakness of Sterling against the currencies in which the Group trades, compared with pre-Brexit referendum levels, would be positive for revenues and profitability. With the increasing revenue flows from our US business, which continues to grow, Treatt has benefitted from the strengthening of the US Dollar in this respect and we regard a stronger, but stable, Dollar as being beneficial for our business. As Richard Hope reports in more detail in his Financial Review, our foreign exchange (FX) hedging model mitigates short-term volatilities and is designed to unwind over a period of time depending on our prevailing inventory turn. A large majority of our inventory is US Dollar denominated. Our policy is to hedge a material proportion of estimated net foreign currency cash flows, on a rolling basis.
- **Increases or decreases to import or export tariffs both with EU countries and globally, dependent upon the outcome of future trade negotiations.** As well as potential increases to cost, new customs procedures and paperwork might result in increased shipping times. However, having two manufacturing locations in the UK and US gives us some flexibility to respond to this.
- **Restrictions on the free movement of labour, especially for EU residents already working in the UK, has the potential to cause us some short-term disruption, as R C Treatt has a diverse workforce, having been able to benefit from some talented and skilled individuals from within the EU.**

In 2015, in light of the increased emphasis on risk in the 2014 Corporate Governance Code, the Board reviewed the process of risk management and whether risk should fall within the remit of the Audit Committee, with the Board retaining overall responsibility. It was decided that due to the size of the Group, risk management should remain with the full Board but as the Group continues to grow, this will remain under review.

How we manage risks

The management of risk is embedded within the framework of the Group, which includes:

- the process of strategy setting;
- a clear understanding of market conditions and raw material prices;
- the quality of our people and culture;
- established policies, procedures and internal controls;
- processes for identification, review and monitoring of risk;
- regular dissemination of financial and non-financial information and KPIs; and
- oversight of risk by the Board.

The Board has carried out a robust assessment of the principal risks and uncertainties facing the business, including those that would threaten the business model, future performance, solvency or liquidity. The following list of principal risks and uncertainties are those which individually or collectively might be expected to have the most significant impact on the long-term performance of the business and its strategic priorities. It is not intended to be an exhaustive list and additional risks not presently known to management, or risks currently deemed to be less material, may also have potential to cause an adverse impact on the business.

As plans progress with the UK site relocation and the US site expansion it is recognised that failure to deliver either project on time and to specification and budget could have a material impact on the business. Consequently, they have been added to the list of principal risks and uncertainties.

The risk climate in respect of the commoditisation of existing Treatt products has increased as customers continue to advise us that, whilst new product development will remain important to their business, there is particular focus on reducing the cost of existing products. Therefore, Treatt is seeing some stiffer competition for existing business as our competitors seek to reduce the cost of their ingredients in a bid to win business. Additionally, some products that Treatt traditionally saw as value-added are now seen as standard in the industry, with customers able to put out to tender or manufacture themselves. Our response is to capitalise on areas of the market where we are particularly strong and to continue to drive process and efficiency improvements. The planned investment in facilities will be instrumental in this and in enhancing our ability to expand our value-added offering to customers.

Another risk which is deemed to have increased, is the supply of natural products with fluctuations in supply being caused by climatic conditions and natural disaster. The year has seen significant flooding and storm damage in a number of regions, as well as wildfires and earthquakes, all of which can impact the availability of natural raw materials.

The overall risk climate in respect of movements in raw material prices has remained unchanged. In the short-term some products, orange oil in particular, saw record high prices during the course of the year and significant volatility from the potential impact of Hurricane Irma in relation to next season's orange crop. However, Treatt is particularly experienced in this area of the business and strategic decisions are regularly taken to mitigate price movements such as these which, whilst not eliminating risk, have a history of being effective.

One of the principal risks identified for the business is from structural damage to our facilities from adverse weather events, particularly from hurricanes and storms in Florida, where our subsidiary Treatt USA is based. The facility is in Lakeland, which is inland, meaning that the main threat is wind rather than flood damage. We have detailed hurricane plans for mitigating damage which were put into action in 2017 when we saw the worst hurricane in Florida since 2005. There was no significant damage to the facility and only 36 hours of production was impacted. Nevertheless, the weather in Florida remains unpredictable and we must recognise this continued risk and ensure that we are ready to respond to it. The forthcoming site expansion project will include an upgrade to the existing buildings, and improve their ability to withstand storm damage.

Consolidation within the flavour industry has been removed from the list, since although it remains a risk, it is one which has been evident for some time as organisations within our industry grow through acquisition and it has not to date, nor is expected to, have a significant impact on the long-term performance of the business.

Strategic Objective and Priorities

Sustainable Growth (SG) Culture (C) Citrus (Cit) Sugar (S) Tea (T) Capital Investment (CI)

RISK	EFFECT	STRATEGIC IMPACT	RISK CLIMATE	MITIGATION	KEY DEVELOPMENTS
PEOPLE					
Poaching of key staff	As our highly skilled and experienced staff become increasingly customer facing the risk of them being headhunted increases.	C SG	→ No change	Ensure we secure an emotional attachment to the business, that remuneration packages are appropriate to the position, that staff are empowered and have opportunities within the business	Improved internal communication with regular Town Hall style meetings. Continuation of staff training, enabling upskilling and providing career development opportunities. Increase in paternity pay. Increase in holiday entitlement for new starters. Established employee engagement groups providing feedback to HR. Providing additional opportunities for staff to work on community and charity initiatives. Financial contribution to the employee-run Social Committee. Additional holiday purchase opportunity for employees.
FINANCIAL					
Overspend on UK site relocation and US site expansion	Increased costs in borrowing, reduction in working capital headroom and a need to cut costs in other areas.	SG CI	Added for the first time	Specify projects to achievable budgets before commencement and ensure suitable contingencies are included. Specialist Project Managers to be appointed to run the project. Robust contracts to be put in place with contractors. Regular budget meetings with Directors to ensure project remains on budget.	Significant work undertaken with external support on building design, specification and budget. Contract signed with architects specifying in detail the remit of their work. Project Managers with Comah experience shortlisted. Initial process conducted to shortlist contractors to invite to tender a Design and Build contract.
Movements in commodity raw material price	Impact on contribution, possible stock shortages.	SG Cit S T	→ No change	Regular stock meetings and inventory control with experienced members of staff. Monitoring and communication of market conditions, long-term commodity contracts.	Maintaining close contact with suppliers, particularly during Hurricane Irma and continuing to gather and disseminate market intelligence on key commodities, assisting our customers with managing price volatility as part of the Treatt service. Continued evolution of the internal Citrus Team to provide greater management across the Group of Treatt's largest raw material. Appointment of Citrus, Tea and Sugar Category Managers to further focus the direction of these key products.
OPERATIONAL					
Pressure on infrastructure for strategic business	Loss of revenue, damage to reputation, loss of key strategic customer.	SG Cit T	→ No change	Ensure correct infrastructure in new site in UK and expansion in the US. Keep close communication between sales and operations to determine likelihood of large order and capacity restraints to manage customer expectations. Manage sub-contractor relationships.	Purchase of a new molecular still which is transferable to the new site. Appointment of a Process Development Manager to investigate means of improving process efficiency and yields and new equipment and processes capable of adding additional value. Ensuring sufficient inventory to be able to meet customer demands.

STRATEGIC REPORT (CONTINUED)

RISK	EFFECT	STRATEGIC IMPACT	RISK CLIMATE	MITIGATION	KEY DEVELOPMENTS
OPERATIONAL					
Structural damage to production facilities, particularly at Treatt USA, which suffers storms	Loss of use of buildings, danger to staff, loss of equipment and product. Major incident due to type of products stored.	SG Cit CI T	→ No change	Regularly inspect and maintain building components. Implement hurricane action plan when necessary. Sufficient spread of inventory between production facilities in UK and US.	Continued maintenance and upkeep of buildings. Hurricane action plan tested with Hurricane Irma to prevent damage as far as possible, which was largely successful. Repairs, which were not material, undertaken in a timely manner following Hurricane Irma.
Inadequate documentation of processes and/or adherence to required processes	Failure of BRC, HACCP or regulatory audits and damage to reputation as problem-free supplier. Investment in rectification of any non-compliances noted.	SG	→ No change	Strong commitment Group-wide to disciplined compliance to internal quality programs. Commitment to permit third-party auditing.	Ten third-party certification and regulatory audits facilitated and any non-conformances rectified together with 11 customer audits across the Group undertaken by large multi-national companies. Internal auditing of systems and processes against Standard Operating Procedures.
IT Issues including network, hardware, data and security	Loss of IT systems and/or data, impacting on the ability of the business to function effectively. Reputational damage and litigation in respect of data protection also possible.	SG	→ No change	Well-constructed IT infrastructure with failover capabilities, supported by a comprehensive asset management database and best practice maintenance processes. Multi-layered security protection system in place. Security Team continuously searches for and fixes vulnerabilities, including those reported by third-party security consultants.	Continual review of infrastructure resilience and failover procedures following best practice guidelines. Continual review of protection required against security threats and the raising of staff awareness of cyber security. Internal audit and report to the Board on IT security mitigation in place. Third-party security audit undertaken by NCC and recommendations received.
COMMERCIAL					
Product failure	Potential product recall causing financial and reputational loss.	SG	→ No change	Strong supplier qualification process. Intake testing/analysis. Regular review of risk matrix for every raw material handled. Use of barcode scanners on all orders to avoid mispicks. Range of testing to detect contamination. Obtain up-to-date information for all suppliers via SAQ documentation. Supplier risk assessment to determine in-house test schedule.	Continuation of visits to suppliers. Improvements to supplier qualification process. Thorough investigation of errors leading to appropriate action such as retraining or amendment of procedures. Report to the Board on product failure mitigation strategies in place. Review and renewal of recall insurance. Annual desk top testing of product recall procedure.
Commoditisation of established Treatt products	Effect on revenues and margin attrition.	SG Cit S T	↑ Increased	Innovation and development of new products. Broaden into other associated sectors.	Focus on areas of strength. Investigate process improvements and new equipment to increase efficiency. Increase value-added proposition.

RISK	EFFECT	STRATEGIC IMPACT	RISK CLIMATE	MITIGATION	KEY DEVELOPMENTS
COMMERCIAL					
Shortening value chain and new entrants in SCC based aqueous distillates	Customers demonstrating increased competence to fold, fractionate, break bulk. Increased competition.	SG Cit	→ No change	Continued value-added in-house innovation. Rationalisation of product portfolio to eradicate low margin commoditised products. Strengthen product knowledge/sourcing.	Further rationalisation of the product portfolio to remove low margin products. Working with customers on make or buy decisions where Treatt has the expertise available, enabling customers to buy rather than process in house.
Single-sourced for synthetic speciality chemicals, many Treatt raw materials and materials for applications work	Potential loss of primary supply source. The nature of the materials concerned would indicate individual company IP is involved.	SG S T	→ No change	Closer collaboration with existing suppliers. Identifying alternative suppliers where possible. Investigate alternate sources of supply of, if not identical, similar materials. Creation of an alternate blend using substitutes. Long-term supply agreement put in place.	Established relationships with alternate supply sources and strengthened relationships with incumbent suppliers including the signing of a new five-year agreement with Endeavour Speciality Chemicals.
Natural products	Loss of supply, increase in market price or impact on quality resulting from fluctuations in yields caused by weather, disease, etc. Squeeze on margins.	SG Cit	↑ Increased	Enhancing relationships with competitors/ brokers and other supply channels, combined with forward purchasing contracts for medium to longer-term supply.	The series of hurricanes and natural disasters in 2017 prompted uncertainty in markets as potential supply issues are feared. Market updates promptly sent to customer base to report on market fluctuations. Strategic buying of core products.
LEGAL/REGULATORY					
Failure to comply with relevant UK and US environmental, H&S and other applicable legislation	HSE/EA investigation. Probable enforcement action involving fines, enforcement notices. Risk of site closure.	SG	→ No change	Detailed understanding of legislative requirements with internal involvement, consultative support and capital investment. Pro-active role in ensuring the Group's systems and procedures are adapted to ensure compliance.	Working closely with the Environment Agency and relevant authorities in respect of Comah. Submission of Pre-construction Safety Report to the EA in respect of the UK site relocation. Continuation of relevant training and assessment of employee skills across the Group.

The Group regularly reviews its commercial insurance programme and maintains an appropriate and adequate portfolio of insurance policies in line with the nature, size and complexity of the business.

The Group also continues to have in place a "Business Continuity" team whose on-going responsibility is to assess the issues which the Group would face should it experience a major and unforeseen disaster and to put in place a clear action plan as to how the Group would continue to operate successfully in such an event.

SUSTAINABILITY REPORT

Environment

The Group is committed to good environmental practice. It places importance on the impact of its operations on the environment and on ensuring that it operates and adopts responsible practices. Group performance and risk reviews are undertaken and monitored on a regular basis and reported to the Board.

Environmental Performance and Strategy

The Group has for a long time managed energy, fuel and waste disposal costs with the aim of lessening the Group's environmental impact whilst reducing cost and improving efficiencies. In accordance with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Group is required to report its greenhouse gas emissions. The release of greenhouse gases, notably carbon dioxide generated by burning fossil fuels, is understood to have an impact on global temperatures, weather patterns and weather severity, which can directly and indirectly affect the Group's business. As a supplier of natural ingredients, adverse weather conditions and disease often have an effect on crop yields resulting in higher raw material prices and limited supply. There continues to be a significant reduction in both the production and yield of oranges world-wide due to the bacterial disease Huanglongbing (also known as citrus greening). Hurricane Irma has resulted in an increase in the price of orange oil and lowered Florida's production expectations by a minimum of 35%. Hurricanes Franklin, Katia and Max hit different areas of Mexico and, coupled with two major earthquakes, have increased prices of most citrus products grown there. Another disease, Thrips, has also lowered the supply of key limes in Mexico.

Environmental Improvements in 2017

The Group continuously evaluates ways of reducing its impact on the environment and during the year has implemented a number of improvements at each of its subsidiaries:

R C Treatt

- operates under the threshold limits of the Solvent Emissions Directive 1999/13/EC for the industry at less than 2t, threshold limit is 10t;
- no material sent to anaerobic digester;
- 54% hazardous waste recycled (2016 46%);
- 100% of used drums recycled (2016: 92%); and
- reduced laboratory waste by a further 14% on previous year (wet, glass and liquid waste).

Treatt USA

- installation of high efficiency vacuum pumps has reduced Volatile Organic Compound (VOC) emissions by 8% in blending processes and 7% in distillation processes;
- 53% reduction in waste shipped for disposal;
- introduction of reusable totes for intermediates reducing dependence on plastic drums;

- all non-explosion proof metal halide lights replaced with LED lights reducing electricity usage for lighting by 70%; and
- blending tank lids modified to improve tank seal, reducing energy to pull required vacuums and VOC emissions in general.

Earthoil

- formation of Energy Management Team and introduction and roll-out of an energy management policy;
- environmental management lessons incorporated into environmental, health and safety training;
- annual environmental audits introduced for compliance with statutory regulations;
- staff sensitisation through posters and signage; and
- the "Reuse & Reduce" initiative continues to encourage staff to reuse envelopes, printing papers and double sided printing.

Additionally, we have maintained the reduction in the number of printed copies of the report and accounts required to be posted to shareholders by giving them the option to receive the annual report electronically through the Treatt website. The 75% reduction has not only saved several thousand pounds per year, but it has reduced the environmental impact of our financial reporting process.

Safety, Health and Environment Champions, representing all areas of the business, provide additional focus on environmental issues and encourage colleagues to adopt practices which take account of our environmental impact as a business.

The intended site relocation of Treatt's UK operation and site expansion at Treatt USA will provide an opportunity to modernise facilities and build in appropriate and cost-effective infrastructures to reduce the environmental impact of the buildings as far as possible.

Greenhouse Gas Emissions

The Group has adopted a greenhouse gas reporting policy and a management system based on the ISO 14064-1:2006 methodology, which has been used to calculate the Group's Scope 1 and 2 emissions in 2017 for activities within the operational control of the Group. It is not currently intended to report Scope 3 emissions.

In measuring the Group's greenhouse gas emissions, the sales office in China has been excluded on the basis that emissions from utility consumption, which is included in the rent, is estimated to be less than a materiality threshold of 5% of overall Group emissions. Data has been accurately recorded from invoices, meter and mileage readings.

	2017	2016
Scope 1 – Direct CO ₂ emissions (tonnes CO ₂ e)	1,394	1,451
Scope 2 – Indirect CO ₂ emissions (tonnes CO ₂ e)	1,549	1,747
Total tonnes CO ₂ e emissions	2,943	3,198
gCO ₂ e emissions per kg of product shipped	390	438

GHG emissions detailed in this table have been calculated using the appropriate 2017 DEFRA conversion factors, except for overseas electricity which used the 2014 and 2015 DEFRA conversion factor.



Following the decrease in total emissions in 2016, by 14 tonnes of CO₂e, there has been a more significant decrease in 2017 of 2,554 tonnes of CO₂e; the decrease is across both Scope 1 and Scope 2 emissions. Scope 2 electricity consumption reduced in the UK and US whilst electricity consumption in Kenya increased due to resumption of normal levels of production, following a reduction in the first quarter of the 2016 financial year. A proportion of the decrease in electricity emissions at R C Treatt was due to a change in the conversion factor whilst Treatt USA installed LED lighting to help reduce electricity usage. Decreases in Scope 1 emissions were seen at both Treatt USA and R C Treatt primarily due to one-off emissions included in the 2016 calculations.

The decrease of 230,000 kgs of product shipped during the year reflects the continued strategic emphasis on manufactured value-added products and movement away from lower margin traded business, which absorb resources that can be more effectively utilised elsewhere.

Waste

Treatt USA aims to recycle as much of its waste as possible. A consistent theme in the environmental improvements made during the year, noted above, is the reduction of waste streams.

At R C Treatt all waste streams continue to work towards a zero land fill waste strategy. In addition, R C Treatt's waste oil with a calorific value is sent for use as biomass, thereby further reducing the Company's carbon footprint and eliminating disposal costs.

In Kenya, distillation biomass waste is converted to biochar, mixed with farm yard manure and composted for use on the farm. The biochar reduces the carbon footprint by sequestering carbon into the soil. Some of the waste is also used as mulch on the tea tree farm.

Water

The Group has decided to record water consumption data whilst recording its greenhouse gas emissions in order to gain a greater understanding of its environmental impact. The largest consumer of water in the Group is Treatt USA, which uses large quantities in its manufacturing processes and the cleaning of its specialist equipment. Due to its high consumption, Treatt USA uses a closed loop cooling water circuit with direct cooling from deep well water on all still condensers. This well water is then recycled back into the aquifer via a second deep well. The system provides significant local environmental benefits as well as reduced energy usage.

The Group's own crop growing area in Kenya uses rain water harvested in its own dam, a borehole and water pumped from a nearby river, for which it pays a small annual fee. It does not purchase any water from a water treatment company. Distillation waste water is re-used as irrigation water on the farm vegetable garden.

In recording water consumption for the Group, the sales office in China has been excluded on the basis that water usage is included in the rent. Data has been accurately recorded from invoice information and meter readings.

	2017	2016
Total water used (m ³)	36,946	33,514
Water efficiency (litres per Kg of product shipped)	4.90	4.59

Employment Policies

The Group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination. Applications for employment by disabled persons are given full and fair consideration for suitable vacancies, having regard to their particular aptitudes and abilities.

The focus on training continued in 2017 in order to continuously improve the skills of our employees through both general and targeted training programs provided by internal and external providers. Lunch-and-learn style training provides the opportunity for knowledge sharing across the Group on a variety of subjects relevant to our business, whilst also providing the opportunity for staff to spend time together. By improving communication between colleagues these initiatives are vital to the sustainable growth of the business. The Group supports on-going qualifications by providing funding and study time to employees across the business from NVQs to professional qualifications in Procurement and Supply Chain Management and Company Secretarial.

Additionally, the Group continues its commitment to students and apprentices in both the UK and US in providing internships in sales and technical departments. This provides valuable work experience to students in their placement year, whilst strengthening the Group's links with universities and developing relationships with a future generation of employees. The UK site currently has five apprentices, across the business, providing them with a structured training and qualification programme. There are also three interns providing additional resource whilst assisting with their learning and continued development.

Employee Involvement

Meetings are held with employees to discuss the operations and progress of the business. In particular, Executive Directors make half yearly results presentations to all employees and encourage questions and dialogue on any matters pertaining to the performance or activities within the Group. In addition, the Information Exchange Committee (IEC) at R C Treatt exists in order to encourage a further exchange of ideas and information between the Company and its employees. The IEC is chaired by the CEO and the members of the Committee are all employees below management level who represent all departments and areas of the business in the UK. The Executive Directors regularly have lunch with small groups of staff in order to get to know them better and to hear their views on the business from the employee perspective. Treatt USA Vice Presidents regularly hold "town hall meetings" to communicate with staff on a variety of subjects and provide them with the opportunity to ask questions and challenge management. Board members make a point of visiting all Group affiliates and regularly carry out site visits and tours, thereby engaging in meaningful discussions with employees at all levels within the organisation.

In preparation for the intended site relocation in the UK, eight design teams, comprising staff from a variety of functions, were formed to consider potential design features of different areas of the new site in order to provide input into the project from an employee perspective. Following several months of research, the teams presented their design ideas to the UK Leadership Team and to the project architects, who have taken on board the teams' ideas and incorporated them into the design, where appropriate. As the project progresses a relocation steering group, taken from the design teams, will be responsible for running the project and providing an information flow.

All-employee bonus schemes, based on the performance of the business, remain in place and employees are encouraged to become involved in the success of the Group through share-save schemes and the Share Incentive Plan (see note 25).

The Share Incentive Plan is run for all UK employees, with a similar plan having been introduced for US employees. Under these plans, all eligible UK and US employees received free shares (or their US equivalent) in December 2014, 2015 and 2016 and will do so in December 2017; UK staff will also be able to buy additional partnership shares, which Treatt will match on a 1:1.5 basis in accordance with the rules of the plans. The Directors believe that encouraging greater employee shareholding will further align the interests of employees with those of shareholders. In order to maintain, encourage and support high levels of employee ownership, the Company has a scheme that enables those who wish to sell their shares to sell them at market value to colleagues, without commission and with quicker settlement. The scheme has proved popular, particularly with those members of staff based in the US, who find it more problematic to sell shares in a UK listed company.

Diversity

Appointments within the Group are made on merit according to the balance of skills and experience offered by prospective candidates. Whilst acknowledging the benefits of diversity, individual appointments are made irrespective of personal characteristics such as race, disability, gender, sexual orientation, religion or age.

As a manufacturing business, it is extremely rare for women to apply for positions within the production and despatch areas, where manual handling is a significant part of the role and there are currently none employed in this capacity. The number of women in other areas of the business remains at 37% (2016: 37%) of the Group workforce with a slight increase in the number of women in Group senior management positions at 47% (2016: 44%). The number of men and women employed across the Group at 30 September 2017 was as follows:

Position	Male	Female	Total
Group Directors	6	1	7
Senior Managers	24	21	45
Other Employees	192	111	303
Total Employees	222	133	355

Diversity is a key aspect of our approach to resourcing the needs of the business, developing our colleagues and recruiting new talent but gender diversity is only part of the story. We aim to create an inclusive environment that values all differences in people since diverse teams are more likely to be innovative when drawing from cultural differences and experiences.

We recognise that our employees have lives outside of work and we aim to provide a flexible workplace that enables them to achieve a balance between their role with Treatt and their responsibilities outside of work. Our flexible working policy enables all employees, as far as their roles permit, to work from home and provides general flexibility to staff. Such policies are helpful in the recruitment of a diverse workforce.

Social, community and human rights issues

The Group endeavours to impact positively on the communities in which it operates and over the last few years has significantly increased its presence in the community. During the year the Group made charitable donations of £23,000 (2016: £22,000) to local and national causes. Support is provided through donations directly to charities and through a matching scheme, whereby the Group donates a percentage of funds raised by staff in sponsored events. This year staff have undertaken a number of sponsored and fundraising events for a variety of charities in which they have a particular interest including a charity cricket match and cake sale. Grit and determination were demonstrated when colleagues cycled 880 miles in 104 hours and raised over £8,000 for mental health charity 'Mind'.

The UK site operates "Payroll Giving", enabling staff to donate regularly to their chosen charities directly from their gross pay; and staff also raise money by entering a charity lottery directly through payroll.

The Treatt Community Spirit Initiative is going from strength to strength and provides opportunities for employees to support local causes by carrying out activities such as litter picks and providing assistance in a charity's warehouse both within work time and in their own time, as well as supporting local fundraising events. During the year, employees were able to nominate and vote for a preferred charity to which a donation was made.

The local charities Treatt continually supports include: East Anglia's Children's Hospice, My Wish Charity supporting West Suffolk Hospital, UpBeat Heart Support, St. Nicholas Hospice Care and 'KidsPack' children's charity in the US. Additionally, Treatt has continued to sponsor local events providing support and prize money to the Bury in Bloom Young and Senior Green Fingers initiatives, encouraging gardening activities at both ends of the age spectrum.

As a means of rewarding staff, whilst supporting a charitable initiative, boxed cream teas were provided to all UK staff during Wimbledon tennis fortnight, bought from Action Medical Research.

Similar initiatives take place in the US, and a party of volunteers regularly collects rubbish on local roads as part of the Florida Department of Transportation's "Adopt A Highway" scheme.

Earthoil is committed to purchasing oils directly from source at a fair and sustainable price and works closely with growers in under-developed countries through Fair for Life social and fair trade certification.

Long-term and trusted support and co-operation has also been a driver for positive change which has led to Earthoil's partner, the Kenyan Organic Oil Farmers Association (KOOFA), increasing from its initial 90 members to now well over 700 producers. Earthoil has helped deliver over 100 new 3,000 litre water tanks to members of KOOFA to enable them to store valuable water, with the remaining farmers to receive water tanks as part of this long-term project. Over 2,000 family members will eventually utilise the new water tanks, hoping to free up time that is usually spent fetching or buying water for other activities.

Additionally, through the donation of efficient gasifier stoves to Kenyan farmers, Earthoil Africa EPZ continues to be certified carbon neutral; all carbon dioxide emissions from Kenyan activities having been neutralised. As a direct consequence, dozens of Kenyan farming families are now living in healthier homes free from smoke and carbon monoxide formerly produced from open fires.

Community funds provide additional benefits to the farmers and their families, such as scholarships and sanitary products to a local primary school. Earthoil supports a virgin coconut oil project in Samoa, which is run by a not-for-profit women's foundation; a unique venture aimed at rebuilding the economic independence of individual villages. Earthoil's Project Director visited the foundation this year to learn more and share best practice in efficiency. By locating the production of virgin coconut oil within the villages, the returns to the villages, and to the individual family groups, are greatly increased by comparison with the more highly industrialised process.

Ethical concerns and human rights issues have always played an important role in Treatt's company philosophy and the Group's Supplier Code of Conduct details the standards of behaviour which Treatt regards as acceptable. Provision of a safe, clean working environment, free from discrimination, coercion and the use of child or forced labour is a basic right of all employees, which Treatt expects of its business partners as a minimum standard. The Group is often audited by its customers to assess compliance with minimum acceptable standards, including ethical and human rights considerations. The Group is committed to combatting the risk of modern slavery and human trafficking in its supply chain and all parts of the business. The Modern Slavery Statement is available on the Treatt website, www.treatt.com.

This Strategic Report was approved by the Board on 28 November 2017.

Signed on behalf of the Board

ANITA STEER
Secretary

CORPORATE GOVERNANCE STATEMENT

Introduction from the Chairman

As Chairman, I am responsible for ensuring that the Board upholds high standards of corporate governance and that it operates effectively and efficiently. Good governance is about the quality of the processes for making and implementing decisions, ensuring that there is an appropriate level of oversight and challenge, a focus on risks, a commitment to transparency and a culture of continuous improvement. At Treatt there is a commitment to high standards of corporate governance throughout the Group and this is reflected in our governance principles, policies and practices. We believe that effective governance, not only in the boardroom but right across the business, ultimately produces a better business and supports long-term performance.

By virtue of its premium listing on the London Stock Exchange, Treatt measures its corporate governance compliance against the requirements of the 2016 UK Corporate Governance Code¹ published by the UK Financial Reporting Council (FRC). The FCA requires each company with a premium listing to “comply or explain” its non-compliance against the Code. The Group monitors its compliance with the Code, and in this corporate governance section and throughout this annual report, areas of corporate governance compliance and non-compliance are explained by reference to the 2016 Code.

TIM JONES

Compliance with the 2016 UK Corporate Governance Code

The Board confirms that throughout the year ended 30 September 2017 the Group has complied with the provisions set out in the 2016 UK Corporate Governance Code¹, except for provision D2.2, as explained in the Directors’ Remuneration Report, since the remuneration of Group senior managers is determined by the Executive Directors as the Remuneration Committee believe that they are best placed to make this decision. However, remuneration proposals in respect of senior managers are reviewed by the Remuneration Committee. The bonuses of all senior managers in the Group are approved by the Remuneration Committee.

The Board is accountable to the Parent Company’s shareholders for good governance and the statement set out below describes how the principles identified in the 2016 UK Corporate Governance Code are applied by the Group.

The Directors consider the annual report and financial statements, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Group’s performance, business model and strategy.

The terms of reference of all the Committees can be found on the Treatt website at www.treatt.com.

Leadership

Details of the Directors who served during the year, the positions they hold, and the Committees of which they are members are shown on page 22. The Board consists of five Non-executive Directors, of which Tim Jones is Chairman, and two Executive Directors, of which Daemnon Reeve is Chief Executive Officer.

There is a clear division of responsibility between the Chief Executive Officer, who is required to develop and lead business strategies and processes to enable the Group’s business to meet the requirements of its shareholders, and the Chairman who is responsible for leadership of the Board and ensuring that appropriate conditions are created to enable the Board to be effective in providing entrepreneurial leadership to the Group. The key functions of the Chairman are to conduct board meetings and meetings of shareholders as well as to ensure that all Directors are properly briefed in order to take a full and constructive part in Board discussions. The Chairman has regular contact with the Non-executive Directors without the presence of the Executive Directors. Concerns relating to the executive management of the Group or the performance of the other Non-executive Directors may be raised with David Johnston, who is the Senior Independent Director (“SID”). The role of the SID is also to provide a sounding board for the Chairman, to serve as an intermediary for the other Directors and to lead the performance evaluation process for the Chairman.

Board Effectiveness

The Directors believe that the Board, having been refreshed in 2011, 2012, 2013 and 2016, has an appropriate balance of skills and experience with financial, technical, industry-specific and general business disciplines being represented. The structure of the Board ensures that no one Director is dominant in the decision-making process and that open debate and discussion is encouraged. There is a suitable balance between the number of Executive and Non-executive Directors.

The importance of board diversity, including gender diversity which has been the subject of recent debate in respect of board composition, is recognised and supported by the Directors of Treatt plc. The Board is conscious of the benefits of diversity in the boardroom and management positions within the Group. Our policy is to recruit the best possible candidate for each individual role having regard to qualifications, experience and personality, without prejudice to a candidate’s characteristics. Further details on the Group approach to diversity are given on page 36.

Upon appointment, Directors are provided with access to an appropriate external training course and to advice from the Group’s solicitors in respect of their role and duties as a public company director. Where they have significant relevant experience for the role, training may be felt to be unnecessary. In addition, all new Directors receive an induction to acquaint them with the Group. This takes the form of site tours, meetings with other Board members and senior management and the provision of an induction pack, which contains general information about the Group, its structure and key personnel, together with copies of relevant policies and procedures, financial information and briefings on Directors’ responsibilities and corporate governance.

The Board considers that, with the exception of Anita Haines, all the Non-executive Directors are independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. Anita Haines is not regarded as independent, as defined by the 2016 UK Corporate Governance Code, having recently served as an Executive Director. Accordingly, Anita Haines does not serve on either the Audit or Remuneration Committees. All Non-executive Directors receive a fixed fee for their services. However, in exceptional circumstances, where significant additional time commitment is required, a Non-executive Director may, if approved by the Board or Remuneration Committee as required, be paid an additional fee in accordance with the Remuneration Policy. The Board is satisfied that the Chairman's other commitments do not detract from the extent or the quality of the time which he is able to devote to the Group.

The Board meets formally at least five times each year and more frequently where business needs require, with attendance in person or by video conference required at each meeting. In addition, regular contact is maintained by email and telephone with written updates provided in respect of on-going issues, enabling regular input from all Board members. The Board recognises the importance of holding a meeting in the US, previously on a biennial basis, and from 2018 has committed to meet at Treatt USA annually. This is due to Treatt USA's increasing contribution to Group profits coupled with the current expansion project. The visit will afford the Board the opportunity to meet with the senior management team and view the site expansion in person.

Day-to-day management of the Group is delegated to the Executive Directors. However, the Board has a schedule of matters reserved to it for decision and the requirement for Board approval on these matters is communicated widely throughout the senior management of the Group. These matters, which are reviewed periodically, include material capital commitments, commencing or settling major litigation, business acquisitions and disposals, appointments to subsidiary company boards and dividend policy.

To enable the Board to function effectively and Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters. Board meetings are of sufficient duration to enable debate and discussion, ensuring adequate analysis of issues during the decision-making process. Further opportunity for more informal and extended discussion is provided at Board lunches which take place after every Board meeting and also provide the Board with an opportunity to meet members of staff, who are invited to attend.

If necessary, there is an agreed procedure for Directors to take independent professional advice at the Group's expense. This is in addition to the access which every Director has to the Company Secretary. The Secretary is charged by the Board with ensuring that Board procedures are followed and that there are good information flows within the Board and its Committees and between senior management and Non-executive Directors.

Nomination Committee

Membership and Meetings

Members of the Nomination Committee throughout the year are shown on page 22. The Nomination Committee has met once during the course of the year. The Board worked extensively on succession planning in 2016 and in the absence of the need to further refresh the Board, 2017 resulted in a quieter year for the committee.

Role and Responsibilities

The main responsibilities of the Nomination Committee are:

- to review regularly the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and its committees and make recommendations to the Board with regard to any changes that are deemed necessary;
- to identify and nominate candidates for the approval of the Board to fill Board and committee vacancies as and when they arise;
- succession planning for Directors, in particular the Chairman and CEO, taking into account the challenges and opportunities facing the Group and the skills and expertise needed on the Board for the future; and
- review the results of the Board and committee performance evaluation process that relate to the composition of the Board and committees and to assess whether the Non-executive Directors are dedicating sufficient time to fulfilment of their duties.

Activities since the last report

- review of the results of the Board evaluation process and consideration of training needs;
- review of the performance of the Directors; and
- continuation of structured succession plans.

Appointments to the Board

Appointments to the Board of both Executive and Non-executive Directors are considered by the Nomination Committee, which consults with Executive Directors and ensures that a wide range of candidates is considered. The Committee considers the skills mix of the serving Directors to identify potential gaps or areas where increased strength is required. In accordance with Treatt's Board Diversity Policy, and having recognised the benefit of having an appropriate level of diversity on the Board to support the achievement of its strategic objectives, the Committee also considers the benefits of all aspects of diversity, including but not limited to, race, disability, gender, sexual orientation, religion, belief, age and culture. The recommendations of the Nomination Committee are ultimately made to the full Board which considers them before any appointment is made.

Any Director appointed during the year is required, under the provisions of the Articles of Association, to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require that one third of the Directors retire by rotation each year and seek re-election at the Annual General Meeting provided always that all Directors must be subject to re-election at intervals of no more than three years. Any Non-executive Director having been in post for nine years or more is subject to annual re-election. The Directors required to retire are those in office longest since their previous re-election.

Board and Committee Evaluation

The Nomination Committee is also responsible for the annual evaluation of the Board, its committees and its Directors. During the year an evaluation of the Board, its committees and each individual Director is carried out internally, with the assistance of the Company Secretary, as the Board believes it has the appropriate resources and experience to undertake the reviews. The Board and committee reviews are conducted under the supervision of the appropriate Chairman. During the year the company invested in Evalu8, an online tool which allows boards, committees and directors of quoted companies to perform formal and rigorous self-assessment in a productive and secure manner. It enables the evaluation process through a range of comprehensive questionnaires, which can be tailored to meet a board or committee's needs, and provides an analysis of responses. The committee evaluation process used Evalu8, with results compared against the prior year's evaluation.

The evaluation of the Board was conducted by the Chairman during the course of the individual Director evaluation using a Quoted Companies Alliance tool, which considers the effectiveness of the Board through selected questions focusing on the principles of corporate governance and the six characteristics of an effective board. In addition, the skills matrix of each of the Directors was reviewed and the skills and experience mix discussed in relation to performance of the Board. The results were discussed by the Nomination Committee and recommendations for continuous improvement made to the Board.

The performance of individual Directors is evaluated by the Chairman, in conjunction with the Chief Executive Officer in the case of the other Executive Director. The Chairman is evaluated by the Chief Executive Officer and the Senior Independent Director. The process includes individual performance meetings, at which past performance is discussed and evaluated and future objectives established. Training and development needs have been identified for the coming year. The Board has spent time focusing on its objectives, which includes further work in respect of risk management.

The results of the evaluation process demonstrated that the performance of the Directors, the Board and the Committees is effective overall, but action points have been agreed to further improve performance.

Succession Planning

Board succession planning for the Executive Directors and senior executives is a priority of the Board. In some instances suitable internal candidates have been identified as likely successors for both interim and permanent positions. We will continue to invest in such talent but for some positions external recruitment will also be necessary. We recognise that having been through significant cultural change in recent years (a process which continues) a cultural fit with the business is essential. The Committee will continue to monitor progress with succession planning for the Executive Directors and senior executives.

Audit Committee

Membership and Meetings

Members of the Audit Committee throughout the year are shown on page 22, each of whom is deemed to be independent. Jeff Iliffe joined the Committee as Chairman in February 2013 and is deemed by the Board to have significant, recent and relevant financial experience. He is a Chartered Accountant with over 20 years' experience in the financing and management of companies, both in the City of London and in industry.

The Committee met three times during the year. The auditor attended two of these meetings other than when their appointment or performance was being reviewed. The Chief Executive Officer, Chief Financial Officer and other senior finance staff were invited to attend as appropriate. The Committee has discussions at least once a year with the auditor without management being present. Furthermore, the Committee Chairman meets informally with, and has access to, the Chief Financial Officer to discuss matters considered relevant to the Committee's duties and maintains a regular dialogue with the Audit Partner.

Role and Responsibilities

The main responsibilities of the Audit Committee during the year were:

- to monitor the integrity of the annual report of the Group and to review and report to the Board on significant financial reporting issues and judgements which it contains, having regard to matters communicated to it by the auditor;
- to review the content of the annual report and advise the Board on whether, taken as a whole, it is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy;
- to oversee the relationship with the auditor and assess the effectiveness of the external audit process, including making recommendations to the Board on their appointment, remuneration and terms of engagement. The Committee also monitors their independence and objectivity;
- to make recommendations to the Board on the requirement for an internal audit function; and
- to ensure that procedures are in place whereby staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Committee has arrangements in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

Activities since the last report

- meeting with the audit partner and manager to agree the audit plan and identification of risk;
- reviewing the auditor's findings, management's response and ensuring robust challenge;
- reviewing the auditor's performance and the audit process to ensure that they remain objective and independent, and to assess the effectiveness of the audit;
- approval of the fees paid to the auditors for audit and non-audit work;
- review of the Group's annual report for 2017 to ensure that, taken as a whole, it was fair, balanced and understandable. This included consideration of a report from the auditor on their audit and review of the financial statements and confirmation from management;
- giving consideration to any whistleblowing reports (of which there were none during the year);
- reviewing the potential requirement for an internal audit function. Given the size and structure of the Group, and the level of control exercised by the management team, the establishment of a formal internal audit function was not considered to be necessary at present. As the Group develops, the need for such a function will be kept under review;
- consultation with major shareholders on auditor rotation;
- a review of the performance of the Audit Committee;
- working with the Board to update the terms of reference of the Audit Committee; and
- updating the policies on the provision of non-audit related services by the auditors and the employment of former employees of the external auditor.

Financial Reporting

During the year the Committee and the Board monitor the integrity of any formal announcements relating to the Group's financial performance. Reports are requested from management on particular matters, especially where a significant element of judgement is required. Additionally, the Chairman of the Committee has regular contact with the audit partner and the Committee meets with the audit partner without the presence of the Executive Directors.

In respect of the annual report, the Chairman of the Committee reviews early drafts to keep apprised of its key themes and to raise any issues early in the process. The 2017 annual report was reviewed at a Committee meeting in November 2017; after due challenge and debate the Committee was content with the appropriateness of the accounting policies adopted, and that the key judgements applied, which where possible are supported by external advice or other corroborative evidence, are reasonable and therefore agreed with management recommendations.

The Committee advised the Board that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee also reviewed compliance with the disclosure requirements on Directors' remuneration and the Strategic Report.

Having discussed the key judgements and risk areas monitored by the auditors, the Board concluded that, as in prior years, the half year results would not be subject to an external audit or a formal audit review. In reaching that conclusion, regard was given to the matters subject to judgement and the processes established for addressing and supporting these, the output of the enhanced work undertaken on risk identification and management, the consistent application of accounting policies, and the practice of similarly-sized listed companies. The review by the Board prior to approval of the half year report included the receipt of a report from management on the key areas of judgement made for the half year results and how the outputs were arrived at.

Risk Management

The Committee continues to consider the requirements of the 2016 UK Corporate Governance Code ("the Code") and the FRC Guidance on Audit Committees. Following a review in 2015, it was decided that due to the size of the Group, risk management, internal controls, approval of the going concern statement and the assessment of the long-term viability statement should remain with the full Board, rather than being delegated to the Audit Committee. As the Group continues to grow, this will remain under review.

External Auditor Assessment

The Committee has oversight of the relationship with the external auditor and is responsible for monitoring their independence, objectivity and compliance with professional and regulatory requirements. The Committee undertakes an annual assessment of the effectiveness of the external auditor to facilitate continued improvement in the external audit process. This assessment considers:

- the delivery of an efficient, robust audit in compliance with the agreed plan and timescale;
- the provision of perceptive advice on key areas of judgement, and technical issues;
- the demonstration of a high level of professionalism and technical expertise;
- continuity within the audit team; and
- adherence to independence policies and other regulatory requirements.

During the year the Committee has monitored RSM's performance and were satisfied that the above requirements had been met and that they demonstrated continued commitment to perform high-quality work.

External Auditor Independence and Consideration of a Tendering Process

RSM has, in one form or another through various changes of name and consolidation with other audit firms, been Treatt's auditor for almost 30 years. There has of course been a succession of different personnel involved with Treatt through these years, although a small number of RSM employees, who are no longer involved in the provision of audit services, have been with the firm for a significant period during this time and continue to be employed by RSM.

The continued engagement of RSM is compliant with legislative and governance requirements and in accordance with the requirement to rotate the audit partner every five years, a new audit partner, who has no previous connection with Treatt, was appointed earlier this year. He is assisted by an experienced audit manager, who is also new to Treatt. The Board and the external auditor have arrangements to safeguard the independence and objectivity of the external auditor, which were reviewed and deemed satisfactory.

Treatt's Audit Committee undertakes an annual assessment of the effectiveness of RSM's performance to facilitate continued improvement in the external audit process. Following its 2017 review of their performance and relationship with Treatt, the Committee was satisfied that RSM continues to deliver a robust audit and remains independent of Treatt.

The Committee considered "The Statutory Auditors and Third Country Auditors Regulations 2016" which will result in the mandatory rotation of auditors by 2020, and whether an audit tender process should be undertaken prior to 2020. Subject to the annual review of RSM's performance and the Audit Committee remaining happy with their continued independence, and having consulted with major shareholders on this point during the year, it is not currently planned to rotate auditors or tender the audit until 2020.

The Committee has therefore recommended to the Board that RSM UK Audit LLP be reappointed in 2018.

The level of non-audit fees and their effect on the auditor's independence or objectivity is also considered on a regular basis. The split between audit and non-audit fees for the year under review appears in note 5. Following the publication of the FRC Revised Ethical Standard 2016, RSM no longer provides tax compliance and other tax services to the Group. The Committee has reviewed and revised the policy for the provision of such services to ensure that objectivity and independence are not compromised and that it is in line with the Standard. Under the policy, all non-audit services to be contracted with the external auditor will require the approval of the Committee. When considering the use of the auditor to undertake such assignments, consideration will be given at all times to the provisions of the FRC Guidance on Audit Committees with regard to the preservation of independence.

Effectiveness of the Committee

The effectiveness of the Committee was considered as part of the Board evaluation detailed on page 40 and reviewed as part of the Committee's own processes. The Committee received positive feedback on the way it challenges the business and was seen as open, transparent and effective.

Review of the 2017 Annual Report and Financial Statements

Amongst the matters considered by the Committee were the key accounting issues, matters and judgement in relation to the Group's 2017 annual report and financial statements relating to:

- the level of provisions against obsolete, slow moving and defective inventory, and for onerous customer contracts which are likely to result in a loss to the Group. This involved discussions with management on the detailed exercises undertaken to identify the relevant provision levels, and with the auditors on their findings following their review of the work done and the controls in place over these processes; and
- the assumptions used to calculate the Group's pension liability in accordance with IAS 19 arising from the final salary pension scheme. This included confirming that they are in accordance with advice received from the scheme actuaries, Barnett Waddingham, and that these assumptions had been critically reviewed by the auditors.

Remuneration Committee

The Remuneration Committee's primary responsibility is to determine the remuneration of the Executive Directors of the Group ensuring that there is a sufficient balance between the levels of ordinary remuneration and performance-related elements designed to promote the Group's long-term success.

Full details of the Directors' remuneration and a statement of the Group's remuneration policy are set out in the Directors' Remuneration Report appearing on pages 44 to 55. Members of the Remuneration Committee throughout the year are shown on page 22. The Chief Executive Officer attends meetings of the Remuneration Committee to discuss the performance of the Chief Financial Officer and make proposals as necessary, but is not present when his own position is being discussed.

Each Executive Director abstains from any discussion or voting at full Board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on their own remuneration package. The details of each Executive Director's individual package are fixed by the Committee in line with the policy adopted by the full Board.

Board Accountability

The Board is responsible for reviewing and approving the annual report and financial statements, the half year results and other financial statements to ensure they present a balanced assessment of the Group's position. Drafts of all financial releases are provided to the Board in a timely manner and Directors' feedback is discussed and incorporated where appropriate, prior to publication.

Attendance at Meetings

The members of the Board during the year and its Committees, together with their attendance, are shown below:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings held in year	7	3	1	3
Daemmon Reeve, Chief Executive Officer	7	N/A	1	N/A
Richard Hope, Chief Financial Officer	7	N/A	N/A	N/A
Tim Jones, Non-executive Director and Chairman	7, Chairman	3	1, Chairman	3
Anita Haines, Non-executive Director	7	N/A	1	N/A
Jeff Illiffe, Non-executive Director	7	3, Chairman	1	3
Richard Illek, Non-executive Director	5	N/A	1	3
David Johnston, Senior Independent Non-executive Director	7	3	1	3, Chairman

As permitted by the Parent Company's Articles of Association, Directors may participate in the minuted decisions via telephone or video communication where it is impractical for them to attend in person.

Financial and Internal Control

The Board confirms that a process for the on-going identification, evaluation and management of significant risks faced by the Group has been in place throughout the year and to the date of approval of this report, which complies with the "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" issued by the FRC in September 2014. The process is subject to regular review by the Board and there were no significant internal control issues identified during the year.

The Directors are responsible for the Group's system of internal control, the effectiveness of which is reviewed by them annually. This covers all controls including those in relation to financial reporting processes (including the preparation of consolidated accounts). In addition to monitoring reports received via the Executive Directors they consider the risks faced by the Group, whether the control systems are appropriate and consult with internal and external experts on environmental, insurance, legal and health and safety compliance. However, such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures that the Directors have established to provide effective internal controls are as follows:

Financial Reporting

A detailed formal budgeting process for all Group businesses culminates in an annual Group budget and a five-year forecast which is approved by the Board. Results for the Group and its main constituent businesses are reported monthly against the budget to the Board and revised forecasts for the year are prepared through the year. The Group uses a standardised consolidation system for the preparation of the Group's monthly management accounts, half year and annual consolidated financial statements, which is subject to review by senior management throughout the consolidation process.

The Board monitors the integrity of all financial announcements released by the Group, ensuring that, among other things, appropriate accounting standards and policies are applied consistently, that all material information is presented and that the disclosures are accurate.

Financial and Accounting Principles

Financial controls and accounting policies are set by the Board so as to meet appropriate levels of effective financial control. Compliance with accounting policies is reviewed where necessary by external auditors.

Information Technology

The Group operates on a common centrally managed computer platform. This provides common reporting and control systems and the ability to manage and interrogate businesses remotely. However, there are associated risks with having the entire Group IT systems on a common platform, such as IT security, access rights and business continuity. These risks are mitigated by an on-going focus on IT security through a process of continuous investment in IT facilities.

Capital Investment

The Group has clearly defined guidelines for capital expenditure. These include annual budgets, appraisal and review procedures, and levels of authority. Post-investment appraisals are performed for major investments.

Risk Assessment and Information

Operational management, in conjunction with the Executive Directors who report regularly to the Board, are responsible for identification and evaluation of significant risks applicable to their area of the business and the design and operation of suitable internal controls. Details of the principal risks associated with the Group's activities are given in the Strategic Report on pages 29 to 33.

Relations with Shareholders

The Group places a great deal of importance on communication with its shareholders. The Parent Company mails the full annual report and financial statements to all shareholders who have elected to receive it. This information, together with the half yearly statements and other financial announcements, is also available on the Group's website and, upon request, to other parties who have an interest in the Group's performance.

There is regular dialogue with individual institutional and other major shareholders as well as presentations after the half and full year results. The views of major shareholders are communicated and discussed at Board meetings and Non-executive Directors may request meetings with major shareholders should they wish to do so and vice versa. All shareholders have the opportunity to ask questions at the Parent Company's Annual General Meeting.

This report was approved by the Board on 28 November 2017.

ANITA STEER
Secretary

DIRECTORS' REMUNERATION REPORT

ANNUAL STATEMENT

Introduction

As Chairman of the Remuneration Committee, I am pleased to present our report on Directors' remuneration for 2017.

This report has been prepared in accordance with the Companies Act 2006 ("the Act") and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations"), as amended. The report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles of the 2016 UK Corporate Governance Code relating to Directors' remuneration. In accordance with the Act, the Remuneration Report is divided into three sections, the Annual Statement, a Remuneration Policy Report, which sets out our Directors' remuneration policy, and an Implementation Report, which details the remuneration paid to the Directors during the financial year under review.

Despite our previous Remuneration Policy Report having been approved by shareholders in 2017, we have taken note of the votes cast in relation to this resolution at our 2017 AGM (approved by 75% of votes cast) and of feedback received from some shareholders. We understand that a number of shareholders objected to the flexibility which our policy reserved to make payments beyond the scope of our policy in exceptional circumstances and where it was considered appropriate to do so. We had included this wording in 2017's policy as a straightforward carry-over from our original 2014 approved remuneration policy. As a 30 September year-end company, Treatt was one of the first companies to draft and publish a Directors' remuneration policy under the new regime in Autumn 2013. We acknowledge that this wide-ranging flexibility is no longer appropriate, and accordingly our revised 2018 policy will remove this wording. At the same time, we will make a number of other changes to bring our revised policy more into line with the policies operated by other FTSE SmallCap companies; in addition to technical matters, this will involve extending the holding period for our LTIP from one year to two years following the vesting of awards for all LTIP grants made to Executive Directors from approval of the new policy. Accordingly, the Remuneration Policy Report and the Implementation Report will be put to binding and advisory votes respectively at the Annual General Meeting on 26 January 2018.

Looking back at 2017

As detailed elsewhere in this report, the Group performed extremely well in 2017, with considerable growth in revenue, adjusted pre-tax profit and earnings per share, far exceeding the average growth rate within our industry, which historically rarely exceeds 2.5%. In accordance with the rules of the Executive Directors' Annual Bonus Scheme, the Committee assessed that another record Group performance in the year justified a bonus payment of 100% of salary for the Executive Directors, being equal to the maximum bonus potential. Additionally, the first grant of LTIPs made to the Executive Directors in 2014 will vest in full in December 2017, following achievement of the EPS growth performance target for year ending 2017 (average annual growth of 10% or more over three financial years for full vesting). These awards

are subject to a further one-year holding period following vesting, save that a proportion of the shares will be permitted to be sold in order to satisfy any tax liability arising upon either vesting or exercise.

Looking ahead to 2018

The Group's results for the year to 30 September 2017 demonstrate continued strong underlying financial and operational performance and Treatt's senior management, led by the Chief Executive Officer, Daemmon Reeve, has been critical to this exceptional performance. As such, the Remuneration Committee is very aware of the need to ensure that the remuneration of our top talent, including our Executive Directors, reflects the crucial role they play and their outstanding performance.

Accordingly, at the end of the 2017 financial year the Committee undertook a review of our Executive Directors' remuneration, the summary conclusions of which were that:

- **The current policy structure had supported the Group's strategy well. In particular the current design of, and opportunities available under, the Group's Annual Bonus and LTIP plans were appropriate and should remain unchanged; however**
- **In line with the extra-ordinary growth of both top line and profitability performance over a sustained period, the complexity and size of the role of many individuals throughout the organisation, including the Executive Directors, has increased significantly. The levels of base salaries paid to our Executive Directors were significantly below market levels, and taking account of the increased complexity of their roles, it would be appropriate to move base salaries closer to "at market" levels.**

The Remuneration Committee has therefore instituted a process which will result in the following increases in base salaries for our Executive Directors:

Base salaries of Executive Directors	FY 2017 (Actual)	FY2018 (Actual)	FY2019 (Proposed)
Daemmon Reeve	£282,000	£305,000	£330,000
Richard Hope	£185,000	£202,000	£220,000

Following shareholder consultation, our proposal to move to the base salary levels shown above over two years allows the Remuneration Committee to review both the performance of the Group and that of the Executive Directors themselves before confirming the proposed increases for FY 2019.

We recognise that these salary increases are above normal "pay-inflation" levels, but we believe that when setting the levels of remuneration for the Executive Directors it is important to take particular care to ensure that the base salaries are commensurate to the increased size and complexity of the tasks we require them to undertake:

- Treatt has developed materially since our CEO, Daemmon Reeve, came into post in August 2012. In this period we have seen the development and implementation of a new strategy with its implications of new ways of working, new product developments, new manufacturing, new territories, new working practices and new risk management, as the Group moves up the value chain from a commodities trader to becoming a trusted science-led source of ingredient solutions to some of the world's leading FMCG, flavour and fragrance businesses. In this period our total shareholder return (TSR) has grown by almost 700%.
- Headcount has increased, particularly amongst technical staff in research-led and customer-facing roles as well as in the Group's expansion into China. Specialty extraction capacity in the Florida plant has been increased by 500% and, while expansion in the US market remains a major focus we are also extending our geographical footprint into other high growth markets in China and South-East Asia. The Group's Kenyan acquisition has been transformed from loss-making to a successful and profitable subsidiary of the business.
- In the UK we are required to comply with COMAH regulations (Control of Major Accident Hazards) and are ensuring that all necessary measures are taken to prevent major accidents involving dangerous substances. Likewise, new health and safety protocols have been adopted organisation-wide so that health and safety is owned by all.
- Through all this, our sales volumes and our margins have been consistently driven upwards. Building is under way in Florida to increase production capacity to meet new demand whilst a ten-acre site has been procured and plans approved for new-build expansion in the UK.
- At the same time, we have been sensitive to the issue of relativities with wider employee salaries. Whilst the baseline 2017/18 salary increase for all Group staff in the UK and US is 3%, around 30% of staff have received increases above 3%, reflecting the increased complexity of their roles, as well as strong individual and team performance. Approximately 9% of staff received salary increases above 8% in order to bring them in line with the market rate for their role and to recognise their value to the business. The increases to the base salaries of the Executive Directors in 2018 (8.2% and 9.2% respectively) are therefore in line with the salary increases made to our employees who have seen a similar increase in the complexity of their roles and who have had a significant influence on the extraordinary results achieved over the past five years.
- Within the wider workforce, the ratio of the CEO's salary to the average salary of UK employees is remaining broadly stable at around 10 times and likewise, the ratio of CEO salary to the average salary of our Group senior management team is 2.76 times.

Stepping back from the detail, we believe that our CEO and CFO are very important to the continued development of Treatt, particularly to the fulfilment of our on-going growth plans. Accordingly, we believe that the revised base salaries for our Executive Directors will have a materially retentive impact and that the path which we are taking is clearly in shareholders' best interests.

For completeness, the Committee also decided in the year to review the fees of the Chairman. The last full review of the Chairman's fees was in 2014. Having considered the performance of the Chairman and the leadership which he has provided, it was determined to move the Chairman's fee to £80,000 from 1 October 2017 (from £60,000). This fee broadly aligns to the positioning applied when setting the Executive Directors' base salaries, although the Committee may review this fee again in coming financial years.

Whilst it is outside the remit of the Remuneration Committee, the Board also reviewed the Non-executive Director fees, on a consistent basis with the Executive Directors and Chairman, to ensure that they remain competitive and to enable recruitment and retention of high-calibre Non-executive Directors with the required skills and experience.

Engagement with our shareholders and our AGM

As I explained in the introduction to this Annual Statement, at our January 2018 AGM we will be seeking shareholders' support on two resolutions related to remuneration matters:

- to approve the Remuneration Policy Report; and
- to approve the Implementation Report.

The Remuneration Committee consulted with the Parent Company's largest shareholders and with leading representative bodies before proposing the changes which are detailed in this Annual Statement and we are grateful for the constructive responses which we received during this process.

The Committee is mindful of executive remuneration best practice and believes that within this context the revised approach on Executive Directors' salaries and the updates which we have made to the Remuneration Policy will strengthen the alignment between Executive Directors and shareholders and help us retain (and if necessary recruit) the talent needed as the business continues to grow.

We are happy to receive feedback from shareholders at any time in relation to our remuneration policies and hope to receive your support for the resolutions referred to above at the forthcoming AGM. I will be available at the AGM to answer any questions you may have.

DAVID JOHNSTON
Chairman, Remuneration Committee

Members of the Committee are shown on page 22 and for full biographies of the Committee members see page 23. The terms of reference of the Committee can be found on the Treatt website at www.treatt.com.

Operation of Remuneration Committee in FY 2017

Decisions made during the year

In line with its terms of reference, the following key matters were considered by the Committee during the year:

- approval of the 2016 Directors' Remuneration Report;
- agreement of the bonuses payable for the 2016 financial year;
- grant of options to Directors under the Treatt LTIP and the setting of performance conditions;
- grant of options to senior management and key employees and the setting of performance conditions;
- appointment of FIT Remuneration Consultants and determination of the scope of their appointment and advice required;
- review of the remuneration policy and the remuneration arrangements for the Executive Directors and Chairman;
- review of salary levels for the Executive Directors and agreement of salary increases for the 2018 financial year; and
- consideration of the award of free and matching shares to UK employees under the Share Incentive Plan and equivalent awards of restricted stock units to US employees under the Long-Term Incentive Plan.

External Advisors

In the latter stages of the year, the Committee decided to engage the services of remuneration consultants. This is the first time in Treatt's history that remuneration consultants have been engaged but as Treatt continues to grow it is essential to ensure that the Remuneration Committee receives appropriate advice.

Following a selection process undertaken by the Chairman of the Committee, which considered a variety of aspects, including the experience of the consultants and the cost of their services, FIT Remuneration Consultants were appointed. They are a founder member of the Remuneration Consultants' Group and adhere to its Code of Conduct and do not provide any other services to Treatt. FIT Remuneration Consultants LLP were paid fees totalling £15,000 during the year for the provision of advice to the Committee on the remuneration packages of Executive Directors, including consideration of the wider impacts of any revisions on internal dynamics and views on shareholder perspectives, and a review of the Chairman and Non-executive Director fees. The consultant's fees were charged on a fixed fee basis. The Committee has reflected on the quality of the advice provided and whether it properly addressed the issues under consideration and is satisfied that the advice received during the year was objective and independent.

POLICY SECTION

Remuneration Policy Report

The Committee's policy is to ensure that remuneration structures are simple, transparent and proportional to the size and complexity of the business whilst ensuring that Executive Directors are fairly rewarded for the role they undertake. The main principles of the remuneration policy are:

- salaries should be competitive but not excessive when compared to similar sized companies;
- remuneration packages should align the interests of Directors with shareholders by using stretching performance metrics that provide a strong link to the creation of shareholder value;
- there should be appropriate balance between fixed and performance-related pay to ensure delivery of results over the short, medium and longer-term;
- performance metrics should not encourage a culture of excessive risk taking;
- Directors should invest in and retain shares in Treatt; and
- salaries should be reasonable compared with those offered to others of the senior management team and the wider workforce.

The Committee reviews its policy annually to determine whether it remains effective, is aligned to the Group strategy and that it promotes the long-term success of the Group. Emphasis will continue to be placed on longer-term share-based incentives to more closely align the interests of Directors with shareholders and provide stretching longer-term targets to encourage strong performance.

The current intention is that the framework of this remuneration policy will apply for future years from the date of the 2018 AGM.

Executive Directors' remuneration

The table below sets out a summary of each element of the Executive Directors' remuneration, how it operates, the maximum opportunity available, applicable performance metrics and changes to remuneration for the 2018 financial year:

ELEMENT: BASE SALARY	
Purpose and link to strategy	Help recruit and retain high-calibre Executive Directors To provide a competitive salary relative to the size of the Group Reflects individual experience and the role
Operation	Reviewed annually by the Committee with changes taking effect from 1 October unless a change in responsibility requires an interim review Influenced by complexity of the role, personal performance and by the increase in salaries of other Group employees Benchmarked against companies of similar size and complexity at appropriate intervals
Maximum Opportunity	Any basic salary increases are applied in line with the outcome of annual reviews Annual increases should not normally exceed the average salary increase of employees within the Group. Exceptions can be made when a review is required by a change in role or responsibility, or where there is a significant change in the role and/or size, value or complexity of the Group which has resulted in material market misalignment
Performance Metrics	Not applicable
Changes for 2018 financial year	No changes have been made to the salary review process or to the over-arching policy As set out above, the base salaries of the Executive Directors have been reviewed in light of the increased size and complexity of the roles and the outstanding performance of the business The base salary for Daemmon Reeve, CEO is £305,000 (2017: £282,000; an 8.2% increase) The base salary for Richard Hope, CFO is £202,000 (2017: £185,000; a 9.2% increase)

ELEMENT: BENEFITS	
Purpose and link to strategy	Help recruit and retain high-calibre Executive Directors
Operation	Entitlement to the following benefits on the same terms as employees in the country in which the Director is resident: Private Healthcare – except that Daemmon Reeve also receives Family Cover; Life Assurance; Permanent Health Insurance; Car Allowance; All-employee share schemes Life Assurance for UK tax resident Directors will be provided by means of a Lifetime Plus Policy Any new benefits introduced to staff generally shall be provided to Directors on equal or comparable terms
Maximum Opportunity	Except as otherwise stated these are on the same terms as the benefits received by other employees in the country in which the Director is resident
Performance Metrics	Not applicable
Changes for 2018 financial year	Re-introduction of a market-level car allowance

ELEMENT: PENSION	
Purpose and link to strategy	Help recruit and retain high-calibre Executive Directors and to provide a competitive package
Operation	Entitlement to receive employer contributions into a defined contribution pension scheme on the same terms as employees in the country in which the Director is resident
Maximum Opportunity	UK employees 9% base salary contribution or 15% where previously a member of the defined benefit pension scheme (no personal contribution required in either case)
Performance Metrics	Not applicable
Changes for 2018 financial year	No material changes

DIRECTORS' REMUNERATION REPORT (CONTINUED)

ELEMENT: ANNUAL BONUS – SEE NOTES

Purpose and link to strategy	Provides an element of at risk pay, which incentivises the achievement of good annual financial results Aligns Directors' interests with shareholders
Operation	The rules of the Executive Directors' Bonus Scheme and the performance targets are reviewed annually Annual bonuses are calculated by reference to the achievement of performance targets for the financial year and each Director is entitled to a percentage of salary based upon this calculation, subject to the maximum opportunity Bonuses are subject to determination by the Committee in accordance with scheme rules after year end and are paid in cash in December
Maximum Opportunity	100% of salary per annum
Performance Metrics	Bonuses are based on the growth in adjusted Group profit before tax compared to the prior financial year, which aligns with all employee bonus schemes across the Group Bonus payments are based against financial performance on a sliding scale. No bonus is payable unless a minimum level of financial performance is achieved Different performance measures and/or weightings may be used for the annual bonus in future years to help drive the strategy of the business during the period of this policy, although the Remuneration Committee would expect to consult with leading shareholders before making material changes to the current performance measures applied The Committee has discretion to reduce bonuses where circumstances have created a sufficiently significant impact on the reputation of the Group to justify, in the view of the Committee, the operation of this discretion
Changes for 2018 financial year	No material changes

ELEMENT: LONG TERM INCENTIVE PLAN – SEE NOTES

Purpose and link to strategy	Incentivises Directors to achieve returns for shareholders over a longer time frame Aligns Directors' interests with shareholders
Operation	The Committee will consider awards of shares under the LTIP annually and will review the quantum of awards to ensure that they are in line with market rates Awards will be made at nil cost, with vesting, dependent on the achievement of performance conditions over a period determined by the Committee, which shall be a minimum of three years Awards will be subject to a two-year holding period following vesting, net of any tax liability arising on either vesting or exercise The Committee may also exercise the specific discretions contained within the rules of the scheme, as approved by shareholders
Maximum Opportunity	100% of salary per annum based on market value of shares at date of grant
Performance Metrics	The vesting of the awards will normally be based on growth in adjusted basic EPS exceeding a minimum level during the period from date of grant to date of vesting Targets are set by the Committee for each award on a sliding scale basis. No more than 25% of awards will vest for threshold performance, with full vesting taking place for equalling or exceeding maximum performance conditions Different performance measures and/or weightings may be used for future LTIP awards to help drive the strategy of the business during the period of this policy, although the Remuneration Committee would expect to consult with leading shareholders before making material changes to the current performance measures applied Awards lapse if performance criteria are not met at the end of the three-year performance period
Changes for 2018 financial year	Increase in the holding period to two years

ELEMENT: SHARE RETENTION POLICY

Purpose and link to strategy	Aligns Directors' interests with shareholders
Operation	Holding requirements: CEO – 200% of basic salary CFO – 150% of basic salary Directors are required to retain shares acquired under share-based incentive awards until the holding requirements are met, save that they are permitted to sell sufficient shares to pay any exercise price and all applicable taxes due in respect of that award
Maximum Opportunity	Not applicable
Performance Metrics	Not applicable
Changes for 2018 financial year	No material changes

ELEMENT: RECRUITMENT OF EXECUTIVE DIRECTORS

Purpose and link to strategy	Enable recruitment of high-calibre Executive Directors able to contribute to the success of the Group
Operation	Salary will be set to reflect skills and experience of incoming Director and market rate for the role to be undertaken Existing benefits and incentives of the Group to be used with participation on the same basis as existing Directors Payment of relocation expenses where relevant; each element will be detailed in the relevant remuneration report In the event of an internal promotion any commitments made prior to promotion may continue to be honoured when they would otherwise be inconsistent with this policy Discretion may be exercised in exceptional circumstances and existing entitlements with a current employer, such as bonus and share schemes, may be bought out on a like-for-like basis and subject to comparable performance conditions and time vesting requirements where appropriate. Exceptionally, where necessary, this may include making a guaranteed bonus payment in the year of joining
Maximum Opportunity	Buy-out awards are subject to the maximum value of any outstanding awards forgone by the recruit
Performance Metrics	Based on existing Treatt performance conditions when appropriate
Changes for 2018 financial year	No material changes

ELEMENT: CLAWBACK

Purpose and link to strategy	To ensure Executive Directors do not benefit from errors or misconduct
Operation	Provisions are included in performance-related remuneration to enable clawback of remuneration which has been overpaid due to material misstatement of the Group's accounts, errors made in calculation or a Director's misconduct
Maximum Opportunity	Not applicable
Performance Metrics	Not applicable
Changes for 2018 financial year	No material changes

Notes:

- The Committee considers that the forward-looking targets for the annual bonus are commercially sensitive and has, therefore, chosen not to disclose them in advance. Details of the targets will be set out retrospectively in next year's Remuneration Report. However, the Committee considers that the level of performance required for the annual bonus is appropriately stretching.
The bonuses of staff and senior management are restricted to a maximum of between 12% and 60% of base salary depending on seniority, role and market conditions.
- Performance targets for LTIP awards are set by the Committee at the date of grant of the options to ensure that they are appropriately stretching. The Committee considers adjusted basic EPS to be a complete and appropriate measure of performance, capturing revenue growth and operating margin. EPS targets are aligned with the Board's strategy.
- Subject to the achievement of the applicable performance conditions, Executive Directors are eligible to receive payment from any award made prior to the approval and implementation of the Directors' remuneration policy detailed in this report.
- For both annual bonus and LTIP, while performance conditions will generally remain unchanged once set, the Remuneration Committee has the ability to amend the measures, weightings and targets in exceptional circumstances (such as a major transaction) where the original conditions would cease to operate as intended.
- The Committee retains discretion, consistent with market practice in regard to the operation and administration of the annual bonus and LTIP, including:
 - the timing and size of awards (within the overall limits of this policy);
 - the determination of performance measures and targets and resultant vesting;
 - when dealing with a change of control (e.g. the timing of testing performance conditions) or restructuring of the Group;
 - determination of a good/bad leaver based on the rules of each plan and the appropriate treatment chosen; and
 - adjustments in certain circumstances, such as rights issues, corporate restructuring events and special dividends.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Non-executive Directors' remuneration

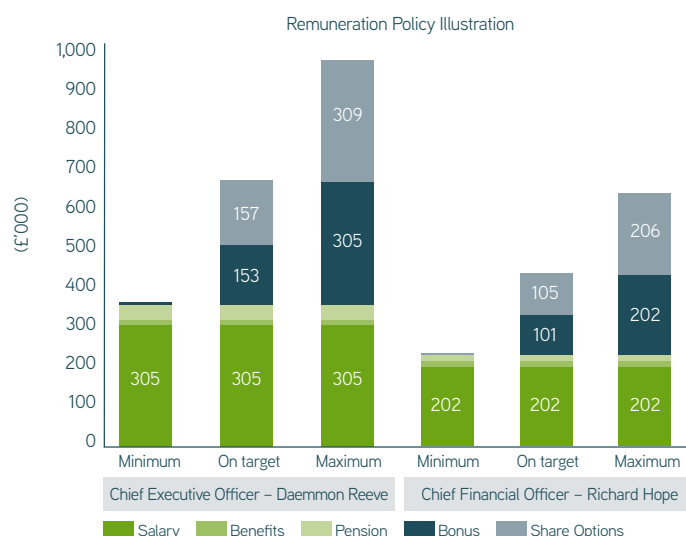
ELEMENT: FEES	
Purpose and link to strategy	To recruit high-calibre Non-executive Directors To reward additional responsibility by virtue of position as Chairman of the Board or Chairman of a Committee
Operation	Excluding the Chairman, subject to an aggregate limit within the Articles of Association, which was last approved at £225,000 by shareholders at the AGM in February 2014 Reviewed annually for each Non-executive Director with changes taking effect from 1 October The Chairman's fees are reviewed by the Committee and the other Non-executives' fees are reviewed by the Board (excluding the Non-executives) Influenced by the increase in salaries of other Group employees and by personal performance Benchmarked against companies of similar size and complexity at appropriate intervals Additional fees may be paid in respect of increased responsibility or time commitment required by the role or in respect of invoiced consultancy fees, where relevant
Maximum Opportunity	Any fee increases are applied in line with the outcome of annual reviews
Changes for 2018 financial year	As set out above the fees of the Chairman and Non-executive Directors have been reviewed in light of the outstanding performance of the business The fee for Tim Jones, Chairman is £80,000 (2017: £60,000) The base fee for Non-executive Directors is £40,000 (2017: £33,000) Audit Committee Chair fee £7,500 (2017: c £4,000) Remuneration Committee Chair fee £5,000 (2017: c £2,000) Senior Independent Director £2,500 (2017: £Nil)

Illustration of remuneration policy

The graphs below provide estimates of the potential future reward for each of the Executive Directors based on their current roles, the remuneration policy outlined on pages 46 to 51 and base salaries as at 1 October 2017.

The assumptions used in preparing this chart are as follows:

- minimum** – basic salary, pension or cash in lieu of pension and benefits, no bonus and no vesting of the LTIP;
- on target** – basic salary, pension or cash in lieu of pension, benefits, and:
– a bonus of 50% and an LTIP of 100% of basic salary (with notional vesting at 50%); and
- maximum** – basic salary, pension or cash in lieu of pension, benefits, and:
– a bonus of 100% and an LTIP of 100% of basic salary (with notional vesting at 100%).



Comparison of Directors' remuneration policy with arrangements for employees

This policy sets out the remuneration structure applicable to Directors of the Group. Salary levels and incentive arrangements applicable to other Group employees are determined by reference to local employment conditions for comparative roles.

Budgeted salary increases for Group employees are taken into consideration when determining increases for the Executive Directors.

Employees are provided with a competitive benefits package including healthcare, life assurance and pension. Consistent with Directors, employees are eligible to participate in an annual bonus scheme with conditions linked to the performance of their operating subsidiary and the Group overall. Employee share ownership is encouraged across the Group and participation, particularly in the UK, is strong. The Share Incentive Plan is designed to further encourage employee share ownership. Eligible employees, including Executive Directors, are able to participate in the all-employee share schemes on equal terms. Executive Directors and key employees with the greatest potential to influence achievement of the Group's strategic objectives are provided with share options or long-term incentives designed to encourage strong Group performance.

The Group does not consult with employees in respect of the Executive Directors remuneration policy. However, the Committee receives regular updates on salary and bonus levels across the Group and is aware of how the remuneration of Directors compares to employees.

In a departure from provision D2.2 of the 2016 UK Corporate Governance Code, the remuneration of Group senior management is determined by the Executive Directors since the Board believes that the Executive Directors are best placed to make this decision. However, remuneration proposals in respect of senior managers are reviewed and monitored by the Committee to ensure consistency and proportionality. The bonuses of all senior managers in the Group are approved by the Committee.

Directors' Contracts

Executive Directors

The Committee reviews the contractual terms of new and existing Executive Directors to ensure that they reflect best practice and are designed to attract and retain suitable candidates. The Committee considers that a rolling contract terminable on 12 months' notice by either party is appropriate.

Summary of Directors' service contracts as at 30 September 2017:

	Date of contract	Notice period
Daemmon Reeve	6 April 2016	12 months
Richard Hope	1 October 2013	12 months

Summary of the key elements of Directors' service contracts:

Provision	Summary
Notice period	12 months by either party
Termination payment	Daemmon Reeve – No provision for payment in lieu of notice Richard Hope – No provision for payment in lieu of notice
Salary	Reviewed annually with effect from 1 October each year
Benefits	Private healthcare, life assurance, permanent health insurance, pension Participation in discretionary incentive arrangements determined by the Committee

The Directors' contracts are available for inspection at the Parent Company's registered office during normal business hours.

Future contracts are to provide for remuneration obligations comparable to those set out above taking into consideration role and responsibility.

Non-executive Directors

All Non-executive Directors are subject to the same terms and conditions of appointment which provide for the payment of fees for their services in connection with Board and Board Committee meetings. In their Non-executive capacities they do not qualify for participation in any of the Group's bonus, share option or other incentive schemes, and they are not eligible for pension scheme membership.

The terms and conditions of the appointment of Non-executive Directors are available for inspection at the Parent Company's registered office during normal business hours.

Payments for loss of office

In accordance with the 2016 UK Corporate Governance Code, notice periods shall not exceed a maximum of twelve months.

In normal circumstances it is expected that termination payments for Executive Directors should not exceed current salary and benefits for the notice period. When determining termination payments in the event of early termination, the Committee will take into account a variety of factors including length of service, personal and Group performance, the Director's obligation to mitigate his loss, statutory compensation to which a Director may be entitled and legal fees and other payments which may be payable under a settlement agreement.

A Director who has been given notice by the Group for any reason other than on the grounds of injury, disability, redundancy or change of control shall only be eligible to a payment under the bonus scheme at the discretion of the Committee, which will take into account the circumstances leading to the notice.

Directors have no entitlement to performance-related share-based incentives, the unvested portion of which will generally lapse following termination of employment. However, in certain circumstances, such as injury, disability or redundancy, share options, which shall be pro-rated by reference to the proportion of the performance period completed and subject to performance conditions, may be exercised within six months of termination. Where termination is for any other reason, share options may only be exercised at the discretion of, and to the extent permitted by the Committee, acting fairly and reasonably.

External Appointments

Whilst neither of the Executive Directors currently serve as Non-executive Directors on the boards of other companies, it is recognised that such appointments would provide an opportunity to gain broader experience outside of Treatt which would benefit the Group. In the event that the Directors are offered such positions and providing that they are not likely to lead to a conflict of interest or significant constraints on time, Executive Directors may, with the prior approval of the Board, accept Non-executive appointments and retain the fees received.

Shareholder Views

The Remuneration Committee engaged pro-actively with the Group's major shareholders in respect of the Committee's first remuneration policy in 2013 and changes to the Executive Directors' base salaries in 2017, as set out above. The views of these shareholders were taken into consideration in adopting the share retention policy, clawback and the two-year holding period for LTIPs. The Committee will also consult with major shareholders prior to any further material changes to the remuneration policy, which might be necessary in the future.

This Remuneration Policy, if approved at the 2018 Annual General Meeting, shall be effective immediately and remain effective until it is next required to be approved by shareholders.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

IMPLEMENTATION REPORT

The following section of this report provides details of the implementation of the policy for the year ended 30 September 2017.

Directors' Remuneration (audited)

The tables below report a single figure for total remuneration for each individual Executive and Non-executive Director respectively.

Executive Directors:	Daemmon Reeve*		Richard Hope	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Salary	282	287	185	182
Taxable benefits (Note 1)	1	–	–	–
Annual bonus (Note 2)	282	252	185	160
Share options vesting in the financial year	–	–	8	16
Pension (Note 3)	38	41	15	14
	603	580	393	372

*Daemmon Reeve transferred to the UK with effect from 6 April 2016. Consequently, the reduction in Mr. Reeve's base salary in 2017 was a consequence of the effect of a different USD/GBP exchange rate being used to convert his US salary to GBP, than that which actually occurred.

Non-executive Directors:	Fees	
	2017 £'000	2016 £'000
Tim Jones	62	61
Anita Haines	33	33
Jeff Illiffe	39	37
Richard Illek (*from 1 June 2016)	33	11
David Johnston	37	36
Ian Neil (*until 29 January 2016)	–	12
	204	190

Note 1: Taxable benefits provided to Executive Directors only relate to private medical insurance.

Note 2: Details relating to the annual bonus are as follows: The annual bonus for Executive Directors is calculated based on the annual growth in profit before tax, adjusted for exceptional and other items at the discretion of the Remuneration Committee. The annual bonus is capped at a maximum of 100% of annual basic salary. The annual bonus, as a percentage of the maximum achievable, was as follows:

	2017	2016
Daemmon Reeve	100%	88%
Richard Hope	100%	88%

The proportion of fixed and variable pay, exclusive of pension, benefits and share options, is shown below for the Executive Directors:

	Basic Salary		Annual Bonus	
	2017	2016	2017	2016
Daemmon Reeve	50%	53%	50%	47%
Richard Hope	50%	53%	50%	47%

Note 3: Pension contributions relate to pay in lieu of pension after deduction of employers' NI.

Performance Graph

This performance graph shows Treatt plc's performance, measured by total shareholder return, compared with that of the FTSE All Share Index, which has been selected by the Board as being the most appropriate measure against which to benchmark its performance.



CEO Remuneration

The following table provides historical data on remuneration in respect of the Director(s) performing the role of Chief Executive Officer for each of the years covered by the performance graph:

	2017	2016	2015	2014	2013
Total remuneration (£'000)	603	580	470	436	405
Annual bonus as % of maximum	100%	88%	92%	95%	85%
Share options vesting as % of maximum	N/A²	N/A ²	100% ¹	100% ¹	100% ¹

¹ All share options vested in full as they were all-employee share options which were not subject to performance conditions.

² There were no options which vested during the year.

The percentage change in remuneration for 2017 of the Director undertaking the role of CEO, compared to employees as a whole was as follows:

	Salaries ²	Bonus ²
CEO	-1.7% ³	11.9%
Employees ¹	3.9%	52.0%

¹ The employees used for comparison are those UK and US employees who, for the salary comparison, were employed for the whole of the 2017 financial year, and for bonuses, for the whole of both the 2016 and 2017 financial years.

² The changes in salaries and bonuses have been calculated on a constant currency basis for USD payments, using the average exchange rate for 2017.

³ As explained above, the reduction of the CEO salary resulted from his transfer from the US to the UK and relates to the foreign exchange impact on his base salary.

Relative importance of spend on pay

Wages and salaries are the most significant overhead cost in the Group. The following table sets out, in a manner prescribed by the regulations, the relative importance of employee remuneration, as compared to distributions to shareholders and other significant uses of profit, the most significant of which, taxation, has therefore been selected:

	2017 £'000	2016 £'000	Movement
Total remuneration ¹	13,131	11,635	+13%
Dividends ²	3,025	2,095	+44%
Current tax ³	3,444	2,354	+46%

¹ Total remuneration includes wages, salaries and pension costs as disclosed in note 6.

² Dividends paid in the financial year as disclosed in note 10.

³ Current tax charge in respect of the financial year as disclosed in note 9.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Directors' Interests (audited)

The Directors who held office at 30 September 2017 had the following interests in the shares of the Parent Company:

	Shares held outright or vested		Unvested share options with performance conditions		Unvested all-employee share options	
	2017	2016	2017	2016	2017	2016
Executive Directors						
Daemmon Reeve	163,080	159,001	565,346	460,992	13,043	13,043
Richard Hope	211,226	199,520	307,470	245,868	14,719	13,238
Non-executive Directors						
Tim Jones	120,751	120,751	–	–	–	–
Anita Haines	50,680	50,680	–	–	–	–
Richard Illek	55,000	–	–	–	–	–

Between 1 October 2017 and 23 November 2017, the latest date practicable to obtain the information prior to publication of this document, there were no changes in the Directors' interests.

The table below shows the value of Executive Directors' interests in shares as at 30 September 2017 as a percentage of their base salary:

	Value of shares held outright or vested		Base salary ¹		Value of Interest as % of base salary		Target % of base salary
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 %	2016 %	
Daemmon Reeve	752	334	282	287	267%	116%	200%
Richard Hope	974	419	185	182	526%	230%	150%

¹ Base salary is the average basic gross pay for the corresponding year.

Share Option Schemes (audited)

The following share options were granted to Executive Directors during the financial year:

	Scheme	Basis	Date of Grant	Share Price at date of grant	Face Value £'000	Min Performance Award	Performance End date
Daemmon Reeve	LTIP 2016 ¹	Executive	12 Dec 16	£2.70	282	30%	30/9/19
Richard Hope	SAYE 2017 ²	All-staff	19 Jul 17	£4.76	7	N/A	N/A
	LTIP 2016 ¹	Executive	12 Dec 16	£2.70	185	30%	30/9/19

¹ Executive LTIPs are granted at Nil cost, subject to performance conditions.

² SAYE (Save As You Earn) share options are offered to UK employees (subject to tax exempt limits) at a discount of 20% of the average share price for the three days preceding the date of grant and are exercisable after three years.

The performance conditions for Executive LTIP options are as follows:

Average annual growth in adjusted basic earnings per share for the three financial years ending on the performance end date shown above. The options shall vest on a linear sliding scale: 30% where average annual growth equals or exceeds 3%, increasing to 100% where average annual growth equals or exceeds 10%. If the average annual growth in adjusted EPS is less than 3%, the options will lapse.

The share options of the Directors in office during the year are as set out below:

	Exercise Dates	Exercise Price	At 1 Oct 2016	Granted During the Year	Exercised During the Year	Expired During the Year	At 30 Sep 2017
Daemmon Reeve	Sep 2019 – Feb 2020	138.0p	13,043	–	–	–	13,043
	Dec 2017 – Dec 2022	79.0p	78,195	–	–	–	78,195
	Dec 2018 – Dec 2023	147.2p	41,575	–	–	–	41,575
	Dec 2017 – Mar 2018	Nil	165,182	–	–	–	165,182
	Dec 2018 – Dec 2025	Nil	176,040	–	–	–	176,040
	Dec 2019 – Dec 2026	Nil	–	104,354	–	–	104,354
			474,035	104,354	–	–	578,389
Richard Hope	Sep 2017 – Feb 2018	138.0p	4,434	–	–	–	4,434
	Sep 2018 – Feb 2019	132.0p	4,500	–	–	–	4,500
	Sep 2019 – Feb 2020	138.0p	4,304	–	–	–	4,304
	Sep 2020 – Feb 2021	413.0p	–	1,481	–	–	1,481
	Dec 2016 – Dec 2023	147.2p	6,790	–	(6,790)	–	–
	Dec 2017 – Dec 2024	Nil	128,400	–	–	–	128,400
	Dec 2018 – Dec 2025	Nil	110,678	–	–	–	110,678
	Dec 2019 – Dec 2026	Nil	–	68,392	–	–	68,392
			259,106	69,873	(6,790)	–	322,189

The aggregate amount of gains made by the Directors on the exercise of share options in the year was £8,000 (2016: £16,000).

There have been no further changes in the interests of the Directors to subscribe for or acquire shares between 1 October 2017 and 23 November 2017, the latest date practicable to obtain the information prior to publication of this document.

The market price of the shares at 30 September 2017 was £4.61 and the range during the financial year was £2.14 to £5.23. All market price figures are derived from the Daily Official List of the London Stock Exchange.

Pensions (audited)

The Chief Executive Officer is a deferred member of the R C Treatt & Co Limited Pension & Assurance Scheme following its closure to future accruals on 31 December 2012. The plan was a non-contributory, H M Revenue & Customs approved, defined benefit occupational pension scheme.

The pension entitlement is as follows:

	Normal Retirement Date	Accrued Total Pension at	
		2017 £	2016 £
Daemmon Reeve	24 Sep 2036	13,339	20,988

The transfer values have been calculated on the basis of actuarial advice in accordance with Statutory Instrument 2013 No 1981 – The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. Further details of the scheme are included in note 26.

In addition, contributions to defined money purchase pension plans were made as follows:

	2017 £'000	2016 £'000
Daemmon Reeve	38	41
Richard Hope	15	14

Pension contributions include pay in lieu of pension after deduction of employers' NI in order to be cost neutral to the Group.

Statement of voting

At the Annual General Meeting held on 27 January 2017, the votes cast in respect of the resolution to approve the Directors' Remuneration Report, were as follows:

For: 89.46% Against: 10.54% Votes withheld: 67,221

Audit notes

In accordance with Section 421 of the Companies Act 2006 and the Regulations, where indicated, certain information contained within the Implementation Section of this report has been audited. The remaining sections are not subject to audit.

This report was approved by the Board and signed on its behalf on 28 November 2017.

ANITA STEER
Secretary

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TREATT PLC

We have audited the financial statements of Treatt plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 September 2017 which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group and Parent Company Statements of Changes in Equity, Group and Parent Company Balance Sheets, Group and Parent Company Statements of Cash Flows, Group Reconciliation of Net Cash Flow to Movement in Net Debt 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 Group 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 as applied to listed public interest entities, 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 principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 29 to 33 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 30 in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 24 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 24 in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- **Inventory provisions – we reconfirmed our understanding of the basis for determining provisions against obsolete, slow moving and defective inventory and against items where expected net realisable value is lower than cost. We considered the controls over this process, and whether these continued to be appropriate and consistently applied. We tested a sample of inventory provisions, considered their appropriateness and reviewed post year end transactions to assess whether these confirmed the provisions made and their completeness. We also reviewed the outcome of prior year provisions.**

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £675,000, which was not changed during the course of our audit.

We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £30,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group audit approach focused on the Parent Company and the three key trading subsidiaries, two in the UK and one in the US. The UK entities are subject to local statutory audit completed to the Group reporting timetable. The US entity is not subject to local statutory audit and has been subject to full scope audit to Group materiality. The US entity audit was undertaken by the same team as the UK statutory audits.

These audits covered 99% of Group revenue, 99% of Group profit before tax, and 97% of Group total assets.

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 the other information, we are required to report that fact. We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 38 – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or**
- **Audit Committee reporting set out on pages 40 to 42 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the Audit Committee; or**
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 38 – the parts of the Directors' statement required under the Listing Rules relating to the Group's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.**

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with 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 Group 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 requirements.**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TREATT plc (CONTINUED)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited 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 page 26, 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 Group's and the Parent 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 Group or the Parent 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.

As part of our audit, we will consider the susceptibility of the Group and Parent Company to fraud and other irregularities, taking account of the business and control environment established and maintained by the Directors, as well as the nature of transactions, assets and liabilities recorded in the accounting records. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. However, the principal responsibility for ensuring that the financial statements are free from material misstatement, whether caused by fraud or error, rests with management who should not rely on the audit to discharge those functions.

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

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors of the Parent Company in February 1988 to audit the financial statements for the year ending 30 September 1988 and subsequent financial periods. The period of total uninterrupted engagement including legacy firms is 30 years, covering the years ending 30 September 1988 to 30 September 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

28 November 2017

GROUP INCOME STATEMENT

for the year ended 30 September 2017

	Notes	2017 £'000	2016 £'000
Revenue	4	109,627	88,040
Cost of sales		(82,819)	(67,639)
Gross profit		26,808	20,401
Administrative expenses		(13,003)	(10,852)
Operating profit¹	5	13,805	9,549
Net finance costs	7	(913)	(703)
Profit before taxation and exceptional items		12,892	8,846
Exceptional items	8	—	(553)
Profit before taxation		12,892	8,293
Taxation	9	(3,347)	(2,144)
Profit for the year attributable to owners of the Parent Company		9,545	6,149
Earnings per share			
Basic	11	18.29p	11.85p
Diluted	11	17.72p	11.68p
Adjusted basic ²	11	18.29p	12.84p
Adjusted diluted ²	11	17.72p	12.65p

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

² All adjusted measures exclude exceptional items, and in the case of earnings per share the related tax effect, details of which are given in note 8.

All amounts relate to continuing operations.

Notes 1 to 30 form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2017

	Notes	2017 £'000	2016 £'000
Profit for the year attributable to owners of the Parent Company		9,545	6,149
Other comprehensive income/(expense):			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences on foreign currency net investments		(1,107)	2,576
Current tax on foreign currency translation differences	9	59	—
Fair value movement on cash flow hedges	23	659	120
Deferred tax on fair value movement	9	(112)	(47)
		(501)	2,649
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss) on defined benefit pension scheme	26	1,468	(4,297)
Deferred tax on actuarial gain or loss	9	(250)	643
		1,218	(3,654)
Other comprehensive income/(expense) for the year		717	(1,005)
Total comprehensive income for the year attributable to owners of the Parent Company		10,262	5,144

Notes 1 to 30 form part of these financial statements.

GROUP AND PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 September 2017

Group		Share capital £'000	Share premium £'000	Own shares in share trusts £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
1 October 2015	Notes	1,050	2,757	(423)	(700)	1,119	29,382	33,185
Net profit for the year		—	—	—	—	—	6,149	6,149
Other comprehensive income:								
Exchange differences		—	—	—	—	2,576	—	2,576
Fair value movement on cash flow hedges	23	—	—	—	120	—	—	120
Actuarial loss on defined benefit pension scheme	26	—	—	—	—	—	(4,297)	(4,297)
Transfer between reserves		—	—	—	—	(20)	20	—
Taxation relating to items above	9	—	—	—	(47)	—	643	596
Total comprehensive income		—	—	—	73	2,556	2,515	5,144
Transactions with owners:								
Dividends	10	—	—	—	—	—	(2,095)	(2,095)
Share-based payments	25	—	—	—	—	—	597	597
Movement in own shares in share trusts		—	—	94	—	—	—	94
Gain on release of shares in share trusts		—	—	—	—	—	171	171
Issue of share capital	24	3	—	(3)	—	—	—	—
Taxation relating to items recognised directly in equity	9	—	—	—	—	—	91	91
Total transactions with owners		3	—	91	—	—	(1,236)	(1,142)
1 October 2016		1,053	2,757	(332)	(627)	3,675	30,661	37,187
Net profit for the year		—	—	—	—	—	9,545	9,545
Other comprehensive income:								
Exchange differences		—	—	—	—	(1,107)	—	(1,107)
Fair value movement on cash flow hedges	23	—	—	—	659	—	—	659
Actuarial gain on defined benefit pension scheme	26	—	—	—	—	—	1,468	1,468
Taxation relating to items above	9	—	—	—	(112)	59	(250)	(303)
Total comprehensive income		—	—	—	547	(1,048)	10,763	10,262
Transactions with owners:								
Dividends	10	—	—	—	—	—	(3,025)	(3,025)
Share-based payments	25	—	—	—	—	—	951	951
Movement in own shares in share trusts		—	—	162	—	—	—	162
Gain on release of shares in share trusts		—	—	—	—	—	193	193
Issue of share capital	24	5	—	(5)	—	—	—	—
Taxation relating to items recognised directly in equity	9	—	—	—	—	—	748	748
Total transactions with owners		5	—	157	—	—	(1,133)	(971)
30 September 2017		1,058	2,757	(175)	(80)	2,627	40,291	46,478

Notes 1 to 30 form part of these financial statements.

GROUP AND PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 September 2017

		Share capital £'000	Share premium £'000	Own shares in share trusts £'000	Retained earnings £'000	Total equity £'000
Parent Company						
1 October 2015	Notes	1,050	2,757	(423)	4,077	7,461
Net profit for the year		—	—	—	2,878	2,878
Total comprehensive income		—	—	—	2,878	2,878
Transactions with owners:						
Dividends	10	—	—	—	(2,095)	(2,095)
Movement in own shares in share trusts		—	—	94	—	94
Capital contribution to subsidiary undertakings	25	—	—	—	597	597
Gain on release of shares in share trusts		—	—	—	171	171
Issue of share capital	24	3	—	(3)	—	—
Total transactions with owners		3	—	91	(1,327)	(1,233)
1 October 2016		1,053	2,757	(332)	5,628	9,106
Net profit for the year		—	—	—	3,444	3,444
Total comprehensive income		—	—	—	3,444	3,444
Transactions with owners:						
Dividends	10	—	—	—	(3,025)	(3,025)
Movement in own shares in share trusts		—	—	162	—	162
Capital contribution to subsidiary undertakings	25	—	—	—	951	951
Gain on release of shares in share trusts		—	—	—	193	193
Issue of share capital	24	5	—	(5)	—	—
Total transactions with owners		5	—	157	(1,881)	(1,719)
30 September 2017		1,058	2,757	(175)	7,191	10,831

Notes 1 to 30 form part of these financial statements.

GROUP AND PARENT COMPANY BALANCE SHEETS

REGISTERED NUMBER: 01568937

as at 30 September 2017

		Group		Parent Company	
	Notes	2017 £'000	2016 £'000	2017 £'000	2016 £'000
ASSETS					
Non-current assets					
Goodwill	12	2,727	2,727	—	—
Other intangible assets	13	604	637	—	—
Property, plant and equipment	14	14,821	11,361	—	—
Investment in subsidiaries	15	—	—	8,205	7,737
Deferred tax assets	16	1,380	1,436	—	—
		19,532	16,161	8,205	7,737
Current assets					
Inventories	17	42,878	29,990	—	—
Trade and other receivables	18	19,973	17,853	523	13
Redeemable loan notes receivable	29	—	—	—	1,350
Current tax assets		148	4	—	—
Derivative financial instruments	23	483	—	—	—
Cash and bank balances	19	4,748	6,588	2,590	1,399
		68,230	54,435	3,113	2,762
Total assets		87,762	70,596	11,318	10,499
LIABILITIES					
Current liabilities					
Borrowings	20	(7,680)	(487)	—	—
Provisions	21	(57)	(67)	—	—
Trade and other payables	22	(17,816)	(14,151)	(487)	(718)
Current tax liabilities		(1,450)	(999)	—	—
Derivative financial instruments	23	—	(9)	—	—
Redeemable loan notes payable	29	—	(675)	—	(675)
		(27,003)	(16,388)	(487)	(1,393)
Net current assets		41,227	38,047	2,626	1,369
Non-current liabilities					
Borrowings	20	(7,293)	(7,755)	—	—
Post-employment benefits	26	(5,821)	(7,401)	—	—
Deferred tax liabilities	16	(764)	(1,111)	—	—
Derivative financial instruments	23	(403)	(754)	—	—
		(14,281)	(17,021)	—	—
Total liabilities		(41,284)	(33,409)	(487)	(1,393)
Net assets		46,478	37,187	10,831	9,106
EQUITY					
Share capital	24	1,058	1,053	1,058	1,053
Share premium account		2,757	2,757	2,757	2,757
Own shares in share trusts		(175)	(332)	(175)	(332)
Hedging reserve		(80)	(627)	—	—
Foreign exchange reserve		2,627	3,675	—	—
Retained earnings		40,291	30,661	7,191	5,628
Total equity attributable to owners of the Parent Company		46,478	37,187	10,831	9,106

Notes 1 to 30 form part of these financial statements.

The Parent Company reported a profit for the year of £3,444,000 (2016: £2,878,000).

The financial statements were approved by the Board of Directors and authorised for issue on 28 November 2017 and were signed on its behalf by:

Tim Jones
Chairman

Richard Hope
Chief Financial Officer

Financial Statements

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GROUP AND PARENT COMPANY STATEMENTS OF CASH FLOWS

for the year ended 30 September 2017

		2017 £'000	Group 2016 £'000	2017 £'000	Parent Company 2016 £'000
Notes					
Cash flow from operating activities					
Profit before taxation		12,892	8,293	3,392	2,871
Adjusted for:					
Depreciation of property, plant and equipment	14	1,399	1,347	—	—
Amortisation of intangible assets	13	137	142	—	—
Loss on disposal of property, plant and equipment	5	7	2	—	—
Loss on disposal of subsidiaries		—	—	481	—
Net finance costs	7	913	703	(2)	14
Share-based payments	25	966	566	—	—
Increase in fair value of derivatives	29	(185)	(122)	—	—
(Decrease)/increase in post-employment benefit obligations		(112)	145	—	—
Operating cash flow before movements in working capital		16,017	11,076	3,871	2,885
Movements in working capital:					
Increase in inventories		(13,607)	(2,501)	—	—
(Increase)/decrease in receivables		(2,454)	688	(509)	695
Increase/(decrease) in payables		4,727	1,541	668	(277)
Cash generated from operations		4,683	10,804	4,030	3,303
Taxation (paid)/received		(2,822)	(2,022)	53	6
Net cash from operating activities		1,861	8,782	4,083	3,309
Cash flow from investing activities					
Investments in subsidiaries		(900)	(752)	(900)	(752)
Proceeds on disposal of property, plant and equipment		13	—	—	—
Purchase of property, plant and equipment	14	(5,111)	(679)	—	—
Purchase of intangible assets	13	(105)	(109)	—	—
(Purchase)/sale of redeemable loan notes	29	(675)	—	675	—
Interest received	7	12	8	13	5
		(6,766)	(1,532)	(212)	(747)
Cash flow from financing activities					
Increase in bank loans		2,284	381	—	—
Interest paid	7	(925)	(711)	(10)	(19)
Dividends paid	10	(3,025)	(2,095)	(3,025)	(2,095)
Net sale of own shares by share trusts		355	265	355	265
		(1,311)	(2,160)	(2,680)	(1,849)
Net (decrease)/increase in cash and cash equivalents		(6,216)	5,090	1,191	713
Effect of foreign exchange rates		(85)	15	—	—
Movement in cash and cash equivalents in the year		(6,301)	5,105	1,191	713
Cash and cash equivalents at beginning of year		6,581	1,476	1,399	686
Cash and cash equivalents at end of year		280	6,581	2,590	1,399
Cash and cash equivalents comprise:					
Cash and bank balances	19	4,748	6,588	2,590	1,399
Bank borrowings	20	(4,468)	(7)	—	—
		280	6,581	2,590	1,399

Notes 1 to 30 form part of these financial statements.

GROUP RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

for the year ended 30 September 2017

	2017 £'000	2016 £'000
Movement in cash and cash equivalents in the year	(6,301)	5,105
Increase in bank loans	(2,284)	(381)
Cash (outflow)/inflow from changes in net debt in the year	(8,585)	4,724
Effect of foreign exchange rates	14	(223)
Movement in net debt in the year	(8,571)	4,501
Net debt at beginning of year	(1,654)	(6,155)
Net debt at end of year	(10,225)	(1,654)

Notes 1 to 30 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017

1. GENERAL INFORMATION

Treatt plc ("the Parent Company") is a public limited company incorporated in the United Kingdom and domiciled in England and Wales. The Parent Company's shares are traded on the London Stock Exchange. The address of the registered office is included within the Parent Company Information section on page 102.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

New and amended accounting standards

There were no new standards or amendments to standards, which had a material impact on these financial statements, and are mandatory and relevant to the Group for the first time for the financial year ended 30 September 2017.

Accounting standards in issue but not yet effective

At the date of authorisation of these financial statements the following standards and interpretations, which have not been applied in these financial statements and which are considered potentially relevant, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Annual improvements 2014-2016
- IFRS 2 Share-based payments (amendments)
- IFRS 9* Financial instruments: Classification, measurement, impairment, general hedge accounting and derecognition of assets and liabilities
- IFRS 10 Consolidated financial statements (amendments)
- IFRS 12 Disclosure of interests in other entities (amendments)
- IFRS 15* Revenue from contracts with customers
- IFRS 16* Leases
- IAS 7 Statement of cash flows (amendments)
- IAS 12 Income taxes (amendments)
- IAS 28 Investments in associates and joint ventures (amendments)
- IAS 39 Financial Instruments: Recognition and measurement (amendments)

*These standards have been identified by the Financial Reporting Council as having the potential to significantly impact on many companies' results and financial positions. Following an initial review of the likely impact, the Directors anticipate that the adoption of IFRS 9 and 15 will not have any impact on the financial statements of the Group or the Parent Company, other than on disclosure notes. Based on leases in existence at 30 September 2017, the adoption of IFRS 16 will not have an impact on net assets or to the annual profit or loss charge of more than £10,000.

The Directors also anticipate that the adoption of the other standards and interpretations in future periods will have no material impact on the financial statements of the Group or the Parent Company.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Accounting convention

The Group is required to prepare its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the European Union. The Parent Company has also prepared its own financial statements in accordance with IFRS as adopted by the European Union. The financial statements have also been prepared under the historical cost convention (unless a fair value basis is required by IFRS) and are in accordance with the Companies Act 2006 applicable for companies reporting under IFRS.

The Parent Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements.

Basis of consolidation

The Group accounts consolidate the accounts of Treatt plc and all of its subsidiaries (entities controlled by the Parent Company) made up to 30 September each year. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Parent Company and the Group have 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. Further detail is contained in the Directors' Report on page 24.

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".

Investments in subsidiaries

Investments in subsidiaries in the Parent Company balance sheet are stated at cost, less any provision for impairment.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, "Non-current assets held for sale and discontinued operations", which are recognised and measured at fair value less costs to sell.

The accounting policy for goodwill is shown later in this note under intangible assets.

3. 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 Group and/or Parent 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.

Income and expense items of the Group's overseas subsidiaries are translated into Pounds Sterling at the average rate for the year. Their balance sheets are translated at the rate ruling at the balance sheet date.

Exchange differences which arise from the translation of the opening net assets and results of foreign subsidiaries and from translating the income statement at an average rate are taken to reserves. Under IAS 21, "The Effects of Changes in Foreign Exchange Rates", these cumulative translation differences which are recognised in the Statement of Comprehensive Income are separately accounted for within reserves and are transferred from equity to the income statement in the event of the disposal of a foreign operation. All other exchange differences are taken to the income statement.

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.

No assets were recognised in the year as the above criteria was not met.

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 Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date. Where the Group and/or Parent Company have a net current tax asset in one legal jurisdiction and a liability in another, and consequently have no legal right of set off, then these assets and liabilities will be shown separately on the balance sheet as required by IAS 12, "Income Taxes".

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

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. As the Group is in fact in a position to control the timing of the reversal of the temporary differences arising from its investments in subsidiaries it is not required to recognise a deferred tax liability. In view of the variety of ways in which these temporary differences may reverse, and the complexity of the tax laws, it is not possible to accurately compute the temporary differences arising from such investments.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

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. Where the Group and/or Parent Company have a net deferred tax asset in one legal jurisdiction and a liability in another, and consequently have no legal right of set off, then these assets and liabilities will be shown separately on the balance sheet as required by IAS 12, "Income Taxes".

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exceptional items

The Group 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.

Cash flow

The Statement of Cash Flows explains the movement in cash and cash equivalents and short term borrowings.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition. In accordance with IFRS 3, "Business Combinations", for acquisitions prior to 1 October 2009, any revision to the estimated cost of an acquisition (e.g. for deferred consideration) is included as an adjustment to the cost of the acquisition. Any revisions to cost for acquisitions dated on or after 1 October 2009 are included as a charge or credit to the Income Statement. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually in relation to the cash generating unit it represents. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

Provision will be made should any impairment in the value of properties or other non-current assets occur.

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 Group and/or Parent Company's balance sheet when the Group and/or Parent Company have become a party to the contractual provisions of the instrument.

Financial assets

Financial assets held by the Group 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 the asset is impaired. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the consolidated cash flow statement. 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 Group or Parent 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 Parent Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

The Group's activities expose it to both the financial risks of changes in foreign currency exchange rates and interest rates. From time to time the Group uses foreign exchange forward and option contracts and interest rate swap contracts to hedge some of these exposures. The Group does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Group's policies approved by the Board. Further information on currency and interest rate management is provided in note 29, "Financial Instruments".

Hedge accounting

At the inception of the hedge relationship, the Group 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 on-going basis, the Group 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

One of the Group's UK subsidiaries, R C Treatt & Co Limited, operates a defined benefit scheme through an independently administered pension scheme.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with 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 Group under non-current assets or liabilities under the heading "Post-employment benefits". The deferred tax in respect of "Post-employment benefits" is netted against other deferred tax assets and liabilities relating to the same jurisdiction (see taxation accounting policy) and included in the deferred taxation asset or liability shown under non-current assets or liabilities.

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

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

Share options, the employee benefit trust and share incentive plan trust

Shares held by the "Treatt Employee Benefit Trust" for the purpose of fulfilling obligations in respect of various employee share plans are deducted from equity in the Group and Parent Company balance sheets. The treatment in the Parent Company balance sheet reflects the substance of the entity's control of the trust.

The Group has an HMRC-approved share incentive plan ("SIP"). The Group also has a wholly-owned UK Trust, Treatt SIP Trustees Limited ("Trust"), to whom shares are issued at nominal value for the purpose of fulfilling obligations under the SIP. The treatment of the Trust in the Group and Parent financial statements is consistent with that of the EBT as explained above.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

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 Group 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, which is in relation to share option schemes for staff in the UK and US, is recognised on a straight-line basis over the vesting period of the scheme, based on the Group's estimate of the number of equity instruments that will eventually vest.

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

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

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

Where the Parent Company grants options over its shares to employees in subsidiaries, it recognises this as a capital contribution equivalent to the share-based payment charge recognised in the Group Income Statement. In the financial statements of the Parent Company, this capital contribution is recognised as an increase in the cost of investment in subsidiaries, with the corresponding credit being recognised directly in equity.

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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The Group 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:

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 26 "Post-employment benefits";

Useful economic life and residual value estimates – the Group 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 25 "Share-based Payments". Changes in these assumptions could lead to changes in the income statement expense in future periods;

Goodwill – determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Future changes in performance or disposals could also impact the value of goodwill. Details of the assumptions made in respect of goodwill and deferred consideration are disclosed in note 12. These estimates could change materially in future years in line with actual and expected future performance;

Taxation – the Group operates in a number of tax jurisdictions and estimation is required of taxable profit in order to determine the Group's current tax liability. There are transactions and calculations for which the ultimate tax determination can be uncertain. The Group 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; and

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Own shares in share trusts – own shares in share trusts relate to shares held in the Treatt Employee Benefit Trust (the “EBT”) and Treatt SIP Trustees Limited (the “Trust”). The shares held in the EBT and Trust are all held to meet options to be exercised by employees, and share awards and tax-approved purchases by employees under the SIP. Dividends on those shares not beneficially held on behalf of employees have been waived. At 30 September 2017 the market value of the shares held by the EBT was £1,626,000 (2016: £1,212,000), and the market value of shares held by the SIP was £1,640,000 (2016: £506,000) of which £1,252,000 (2016: £470,000) relates to shares beneficially held by employees.

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.

Foreign exchange reserve – the foreign exchange reserve records exchange differences arising from the translation of the financial statements of overseas subsidiaries.

Retained earnings – retained earnings comprises the Group’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.

4. SEGMENTAL INFORMATION

Group

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 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 profit performance from the Group’s operations.

The Group operates one global business segment engaging in the manufacture and supply of innovative ingredient solutions for the flavour, fragrance, beverage and consumer product industries with manufacturing sites in the UK, US and 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		2017 £'000	2016 £'000
United Kingdom		10,271	8,794
Rest of Europe	– Germany	7,206	5,527
	– Ireland	7,280	5,871
	– Other	11,235	11,011
The Americas	– USA	42,571	33,729
	– Other	8,164	4,142
Rest of the World	– China	5,772	4,536
	– Other	17,128	14,430
		109,627	88,040

All Group revenue is in respect of the sale of goods, other than property rental income of £17,000 (2016: £17,000). No country included within “Other” contributes more than 5% of the Group’s total revenue. The largest customer represented 10.7% of Group revenue (2016 there were no customers which represented more than 10% of Group revenue).

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

	2017 £'000	2016 £'000
United Kingdom	11,358	7,645
United States	6,364	6,611
Rest of the World	430	469
	18,152	14,725

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

5. PROFIT FOR THE YEAR

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

Group	2017 £'000	2016 £'000
Depreciation of property, plant and equipment	1,399	1,347
Amortisation of intangible assets ¹	137	142
Loss on disposal of property, plant and equipment	7	2
Research and development costs	1,402	895
Operating leases		
– plant & machinery	7	12
– land & buildings	113	100
Net foreign exchange gain ²	(512)	(8)
Rent receivable	(17)	(17)
Cost of inventories recognised as expense ³	70,653	58,357
Write down/(write back) of inventories recognised as an expense	1,278	(561)
Shipping costs	1,799	1,643
IT & telephony costs	681	601
Insurance costs	692	583
Energy & utility costs	389	498

¹ Included in administrative expenses.

² Excludes foreign exchange gains or losses on financial instruments disclosed in note 23.

³ Included in cost of sales.

The analysis of auditor's remuneration is as follows:

	2017 £'000	2016 £'000
Fees payable to the Parent Company's auditors and their associates for the audit of:		
– the Parent Company and Group accounts	45	36
– the Group's subsidiaries pursuant to legislation	86	71
Total audit fees	131	107
Fees payable to the Parent Company's auditors and their associates for other services to the Group:		
– tax compliance services	–	1
– tax advisory services	2	2
– other assurance services	3	–
– financial modelling software services*	–	11
Total non-audit fees	5	14

*The financial modelling software services in the prior year were included in Other Intangible Assets.

6. EMPLOYEES

Group

Number of employees

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

	2017 Number	2016 Number
Technical and production	202	190
Administration and sales	129	126
	331	316

During the year, the Directors shown on page 22 were employed by the Parent Company.

6. EMPLOYEES (continued)

Employment costs

The following costs were incurred in respect of the above:

	2017 £'000	2016 £'000
Wages and salaries	12,375	10,874
Social security costs	1,522	1,040
Pension costs (see note 26)	756	761
Share-based payments (see note 25)	966	566
	15,619	13,241

Directors

The information on Directors' emoluments and share options set out on pages 52 to 55 form part of these financial statements.

7. NET FINANCE COSTS

Group	2017 £'000	2016 £'000
Finance costs		
Bank overdraft interest paid	555	431
Other bank finance costs	176	134
Loan interest paid	5	20
Loan note interest paid	1	7
Pension finance cost (see note 26)	188	119
	925	711
Finance revenue		
Bank interest received	12	8
Net finance costs	913	703

8. EXCEPTIONAL ITEMS

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

Group	2017 £'000	2016 £'000
Legal and professional fees	—	302
Restructuring costs	—	251
	—	553
Less: tax effect of exceptional items	—	(38)
	—	515

The exceptional items in the prior year all related to non-recurring items. The legal and professional fees relate to the costs in respect of the full and final settlement of the Earthoil earnout dispute. The restructuring costs related to one-off non-recurring reorganisation costs incurred in the US and Kenya.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

9. TAXATION

Group	2017 £'000	2016 £'000
Analysis of tax charge in income statement:		
Current tax:		
UK corporation tax on profits for the year	1,278	967
Adjustments to UK tax in respect of previous periods	(84)	9
Overseas corporation tax on profits for the year	2,260	1,370
Adjustments to overseas tax in respect of previous periods	(10)	8
Total current tax	3,444	2,354
Deferred tax:		
Origination and reversal of temporary differences	(135)	(179)
Effect of reduced tax rate on opening assets and liabilities	—	(27)
Adjustments in respect of previous periods	38	(4)
Total deferred tax (see note 16)	(97)	(210)
Tax on profit on ordinary activities	3,347	2,144
Analysis of tax charge/(credit) in other comprehensive income:		
Current tax:		
Foreign currency translation differences	(59)	—
Deferred tax:		
Cash flow hedges	112	47
Defined benefit pension scheme	250	(643)
Total deferred tax	362	(596)
Total tax expense/(credit) recognised in other comprehensive income	303	(596)
Analysis of tax credit in equity:		
Current tax:		
Share-based payments	(218)	(16)
Deferred tax:		
Share-based payments	(530)	(75)
Total tax credit recognised in equity	(748)	(91)

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 19.5% (2016: 20%). The differences are explained below:

	2017 £'000	2016 £'000
Profit before tax multiplied by standard rate of UK corporation tax at 19.5% (2016: 20%)	2,514	1,659
Effects of:		
Expenses not deductible in determining taxable profit and other items	120	51
Research and development tax credits	(196)	(145)
Difference in tax rates on overseas earnings	965	566
Adjustments to tax charge in respect of prior years	(56)	13
Total tax charge for the year	3,347	2,144

The main rate of UK corporation tax was reduced from 20% to 19% with effect from 1 April 2017. The Group's effective UK corporation tax rate for the year was therefore 19.5% (2016: 20%). The adjustments in respect of prior years relate to the finalisation of previous year's tax computations.

10. DIVIDENDS

Equity dividends on ordinary shares:

Parent Company and Group	Dividend per share for years ended 30 September		2015 Pence	2017 £'000	2016 £'000
	2017 Pence	2016 Pence			
Interim dividend	1.45p ²	1.35p ¹	1.28p	1,461	662
Final dividend	3.35p ³	3.00p ¹	2.76p	1,564	1,433
	4.80p	4.35p	4.04p	3,025	2,095

¹ Accounted for in the subsequent year ended 30 September 2017 in accordance with IFRS.

² The declared interim dividend for the year ended 30 September 2017 was paid on 17 August 2017 and has therefore also been accounted for in the year ended 30 September 2017.

³ The proposed final dividend for the year ended 30 September 2017 of 3.35 pence will be voted on at the Annual General Meeting on 26 January 2018 and will therefore be accounted for in the financial statements for the year ending 30 September 2018.

11. EARNINGS PER SHARE

Group

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"), which do not rank for dividend.

	2017	2016
Profit after taxation attributable to owners of the Parent Company (£'000)	9,545	6,149
Weighted average number of ordinary shares in issue (No: '000)	52,198	51,895
Basic earnings per share (pence)	18.29p	11.85p

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:

	2017 No ('000)	2016 No ('000)
Weighted average number of shares	52,780	52,575
Weighted average number of shares held in the EBT and SIP	(582)	(680)
Weighted average number of shares used for calculating basic EPS	52,198	51,895
Executive share option schemes	1,229	645
All-employee share options	445	122
Weighted average number of shares used for calculating diluted EPS	53,872	52,662
Diluted earnings per share (pence)	17.72p	11.68p

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:

	2017 £'000	2016 £'000
Profit after taxation attributable to owners of the Parent Company	9,545	6,149
Adjusted for:		
Exceptional items (see note 8)	—	553
Taxation thereon	—	(38)
Earnings for calculating adjusted earnings per share	9,545	6,664
Adjusted basic earnings per share (pence)	18.29p	12.84p
Adjusted diluted earnings per share (pence)	17.72p	12.65p

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

12. GOODWILL

Group	£'000
Cost	
1 October 2015	3,507
Deferred consideration	1,652
1 October 2016	5,159
30 September 2017	5,159
Accumulated impairment losses	
1 October 2015	2,432
1 October 2016	2,432
30 September 2017	2,432
Carrying amount	
30 September 2017	2,727
30 September 2016	2,727

The goodwill arising on the acquisition of Earthoil is attributable to the anticipated profitability of Earthoil's products in new and rapidly growing existing markets.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of goodwill arising on the acquisition of Earthoil is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, revenue, overhead growth rates and perpetuity growth rate. Management estimates discount rates using pre-tax rates that reflect market assessments of the time value of money and the risks specific to Earthoil. As at the year ended 30 September 2017, the impairment review has concluded that the value in use of Earthoil significantly exceeds its carrying value. In performing this impairment review, the Group has prepared cash flow forecasts derived from the most recent financial budgets approved by the Board for the five years ending 30 September 2022. Thereafter, a growth rate for pre-tax profit of 0% (2016: 2%) per annum is assumed into perpetuity. A rate of 9.7% (2016: 9.6%) has been used to discount the forecast cash flows. The key assumptions are based on past experience adjusted for expected changes in future conditions.

Based upon this impairment review the recoverable amount of Earthoil exceeds its carrying amount by £11.0m (2016: £7.8m). The recoverable amount is most sensitive to changes in the discount rate and sales growth. A 1% change in the discount rate or sales growth would change the recoverable amount by £2.3m.

13. OTHER INTANGIBLE ASSETS

Group	Lease premium £'000	Software licences £'000	Total £'000
Cost			
1 October 2015	343	888	1,231
Exchange Adjustment	—	13	13
Additions	—	109	109
Disposals	—	(246)	(246)
1 October 2016	343	764	1,107
Exchange adjustment	—	(3)	(3)
Additions	—	105	105
Disposals	—	(121)	(121)
30 September 2017	343	745	1,088

13. OTHER INTANGIBLE ASSETS (continued)

Group	Lease premium £'000	Software licences £'000	Total £'000
Amortisation			
1 October 2015	21	549	570
Exchange adjustment	—	4	4
Charge for year	4	138	142
Disposals	—	(246)	(246)
1 October 2016	25	445	470
Exchange adjustment	—	(2)	(2)
Charge for year	4	133	137
Disposals	—	(121)	(121)
30 September 2017	29	455	484
Net book value			
30 September 2017	314	290	604
30 September 2016	318	319	637

Intangible assets with a net book value of £32,000 (2016: £54,000) have been pledged as security in relation to the Industrial Development Loan detailed in note 20.

14. PROPERTY, PLANT AND EQUIPMENT

Group	Land & buildings £'000	Plant & machinery £'000	Total £'000
Cost			
1 October 2015	6,367	10,764	17,131
Exchange Adjustment	577	973	1,550
Additions	—	679	679
Disposals	—	(576)	(576)
1 October 2016	6,944	11,840	18,784
Exchange adjustment	(134)	(254)	(388)
Additions	3,783	1,328	5,111
Disposals	—	(965)	(965)
30 September 2017	10,593	11,949	22,542
Depreciation			
1 October 2015	1,135	4,998	6,133
Exchange adjustment	132	385	517
Charge for year	140	1,207	1,347
Disposals	—	(574)	(574)
1 October 2016	1,407	6,016	7,423
Exchange adjustment	(34)	(122)	(156)
Charge for year	149	1,250	1,399
Disposals	—	(945)	(945)
30 September 2017	1,522	6,199	7,721
Net book value			
30 September 2017	9,071	5,750	14,821
30 September 2016	5,537	5,824	11,361

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Analysis of land & buildings	2017 £'000	2016 £'000
Net book value		
Freehold	8,381	4,831
Long leasehold	690	706
	9,071	5,537

Included in plant and machinery are assets in the course of construction totalling £841,000 (2016: £275,000) which are not depreciated.

Property, plant and equipment with a net book value of £6.0m (2016: £6.2m) has been pledged as security in relation to the Industrial Development Loan and Equipment Financing Loans detailed in note 20.

Capital commitments	2017 £'000	2016 £'000
Contracted but not provided for	609	362

15. INVESTMENTS IN SUBSIDIARIES

Parent Company	£'000
<i>Cost</i>	
1 October 2015	5,485
Investment in subsidiaries	1,655
Capital contribution to subsidiaries	597
1 October 2016	7,737
Capital contribution to subsidiaries	950
Inter group transfer of subsidiary	(482)
30 September 2017	8,205

Parent Company	2017 £'000	2016 £'000
Subsidiary:		
R C Treatt & Co Limited – at cost		
50,000 ordinary shares of £1 each, fully paid	3,584	2,855
Treatt USA Inc – at cost		
2,975,000 common stock of US\$1 each, fully paid	2,376	2,155
Earthoil Plantations Limited		
4,051,000 ordinary shares of 50p each, fully paid	2,245	2,245
Earthoil Kenya Pty Limited		
2,500 "A" ordinary shares of KES20 each, fully paid		
2,500 "B" ordinary shares of KES20 each, fully paid	—	482
	8,205	7,737

During the year the Parent Company had the following subsidiary undertakings:

Subsidiary	Country of incorporation	Holding	Principal activity
Wholly owned by Treatt plc:			
R C Treatt & Co Limited	England ¹	100%	Supply of flavour and fragrance ingredients
Treatt USA Inc	USA ²	100%	Supply of flavour and fragrance ingredients
Earthoil Plantations Limited	England ¹	100%	Supply of natural cosmetic ingredients
Treatt SIP Trustees Limited	England ¹	100%	Employee share trust
Wholly owned by Earthoil Plantations Limited:			
Earthoil Kenya Pty Limited	Kenya ³	100%	Intermediate holding company
Earthoil Africa EPZ Limited	Kenya ³	100%	Supply of organic & fair trade vegetable oils
Earthoil Extracts Limited	Kenya ³	100%	Supply of organic & fair trade essential oils

Registered office addresses:

¹ Northern Way, Bury St. Edmunds, IP32 6NL, UK.

² The Prentice-Hall Corporation System Inc., 1201 Hays Street, Suite 105, Tallahassee, FL 32301, USA.

³ LR. No. 3734/1018 Lavington, Insecta Building, Braeside Gardens off Muthangari Road, P. O. Box 76618-00508, Yaya Centre, Nairobi, Kenya.

16. DEFERRED TAXATION

Group	2017 £'000	2016 £'000
UK deferred tax asset	1,380	1,436
Overseas deferred tax liability	(764)	(1,111)
Net deferred tax asset	616	325

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

Group	UK deferred tax				Overseas deferred tax		Total £'000
	Post-employment benefits £'000	Fixed assets £'000	Cash flow hedge £'000	Share-based payments £'000	Fixed assets £'000	Other temporary differences £'000	
1 October 2015	591	(209)	202	63	(1,198)	161	(390)
Exchange differences	—	—	—	—	(204)	38	(166)
Credit/(charge) to income statement	23	58	(24)	57	(31)	98	181
For the year	—	29	—	—	—	—	29
Credit/(charge) to OCI	732	—	(47)	—	—	—	685
For the year	(89)	—	—	—	—	—	(89)
Credit/(charge) to equity	—	—	—	60	—	25	85
For the year	—	—	—	(10)	—	—	(10)
1 October 2016	1,257	(122)	131	170	(1,433)	322	325
Exchange differences	—	—	—	—	42	(16)	26
(Charge)/credit to income statement	(18)	(11)	(32)	8	53	97	97
Charge to OCI	(250)	—	(112)	—	—	—	(362)
Credit to equity	—	—	—	359	—	171	530
30 September 2017	989	(133)	(13)	537	(1,338)	574	616

At the balance sheet date, R C Treatt & Co Limited had a deferred tax asset in relation to its pension liability. R C Treatt & Co Limited has a specific plan in place to reverse the deficit and so this deferred tax asset has been recognised.

The deferred tax rate applied to UK companies within the Group is 17% (2016: 17%) as legislation has been substantively enacted which reduces the main rate of UK corporation tax from 19% for the 2017/18 tax year to 17% for the 2020/21 tax year. The impact of estimating the timing of deferred tax reversals in the intervening years before the rate reaches 17% is not considered to be material. The deferred tax rate applicable to the Group's US subsidiary was 36% (2016: 36%).

17. INVENTORIES

Group	2017 £'000	2016 £'000
Raw materials	22,289	12,395
Work in progress and intermediate products	13,363	13,476
Finished goods	7,226	4,119
	42,878	29,990

Inventory with a carrying value of £16.2m (2016: £11.2m) has been pledged as security in relation to the Industrial Development Loan detailed in note 20.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

18. TRADE AND OTHER RECEIVABLES

Current	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade receivables	18,096	16,250	—	—
Amounts owed by subsidiaries	—	—	516	13
Other receivables	1,153	852	7	—
Prepayments	724	751	—	—
	19,973	17,853	523	13

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

The average credit period taken for trade receivables is as follows:

Group	2017	2016
Average debtor days	57	66

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:

Group	2017 £'000	2016 £'000
Impairment provision		
At start of year	308	307
Released in year	(130)	(147)
Provided in year	139	136
Foreign exchange	(3)	12
Balance at end of year	314	308

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

The Group's top five customers represent 33% (2016: 29%) of the Group's turnover. These customers have favourable credit ratings and consequently reduce the credit risk of the Group's overall trade receivables. The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. The Group holds no collateral against these receivables at the balance sheet date.

The ageing profile of trade receivables which are past their due date but not impaired is as follows:

Group	2017 £'000	2016 £'000
Number of days past the due date:		
1-30	1,372	1,809
31-60	198	726
Over 60	647	1,286

18. TRADE AND OTHER RECEIVABLES (continued)

The ageing profile of impaired trade receivables is as follows:

Group	2017 £'000	2016 £'000
Number of days past the due date:		
Current	—	15
1-30	—	2
31-60	—	8
Over 60	314	283

The currency risk in respect of trade receivables is managed in conjunction with the other currency risks faced by the Group as part of its overall hedging strategy. For further details see note 29 and the Financial Review on pages 16 to 20. The currency exposure within trade receivables, analysed by currency, was as follows:

Group	2017 £'000	2016 £'000
GB Pound	3,330	3,245
US Dollar	13,257	10,941
Euro	1,917	1,899

Trade receivables with a carrying value of £7.9m (2016: £6.1m) have been pledged as security in relation to the Industrial Development Loan detailed in note 20.

19. CASH AND BANK BALANCES

Group

Cash and bank balances of £4,748,000 (2016: £6,588,000) comprise cash held by the Group and short term deposits with an original maturity of one month or less. The carrying amount of these assets approximates to their fair value.

A detailed analysis of net cash balances by currency is shown in note 29. All material cash balances are held with the Group's main banks, being Lloyds Banking Group, HSBC and Bank of America. The credit ratings of these banks are considered to be satisfactory.

20. BORROWINGS

Current

Group	2017 £'000	2016 £'000
Term loans	3,212	480
Bank borrowings	4,468	7
	7,680	487

Non-current

Group	2017 £'000	2016 £'000
Term loans	585	827
UK revolving credit facilities	6,708	6,928
	7,293	7,755

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

20. BORROWINGS (continued)

Loans and borrowings

Term loans comprise the following:

Group	2017 £'000	2016 £'000
Loan – UK	3,000	—
Industrial development loan – US	775	1,001
Equipment financing loans – US	22	306
	3,797	1,307

The loan of £3,000,000 (2016: nil) is repayable by 30 April 2018, with an interest rate of 1.2% above UK base rate.

The industrial development loan is repayable by fixed quarterly instalments over 20 years ending on 1 July 2021. The rate of interest payable has been fixed at 3.66% for ten years ending on 1 July 2021 by way of an interest rate swap which covers the full term of the loan. The fair value of this interest rate swap (based on the mark-to-market valuation provided by Bank of America) at the year-end was £39,000 (2016: £80,000) based on year end exchange rates. The fair value of this swap is not included on the balance sheet or through the income statement as the amount involved is not material. Similarly, the Directors do not apply hedge accounting in respect of US borrowings due to the lack of materiality of the items involved.

The equipment financing loan of £22,000 (2016: £306,000) is repayable by fixed monthly instalments over five years ending on 31 December 2017, with a fixed interest rate of 2.89%.

The US Dollar overdraft facility (“line of credit”) of \$6 million is a three-year facility expiring in 2020. The US term loans and line of credit, both held by Treatt USA Inc, are secured by a fixed and floating charge over Treatt USA’s current and non-current assets.

Other borrowings

The Group’s UK facilities are unsecured. UK borrowings of \$9m are held on a four year revolving credit facility (RCF) which expires in 2019. The rate of interest on \$9m of UK revolving credit facilities has been fixed for ten years at a rate of 5.68% through an interest rate swap ending on 29 December 2020. Hedge accounting has been applied to the fair value of this swap, details of which are provided in note 29.

Borrowings are repayable as follows:

Group	2017 £'000	2016 £'000
– in one year or less	7,680	487
– in more than one year but not more than two years	6,898	219
– in more than two years but not more than five years	395	7,536
	14,973	8,242

Further information on Group borrowing facilities is given in notes 28 and 29, including a detailed analysis of cash balances by currency.

Borrowing facilities

At 30 September 2017, the Group had total borrowing facilities of £25.9m (2016: £22.4m) of which £14.0m (2016: £3.1m) expires in one year or less at the balance sheet date. At 30 September 2017 the Group had access to £15.7m (2016: £20.8m) of financing facilities including its own cash balances at that date.

Following year end working capital facilities have been renewed at existing or improved terms thereby reducing the total borrowing facilities which expires in one year or less to £2.2m, resulting in all facilities extending longer than one year from the balance sheet date.

21. PROVISIONS

Group	2017 £'000	2016 £'000
Onerous contract provision:		
At start of year	67	239
Utilised in year	(67)	(243)
Additional provision in year	60	67
Foreign exchange	(3)	4
Balance at end of year	57	67

Onerous contract provisions relate to losses which are or were expected to materialise in the future 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 and is expected to be utilised in the following financial year.

22. TRADE AND OTHER PAYABLES

	Group		Parent Company	
Current	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade payables	13,311	9,996	—	—
Amounts owed to subsidiaries	—	—	416	711
Other taxes and social security costs	577	408	1	1
Accruals and other creditors	3,928	3,747	70	6
	17,816	14,151	487	718

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.

The currency risk in respect of trade payables is managed in conjunction with the other currency risks faced by the Group as part of its overall hedging strategy. For further details see note 29 and the Financial Review on pages 16 to 20. The currency exposure within trade payables, analysed by currency, was as follows:

Group	2017 £'000	2016 £'000
GB Pound	1,631	1,407
US Dollar	6,160	4,618
Euro	1,207	1,181

23. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2017 £'000	2016 £'000
Derivative financial assets:		
Current:		
Foreign exchange contracts	483	—
	483	—
Derivative financial liabilities:		
Current:		
Foreign exchange contracts	—	9
Non-current:		
Interest rate swaps	403	754
	403	763

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

Group	2017 £'000	2016 £'000
Income statement:		
Foreign exchange contracts	(119)	(2,196)
Other comprehensive income:		
Interest rate swaps	351	(54)
Foreign exchange contracts	308	174
	659	120

Further details on the Group's hedging policies and derivative financial instruments are disclosed in note 29.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

24. SHARE CAPITAL

Parent Company and Group Called up, allotted and fully paid	2017 £'000	2017 Number	2016 £'000	2016 Number
At start of year	1,053	52,655,170	1,050	52,495,170
Issued in year	5	250,000	3	160,000
At end of year	1,058	52,905,170	1,053	52,655,170

During the year the Parent Company issued 150,000 (2016: 160,000) ordinary shares of 2p each to the Treatt SIP Trust for the purpose of meeting its obligations under an HMRC-approved share incentive plan in the UK. In addition the Parent Company issued 100,000 (2016: Nil) ordinary shares of 2p each to the Employee Benefit Trust for the purpose of meeting obligations under employee share option schemes.

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

25. SHARE-BASED PAYMENTS

The Group has applied the requirements of IFRS2 "Share-based Payments".

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

The Group also operates an HMRC-approved share incentive plan in the UK, and operates an equivalent scheme for its US employees.

The share-based payments charge was as follows:

Group	2017 £'000	2016 £'000
Share option schemes – see (a) below	827	514
Share incentive plans – see (b) below	124	83
	951	597
Effect of movement in foreign exchange rates	15	(31)
	966	566

25. 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. 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 share options outstanding	Number exercised in year	Exercise price per share	Date option exercisable
UK SAYE ¹ Scheme 2014	43,032	137,993	138.0p	Sep 2017 – Feb 2018
UK SAYE ¹ Scheme 2015	167,070	6,226	132.0p	Sep 2018 – Feb 2019
UK SAYE ¹ Scheme 2016	235,933	1,231	138.0p	Sep 2019 – Feb 2020
UK SAYE ¹ Scheme 2017	102,143	—	413.0p	Sep 2020 – Feb 2021
US ESPP ² Scheme 2016	—	31,077	148.0p	July 2017
US ESPP ² Scheme 2017	15,235	—	404.0p	July 2018
UK LTIP ³ Scheme 2014	48,131	52,151	Nil	June 2017 – June 2024
US LTIP ³ Scheme 2014	—	75,061	Nil	June 2017 – March 2018
UK LTIP ³ Scheme 2015	115,320	12,089	Nil	June 2018 – June 2025
US LTIP ³ Scheme 2015	113,993	—	Nil	June 2018 – March 2019
UK LTIP ³ Scheme 2016	109,033	—	Nil	Dec 2019 – Dec 2026
US LTIP ³ Scheme 2016	124,680	—	Nil	June 2019 – June 2026
UK LTIP ³ Scheme 2017	27,034	—	Nil	Dec 2020 – Mar 2020
US LTIP ³ Scheme 2017	52,213	—	Nil	June 2020 – June 2027
US Executive ⁴ Options 2012	97,740	—	79.0p	Dec 2017 – Mar 2021
UK Executive ⁴ Options 2013	—	6,790	147.2p	Dec 2016 – Dec 2023
US Executive ⁴ Options 2013	51,965	—	147.2p	Dec 2018 – Dec 2023
UK Executive ⁴ Options 2014	128,400	—	Nil	Dec 2017 – Dec 2024
US Executive ⁴ Options 2014	164,816	—	Nil	Dec 2017 – Dec 2024
UK Executive ⁴ Options 2015	110,678	—	Nil	Dec 2018 – Dec 2025
US Executive ⁴ Options 2015	175,708	—	Nil	Dec 2018 – March 2019
UK Executive ⁴ Options 2016	172,746	—	Nil	Dec 2019 – Dec 2025

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

² The ESPP schemes are IRS-approved Employee Stock Purchase Plans, which vest after one year. Options are forfeited where employees choose to leave the Group before the end of the vesting period.

³ Share options are awarded to certain key employees in the UK and US 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 in the UK, or upon vesting in the US. Save as permitted in the LTIP rules, awards lapse on an employee leaving the Group.

⁴ Details of the Executive options are provided in the Directors' Remuneration Report.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

25. SHARE-BASED PAYMENTS (continued)

The fair value per option granted using the “Black-Scholes” model, and the assumptions used in the share-based payments calculations, are as follows:

All-employee share schemes:	SAVE 2014	SAVE 2015	SAVE 2016	SAVE 2017	US ESPP 2016	US ESPP 2017	
Share price at date of grant	172.5p	165.0p	172.5p	516.3p	172.5p	475.0p	
Contractual life	3.5 years	3.5 years	3.5 years	3.5 years	1 year	1 year	
Expected life	3.5 years	3.5 years	3 years	3 years	1 year	1 year	
Expected volatility	23.4%	23.3%	20.7%	25.6%	19.4%	32.0%	
Risk-free interest rate	2.02%	1.52%	0.36%	0.49%	0.36%	0.49%	
Dividend yield	2.2%	2.4%	2.4%	0.9%	2.4%	0.9%	
Expected cancellations	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Expected forfeitures	5.5%*	11.0%	6.0%	1.0%	0.0%*	0.0%*	
Fair value per option at date of grant	39.0p	35.6 p	31.7p	123.0p	21.6p	87.0p	
Key-employee share schemes:	UK LTIP 2014	US LTIP 2014	UK LTIP 2015	US LTIP 2015	UK LTIP 2016	US LTIP 2016	UK LTIP 2017
Share price at date of grant	174.0p	174.0p	158.0p	158.0p	170.0p	170.0p	503.5p
Contractual life	10 years	3.2 years	10 years	3.2 years	10 years	3.2 years	10 years
Expected life	10 years	3 years	10 years	3 years	5 years	3.2 years	5 years
Expected volatility	23.4%	23.3%	23.3%	23.3%	20.7%	20.7%	25.6%
Risk-free interest rate	2.02%	2.02%	1.44%	1.44%	0.86%	0.86%	0.51%
Dividend yield	2.2%	2.2%	2.5%	2.5%	2.4%	2.4%	0.9%
Expected cancellations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expected forfeitures	0.0%*	0.0%*	3.0%	0.0%	0.0%	0.0%	0.0%
Fair value per option at date of grant	139.5p	162.1p	123.6p	146.0p	150.7p	157.3p	481.7p
US LTIP 2017							
Share price at date of grant	516.3p						
Contractual life	3.2 years						
Expected life	3.2 years						
Expected volatility	25.6%						
Risk-free interest rate	0.49%						
Dividend yield	0.9%						
Expected cancellations	0.0%						
Expected forfeitures	0.0%						
Fair value per option at date of grant	502.2p						
Executive share schemes:	US Exec 2012	UK Exec 2013	US Exec 2013	UK Exec 2014	US Exec 2014	UK Exec 2015	US Exec 2015
Share price at date of grant	78.0p	147.2p	147.2p	139.7p	139.7p	164.5p	164.5p
Contractual life	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Expected life	10 years	10 years	10 years	10 years	10 years	5 years	5 years
Expected volatility	21.7%	23.6%	23.3%	23.4%	23.4%	23.3%	23.3%
Risk-free interest rate	0.84%	1.70%	1.70%	1.26%	1.26%	1.25%	1.25%
Dividend yield	4.0%	2.5%	2.5%	2.7%	2.7%	2.5%	2.5%
Expected cancellations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expected forfeitures	0.0%	0.0%*	0.0%	0.0%	0.0%	0.0%	0.0%
Fair value per option at date of grant	8.45p	30.0p	29.6p	106.1p	106.1p	145.5p	145.5p
UK Exec 2016							
Share price at date of grant	273.5p						
Contractual life	10 years						
Expected life	5 years						
Expected volatility	20.7%						
Risk-free interest rate	0.57%						
Dividend yield	1.6%						
Expected cancellations	0.0%						
Expected forfeitures	0.0%						
Fair value per option at date of grant	252.3p						

*Actual forfeiture experienced.

25. SHARE-BASED PAYMENTS (continued)

Expected volatility was determined by calculating the historical volatility of the Group's share price over a period equivalent to the vesting period of the respective options prior to their date of grant.

The risk-free interest rate was based on the simple average of the historical daily gilt yields quoted for five year benchmark gilts during the month in which a grant of options is made.

Details of movements in share options during the year were as follows:

	2017 No of options	2017 Weighted average exercise price	2016 No of options	2016 Weighted average exercise price
Outstanding at start of year	2,054,300	£0.45	1,441,505	£0.61
Granted during the year	369,625	£1.31	805,756	£0.47
Forfeited during the year	(37,757)	£1.24	(22,837)	£1.33
Exercised during the year	(322,618)	£0.79	(158,973)	£1.04
Expired during the year	(5,335)	£1.35	—	—
Cancelled during the year	(2,345)	£1.38	(11,151)	£1.36
Outstanding at end of year	2,055,870	£0.60	2,054,300	£0.45
Exercisable at end of year	91,163	£0.65	—	—

Forfeiture arises when the employee is no longer entitled to participate in the savings-related share option scheme as a consequence of leaving the Group whereas cancellation arises when a participant voluntarily chooses to cease their membership of a scheme within the vesting period.

The options outstanding had a weighted average remaining contractual period of 5.5 years (2016: 6.5 years). The weighted average actual market share price on date of exercise for share options exercised during the year was 480.6 pence (2016: 179.8 pence) and the weighted average fair value of options granted during the year was 261.8 pence (2016: 107.3 pence).

(b) Share incentive plans

All UK-based employees are eligible to participate in an HMRC-approved SIP once they have been with the Group for a qualifying period of up to twelve months. US employees participate in a similar scheme through the use of nil cost Restricted Stock Units ("RSUs"). During the year UK employees were awarded £550 (2016: £525) of "Free Shares", and US employees \$850 (2016: \$825) of RSUs, in Treatt plc. There are no vesting conditions attached to the Free Shares or RSUs, other than being continuously employed by the Group for three years from the date of grant. UK 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. The employees must take their shares out of the plan on leaving the Group. For every Partnership Share acquired during the year, one "Matching Share" was awarded under the rules of the SIP. Matching Shares are subject to the same forfeiture rules as Free Shares.

Details of the movements in the SIP were as follows:

	No of free and matching shares		No of nil cost RSUs	
	2017	2016	2017	2016
Outstanding at start of year	147,548	53,303	38,288	21,228
Granted during the year	59,598	102,556	16,864	21,248
Forfeited during the year	(9,619)	(3,614)	(248)	(4,188)
Released during the year	(16,673)	(4,697)	—	—
Outstanding at end of year	180,854	147,548	54,904	38,288
Exercisable at end of year	—	—	—	—

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

26. POST-EMPLOYMENT BENEFITS

Group

The Group operates a wholly-funded defined benefit pension scheme for certain UK employees. The scheme's assets are held separately from the assets of the Group 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 Group in independently administered funds.

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

	2017 £'000	2016 £'000
Defined contribution schemes	732	737
Other pension costs	24	24
	756	761

Defined benefit pension scheme

The Group 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 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 2017. 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 Group 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 Group to a number of risks:

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

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

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

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

Member options: Certain benefit options may be exercised by members without requiring the consent of the trustees or the company, for example exchanging pension for cash at retirement. In this example, if fewer members than expected exchange pension for cash at retirement then a funding strain will emerge.

The assets do not include any investment in shares of the Group and there were no plan amendments, curtailments or settlements during the period. The disclosure liability makes no allowance for discretionary benefits.

26. POST-EMPLOYMENT BENEFITS (continued)

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

	2017	2016
Discount rate	2.85%	2.60%
Rate of inflation (RPI)	3.40%	3.25%
Rate of inflation (CPI)	2.40%	2.25%
Rate of increase in pensions in payment – CPI max 5%	2.40%	2.25%
Rate of increase in pensions in payment – CPI max 3%	2.20%	2.10%
Rate of increase in pensions in payment – CPI max 2.5%	2.05%	1.95%
Revaluation in deferment	2.40%	2.25%
	100% of S2PxA table with CMI_2015 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	20%	20%
Commutation allowance	75%	75%
Proportion married (at retirement or earlier death)	N/A	N/A
Rate of increase in salaries	24.0	23.9
Life expectancy for male aged 65 in 20 years' time	26.2	26.1
Life expectancy for female aged 65 in 20 years' time	22.3	22.2
Life expectancy for male aged 65 now	24.3	24.2

Effect of the scheme on future cash flows

The Group 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 2015. The valuation revealed that there was a funding surplus in the scheme as at that date of £314,000, being a funding level of 102%. It was agreed with the trustees that, consequently, the Group could cease making 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 2017 revealed an actuarial deficit of £336,000 (2016: deficit of £1,676,000), being a funding level of 98% (2016: 92%). The Group has therefore agreed with the trustees to cease on-going contributions to its defined benefit pension scheme in 2018 (2017: £300,000). The weighted average duration of the defined benefit obligation is approximately 18 years.

	2017 £'000	2016 £'000
<i>Scheme assets:</i>		
Equities	11,135	10,025
Target return funds	5,599	5,499
Bonds	4,152	4,189
Other	83	138
Fair value of scheme assets	20,969	19,851
Present value of funded obligations (scheme liabilities)	(26,790)	(27,252)
Deficit in the scheme recognised in the balance sheet	(5,821)	(7,401)
Related deferred tax	990	1,258
Net pension liability	(4,831)	(6,143)
Changes in scheme liabilities		
Balance at start of year	(27,252)	(21,251)
Interest cost	(699)	(835)
Benefits paid	719	770
Remeasurement losses:		
Actuarial gain arising from changes to demographic assumptions	—	1,005
Actuarial gain/(loss) arising from changes in financial assumptions	442	(6,941)
Balance at end of year	(26,790)	(27,252)
Changes in scheme assets		
Balance at start of period	19,851	18,292
Interest on scheme assets	511	716
Employer contributions	300	(26)
Benefits paid	(719)	(770)
Remeasurement gains:		
Return on plan assets (excluding amounts included in interest expense)	1,026	1,639
Balance at end of year	20,969	19,851

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

26. POST-EMPLOYMENT BENEFITS (continued)

	2017 £'000	2016 £'000
Amount charged to finance costs		
Interest on scheme assets	511	716
Interest on scheme liabilities	(699)	(835)
Net finance expense	(188)	(119)
Net expense recognised in income statement	(188)	(119)
Amount recognised in statement of comprehensive income		
Gain on scheme assets in excess of interest	1,026	1,639
Gain from changes to demographic assumptions	—	1,005
Gain/(loss) from changes to financial assumptions	442	(6,941)
Remeasurement gain/(loss) recognised in statement of comprehensive income	1,468	(4,297)
Actual return on scheme assets	1,537	2,355
Cumulative remeasurement loss recognised in statement of comprehensive income	(6,980)	(8,448)

Approximate effect of change of assumptions on liability values at 30 September 2017:

	Increase liability by: £'000
Reduce discount rate by 0.25% pa	1,309
Increase inflation and all related assumptions by 0.1% pa	380
Increase life expectancy by one year	1,135

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.

27. COMMITMENTS UNDER OPERATING LEASES

The Group as lessee

As at 30 September 2017, the Group had total commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 £'000	2016 £'000
Within one year	85	61
In one to two years	56	25
In two to five years	64	27
In more than five years	3	—
	208	113

The Group as lessor

As at 30 September 2017, the Group had contracted with tenants for the following future minimum lease payments which fall due as follows:

	2017 £'000	2016 £'000
Within one year	9	8

Details of lease payments under operating leases recognised as an expense in the year are disclosed in note 5.

28. CONTINGENT LIABILITIES

Parent Company

The Parent Company has guaranteed the Industrial Development Loan and "Line of Credit" for Treatt USA Inc. At the balance sheet date the liability covered by this guarantee amounted to US\$1,040,000 (£775,000) (2016: US\$1,300,000 (£1,001,000)).

The Parent Company has also guaranteed certain bank borrowings of its UK subsidiaries R C Treatt & Co Limited and Earthoil Plantations Limited. At the year-end the liabilities covered by this guarantee amounted to £12,843,000 (2016: £4,006,000).

29. FINANCIAL INSTRUMENTS

Parent Company and Group

Capital risk management

The Group and Parent Company manage their capital to ensure that entities in the Group continue as going concerns whilst maximising returns to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt and equity shareholders' funds. The Group is not subject to any externally imposed capital requirements. Board policy is to operate with a mix of short and medium term borrowings. The Group has a mix of facilities, including a £2m three year revolving credit facility with Lloyds Banking Group and a \$9m four year revolving credit facility with HSBC in the UK, together with a \$6m four year line of credit facility with Bank of America in the US. None of these facilities expire in the same financial years and all bank facilities are operated independently and are therefore not syndicated. The Group's net debt position is monitored daily and reviewed by management on a weekly basis. Further details of the Group's capital management are given in the Chairman's Statement, Chief Executive Officer's Report and Financial Review on pages 10 to 20.

Categories of financial instruments

In the following table those financial instruments which are measured subsequent to initial recognition at fair value are required to be grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 – fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Financial assets				
Redeemable loan notes receivable from subsidiaries	—	—	—	1,350
Trade receivables	18,096	16,250	—	—
Cash and cash equivalents	4,748	6,588	2,590	1,399
Derivative financial instruments – forward currency contracts (level 2)	483	—	—	—
	23,327	22,838	2,590	2,749

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Financial liabilities				
Redeemable loan notes payable	—	675	—	675
Trade payables	13,311	9,996	—	—
Bank borrowings	4,468	7	—	—
UK term loan	3,000	—	—	—
UK revolving credit facilities	6,708	6,928	—	—
US term loans	797	1,307	—	—
Derivative financial instruments – forward currency contracts (level 2)	—	9	—	—
Derivative financial instruments – interest rate swap (level 2)	403	754	—	—
	28,687	19,676	—	675

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

29. FINANCIAL INSTRUMENTS (continued)

Fair values of financial assets and liabilities

The estimated fair values of financial assets and liabilities is not considered to be significantly different from their carrying values.

Financial risk management objectives

The Group and Parent Company collate information from across the business and report to the Board on key financial risks. These risks include credit risk, liquidity risk, interest rate risk and currency risk. The Group has policies in place, which have been approved by the Board, to manage these risks. The Group does not enter into traded financial instruments as the costs involved currently outweigh the risks they seek to protect against. Speculative purchases of financial instruments are not made.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group or Parent Company. The Group's credit risk is primarily attributable to its trade receivables and details of how this risk is managed are explained in note 18. The credit risk on liquid funds is limited because the counterparties are banks with good credit ratings assigned by international credit rating agencies as outlined in note 19. The Directors are of the opinion that there are no significant concentrations of credit risk. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group and Parent Company's maximum exposure to credit risk.

The loan notes receivable by the Parent Company are made up as follows:

Parent Company	2017 £'000	2016 £'000
Variable Rate Unsecured Loan Notes 2015 (A)	—	950
Variable Rate Unsecured Loan Notes 2015 (B)	—	400
	—	1,350

As disclosed in note 30, the loan notes were receivable by the Parent Company from two of its subsidiaries, comprising the Earthoil Group and were repaid during the year.

29. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management

Liquidity risk refers to the risk that the Group may not be able to fund the day to day running of the Group. Liquidity risk is reviewed by the Board at all Board meetings. The Group manages liquidity risk by monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. The Group also monitors the drawdown of debt against the available banking facilities and reviews the level of reserves. Liquidity risk management ensures sufficient debt funding is available for the Group's day to day needs. Board policy is to maintain a reasonable headroom of unused committed bank facilities.

The Group has a number of debt facilities, details of which, including their terms and maturity profile, are given in note 20.

The Board also monitors the Group's banking covenants which are calculated under IFRS. There were no breaches during the year or prior period.

Interest rate risk management

The Group is exposed to interest rate risk on short to medium term borrowings primarily with three major institutions being HSBC, Lloyds Banking Group and Bank of America. 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.

The Group hedges a portion of its interest rate risk through an interest rate swap which has the effect of fixing the interest rate on a notional principal of US\$9 million of borrowings. The interest rate swap is for a period of ten years ending in 2020 and swaps variable 3 month US LIBOR for a fixed rate of 5.68%. The Group has complied with the requirements of IAS39, "Financial Instruments: Recognition and Measurement" and designated this interest rate swap as a cash flow hedge. The hedge was 100% effective during the period and is expected to be going forward, and consequently the carrying value (which is the same as the fair value) of the interest rate swap has been taken to the hedging reserve, and the corresponding liability was as follows:

Derivative financial instruments Non-current liabilities	2017 £'000	2016 £'000
Interest rate swaps	403	754

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

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

Group	2017 £'000	2016 £'000
Other comprehensive income	351	(54)

The derivative financial instrument for the interest rate swap described above is classified as level 2.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

29. FINANCIAL INSTRUMENTS (continued)

Interest rate risk management (continued)

Interest rate risk is further diversified by having a mix of fixed and floating rate borrowings, as well as holding borrowings in a range of currencies as follows:

Group	Floating rate financial liabilities		Fixed rate financial liabilities		Total	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Bank borrowings:						
US Dollars	(869)	(5,060)	7,505	8,235	6,636	3,175
Sterling*	2,790	(762)	—	—	2,790	(762)
Other*	799	(759)	—	—	799	(759)
Total Net Debt	2,720	(6,581)	7,505	8,235	10,225	1,654
Loan notes payable:						
Sterling	—	675	—	—	—	675
	2,720	(5,906)	7,505	8,235	10,225	2,329

*Bank borrowings are shown net of positive cash balances as rights of set-off exist.

The Parent Company bank balances were all held in Sterling.

Interest on floating rate bank deposits is based on UK base rates or currency LIBOR as applicable. Interest on bank overdrafts is charged at 1.2%-2.25% above bank base or currency LIBOR rates.

Fixed rate financial liabilities comprise the Industrial Development Loan of US\$1,040,000 (2016: US\$1,300,000), equipment financing term loans of \$29,000 (2016: \$398,000) and \$9,000,000 revolving credit facility (see note 20).

The loan notes payable by the Parent Company and Group are made up as follows:

Parent Company	2017 £'000	2016 £'000
Series A Variable Rate Unsecured Loan Notes 2015	—	475
Series B Variable Rate Unsecured Loan Notes 2015	—	200
	—	675

Following the settlement of the Earthoil earnout legal dispute, the loan notes were settled during the financial year.

Interest rate sensitivity analysis has been performed on the floating rate financial liabilities to illustrate the impact on Group profits if interest rates increased or decreased. This analysis assumes the liabilities outstanding at the period end, after taking account of rights of set off, were outstanding for the whole period. A 100 bps increase or decrease has been used, comprising management's assessment of reasonably possible changes in interest rates. If interest rates had been 100 bps higher or lower, then profit before taxation for the year ended 30 September 2017 would have decreased or increased as follows:

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Impact on profit before tax of 1% interest rate movement	120	89	—	(7)

It has been assumed that all other variables remained the same when preparing the interest rate sensitivity analysis and that floating rate short term bank borrowings in the same currency are netted against each other for the purpose of interest rate calculation.

29. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk management

Foreign currency risk management occurs at a transactional level on revenues and purchases in foreign currencies and at a translational level in relation to the translation of overseas operations. The Group's main foreign exchange risk is the US Dollar. Board policy is for UK businesses 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. Further details of the Group's foreign currency risk management can be found in the Chairman's Statement, Chief Executive Officer's Report and Financial Review on pages 10 to 20.

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

	Average contract rate	Nominal currency '000	Contract GBP £'000	Fair value gain £'000
As at 30 September 2017				
US Dollars:				
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
Euros:				
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
As at 30 September 2016				
<i>US Dollars:</i>				
Forward contract to sell US Dollars in 3 months	1.299	\$6,750	5,195	1
Forward contract to sell US Dollars in 6 months	1.303	\$6,750	5,182	(2)
<i>Euros:</i>				
Forward contract to sell Euros in 3 months	1.161	€1,375	1,185	(4)
Forward contract to sell Euros in 6 months	1.158	€1,375	1,187	(4)
				(9)

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

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

Group	2017 £'000	2016 £'000
Income statement	(119)	(2,196)
Other comprehensive income	308	175
	189	(2,021)

The Group's currency exposure, being those exposures arising from transactions where the net currency gains and losses will be recognised in the income statement, is as follows:

Net foreign currency financial (liabilities)/assets:	2017 £'000	2016 £'000
US Dollar	(4,820)	(1,433)
Other	(12)	1,644
	(4,832)	211

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2017 (continued)

29. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk management (continued)

A currency sensitivity analysis has been performed on the financial assets and liabilities to sensitivity of a 10% increase/decrease in the Pounds Sterling to US Dollar exchange rate. A 10% strengthening of the US Dollar has been used, comprising management's assessment of reasonably possible changes in US Dollar exchange rates. The impact on profit for the period in the income statement would be a gain/(loss) on net monetary assets or liabilities as follows:

Group	2017 £'000	2016 £'000
Impact of 10% strengthening of US Dollar against GB Pound	(536)	(159)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk since it is limited to the year-end exposure and does not reflect the exposure during the year.

30. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

Group

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate. Further information about the remuneration of individual Directors is provided in the Directors' Remuneration Report on pages 52 to 55.

	2017 £'000	2016 £'000
Salaries and other short-term employee benefits	1,139	1,071
Employers' social security costs	96	90
Pension contributions to money purchase schemes	53	55
Share-based payments	341	215
	1,629	1,431

During the year no Directors (2016: nil) were members of a defined benefit pension scheme as the scheme was closed to future accrual with effect from 31 December 2012. The aggregate accumulated total pension payable at age 65 as at 30 September 2017 was £13,000 (2016: £21,000) per annum.

Parent Company

Transactions with subsidiaries:

	2017 £'000	2016 £'000
Interest received from:		
Earthoil Plantations Limited	9	4
Earthoil Africa EPZ Limited	4	2
Dividends received from:		
R C Treatt & Co Limited	1,977	1,862
Treatt USA Inc	2,167	1,037

Balances with subsidiaries:

	2017 £'000	2016 £'000
Redeemable loan notes receivable:		
Earthoil Plantations Limited	—	950
Earthoil Africa EPZ Limited	—	400
Amounts owed to/(by) Parent Company:		
Earthoil Plantations Limited	(416)	13
R C Treatt & Co Limited	516	(712)

The redeemable loan notes were redeemed in full during the financial year. Amounts owed to the Parent Company are unsecured and will be settled in cash.

NOTICE OF ANNUAL GENERAL MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN ANY DOUBT AS TO WHAT ACTION TO TAKE YOU ARE RECOMMENDED TO CONSULT YOUR STOCKBROKER, SOLICITOR, ACCOUNTANT OR OTHER INDEPENDENT ADVISER AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000.

If you have sold or transferred all of your ordinary shares in Treatt plc, you should pass this document, together with the accompanying form of proxy, to the person through whom the sale or transfer was made for transmission to the purchaser or transferee.

Notice of the Annual General Meeting which has been convened for 26 January 2018 at 10.30 am at The Athenaeum, Angel Hill, Town Centre, Bury St. Edmunds, Suffolk, IP33 1LU is set out below.

To be valid, forms of proxy must be completed and returned in accordance with the instructions printed thereon so as to be received by the Company's registrars, Link Asset Services (formally Capita Asset Services), PXS1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF as soon as possible and in any event not later than 48 hours (excluding weekends and public holidays) before the time appointed for holding the meeting.

Notice is hereby given that the Annual General Meeting of the Shareholders of Treatt plc (the "Company") will be held at The Athenaeum, Angel Hill, Town Centre, Bury St. Edmunds, Suffolk, IP33 1LU on 26 January 2018, at 10.30 am for the transaction of the following business:

Ordinary Business

1. To receive the audited accounts and related reports of the Directors and Auditors for the year ended 30 September 2017.
2. To approve the Directors' Remuneration Report.
3. To approve a final dividend of 3.35p per share on the ordinary shares of the Company for the year ended 30 September 2017.
4. To re-elect Tim Jones as a Director of the Company.
5. To re-elect Richard Hope as a Director of the Company.
6. To re-appoint RSM UK Audit LLP as Auditors of the Company, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting.
7. To authorise the Directors to determine the remuneration of the Auditors of the Company.

Special Business

To consider and, if thought fit, to pass the following resolutions, of which Resolutions 8 and 9 will be proposed as Ordinary Resolutions and Resolutions 10 and 11 will be proposed as Special Resolutions.

8. Approval of Remuneration Policy

THAT:

The Remuneration Policy be and is hereby approved.

9. Authority to allot securities

THAT:

In accordance with section 551 of the Companies Act 2006 (the "Act") the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company (the "Rights") within the terms of the restrictions and provisions following; namely:

- (i) this authority shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next Annual General Meeting of the Company following the passing of this resolution number 9 and 26 April 2019; and
- (ii) this authority shall be limited up to an aggregate nominal amount of £349,174 (representing approximately 33 per cent of the existing issued share capital of the Company as at the date of this notice).

The power granted pursuant to this resolution shall allow and enable the Directors to make offers, and enter into agreements before the expiry of such authority which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares or grant Rights under any such offer or agreement as if the power conferred hereby had not expired.

NOTICE OF ANNUAL GENERAL MEETING (continued)

10. Disapplication of pre-emption rights for up to 5% of existing share capital

THAT:

Conditionally upon the passing of resolution 9 above and in accordance with Section 570 of the Act, the Directors be and are hereby given power to allot equity securities pursuant to the authority conferred by resolution 9 above as if Section 561 of the said Act did not apply to any such allotment provided that:

(i) the power hereby granted shall be limited:

(aa) to the allotment of equity securities in connection with or pursuant to an offer by way of a rights issue to the holders of shares in the Company and other persons entitled to participate therein, in the proportion (as nearly as may be) to such holders' holdings of such shares (or, as appropriate, to the number of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory; and

(bb) to the allotment (otherwise than pursuant to subparagraph (i)(aa) of this resolution) of equity securities up to an aggregate nominal amount of £52,905 (representing approximately 5 per cent of the existing issued share capital of the Company as at the date of this notice);

(ii) the power hereby granted shall expire on the earlier of the date of the next Annual General Meeting of the Company following the passing of this Resolution and 26 April 2019;

The said power shall allow and enable the Directors to make an offer or agreement before the expiry of this power which would or might require securities to be allotted (or treasury shares to be sold) after such expiry of this power and the Directors may allot equity securities (or sell treasury shares) pursuant to such offer or agreement as if the power conferred herein had not expired

11. Authority to purchase own shares

THAT:

The Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 2p each in the capital of the Company ("ordinary shares") provided that:

(i) the maximum number of ordinary shares authorised to be purchased is 5,290,517 (representing approximately 10 per cent of the present issued share capital of the Company);

(ii) the minimum price (excluding stamp duty, dealing or other costs) which may be paid for an ordinary share so purchased is 2p;

(iii) the maximum price which may be paid for an ordinary share so purchased is an amount equal to 5 per cent above the average of the middle market quotations shown for an ordinary share in The London Stock Exchange Daily Official List on the five business days immediately preceding the day on which that ordinary share is purchased;

(iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2019, unless such authority is renewed, varied or revoked prior to such time; and

(v) the Company may prior to the expiry of such authority make a contract to purchase ordinary shares under the authority hereby conferred which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board

ANITA STEER

Secretary
14 December 2017

Registered Office:

Northern Way
Bury St. Edmunds
Suffolk IP32 6NL

The note on voting procedures and general rights of shareholders, together with explanatory notes on the resolutions to be put to the meeting, which follow on pages 99 to 101 form part of this notice.

Due to the level of shareholder attendance in recent years, and capacity restraints, we are unfortunately unable to hold our AGM at our site in Northern Way, Bury St. Edmunds in 2018. We are therefore moving the location of the AGM to the Athenaeum in Bury St. Edmunds (address above). We appreciate a benefit of holding the AGM on site is that it provides shareholders with an opportunity to attend a site tour and consequently we plan to hold a 'Shareholder Open Day' in the spring/summer of 2018, participation permitting. To receive further details in due course please register your interest by emailing cossec@treatt.com or calling the CoSec team on 01284 702500.

NOTE ON VOTING PROCEDURES AND GENERAL RIGHTS OF SHAREHOLDERS:

Only those persons entered in the Register of Members of the Company (the Register) as at close of business on 24 January 2018 (the Record Date) shall be entitled to attend or vote at the AGM in respect of the number of ordinary shares in the capital of the Company registered in their names at that time. Changes to entries on the Register for certificated or uncertificated shares of the Company after the Record Date shall be disregarded in determining the rights of any person to attend or vote at the AGM. Should the AGM be adjourned to a time not more than 48 hours after the Record Date, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned AGM. Should the AGM be adjourned for a longer period, to be so entitled, members must have been entered on the Register by close of business two days prior to the adjourned AGM (excluding weekends and public holidays) or, if the Company gives notice of the adjourned AGM, at the time specified in such notice.

Voting at the meeting will be conducted by poll rather than on a show of hands, which the Board believes provides a more accurate reflection of shareholder views and takes into account the number of shares held by each member. Those shareholders who are unable to attend the meeting should submit a form of proxy as detailed below. Shareholders attending the meeting may also wish to vote in advance of the meeting by submitting a form of proxy. Members who have done so will not need to vote at the meeting unless they wish to change their vote or the way in which the proxy is instructed to vote.

A member entitled to attend and vote at this meeting may appoint a proxy or proxies to attend and vote instead of him or her. The proxy need not be a member of the Company. A form of proxy is provided with this notice and instructions for use are shown on the form. Additional forms of proxy can be obtained from the Company's registrars on tel no 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales. Instruments appointing proxies must be lodged with the Company's registrars not less than 48 hours before the time fixed for the meeting to be effective. Completion and return of a form of proxy will not preclude a member from attending and voting in person at the meeting or any adjournment of the meeting. Alternatively, you may submit a proxy vote online through using the Signal Shares share portal service at www.signalshares.com no later than 10:30 am on 24 January 2018 (or in the case of an adjournment, not later than 48 hours (excluding non-business days) before the time fixed for the holding of the adjourned meeting).

An abstention option is provided on the form of proxy to enable you to instruct your proxy to abstain on any particular resolution, however, it should be noted that an abstention in this way is not a 'vote' in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 26 January 2018 and any adjournment(s) of the meeting by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. Please note the following:

- a) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in this notice of the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- b) CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- c) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Members may change proxy instructions by submitting a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the company in accordance with section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the AGM. In accordance with the provisions of the Companies Act 2006 (as amended by the Companies (Shareholders' Rights) Regulations 2009), each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

NOTICE OF ANNUAL GENERAL MEETING (continued)

Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

Members satisfying the thresholds in Section 338 of the Companies Act 2006 may require the Company to give, to members of the Company entitled to receive notice of the AGM, notice of a resolution which those members intend to move (and which may properly be moved) at the AGM. A resolution may properly be moved at the AGM unless (i) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (ii) it is defamatory of any person; or (iii) it is frivolous or vexatious. The business which may be dealt with at the AGM includes a resolution circulated pursuant to this right. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given, must be authenticated by the person(s) making it and must be received by the Company not later than 6 weeks before the date of the AGM.

Members satisfying the thresholds in Section 338A of the Companies Act 2006 may request the Company to include in the business to be dealt with at the AGM any matter (other than a proposed resolution) which may properly be included in the business at the AGM. A matter may properly be included in the business at the AGM unless (i) it is defamatory of any person or (ii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than 6 weeks before the date of the AGM.

In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting details the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.treatt.com.

As at 23 November 2017 the Company's issued share capital consists of 52,905,170 ordinary shares. The total number of voting rights in the Company as at 23 November 2017 (the latest practicable reporting date prior to publication of this document) is 52,204,016.

A statement of Directors' share transactions and copies of their service contracts and the letters of appointment of the Non-executive Directors are available for inspection during usual business hours at the registered office of the Company from the date of this notice until the date of the AGM (Saturdays, Sundays and public holidays excluded) and will be available at the place of the meeting for fifteen minutes prior to and during the meeting.

Except as provided above, members who wish to communicate with the Company in relation to the meeting should do so using the following means:

Calling the Company Secretary on +44 1284 702500;

Emailing the Company Secretary on cosec@treatt.com; or

Writing to: The Company Secretary, Treatt plc,
Northern Way, Bury St. Edmunds, Suffolk, IP32 6NL.

EXPLANATORY NOTES

Report and Accounts (Resolution 1)

The Directors of the Company must present the accounts to the meeting.

Directors' Remuneration Report (Resolution 2)

The Companies Act 2006, implemented by the Enterprise and Regulatory Reform Act 2013, provides that a quoted company may not make a remuneration payment to a Director of the Company unless the payment is consistent with the Company's Remuneration Policy, as approved by shareholders, or the payment is approved by a Shareholders' Resolution. The legislation requires two resolutions to be put to shareholders on separate sections of the Directors' Remuneration Report. The first of these is an advisory resolution on the Implementation Section of the Directors' Remuneration Report, which details the remuneration packages paid to Directors during the year ended 30 September 2017. You can find the Implementation Section of the Directors' Remuneration Report on pages 52 to 55.

Declaration of a dividend (Resolution 3)

A final dividend can only be paid after the shareholders at a general meeting have approved it. A final dividend of 3.35 pence per ordinary share is recommended by the Directors for payment to shareholders who are on the register of members at the close of business on 16 February 2018. If approved, the date of payment of the final dividend will be 22 March 2018. An interim dividend of 1.45 pence per ordinary share was paid on 17 August 2017. This represents an increase of 0.45 pence per share, or 10.4 per cent, on the total 2016 dividend.

Re-election of Directors (Resolutions 4 and 5)

In accordance with the Articles of Association, all Directors retire at least every three years and all newly appointed Directors retire at the first Annual General Meeting following their appointment. Furthermore, any Non-executive Director having been in post for nine years or more is subject to annual re-election.

At this meeting, Tim Jones and Richard Hope will retire and stand for re-election as Directors. Short biographies of these Directors are given on page 23. Having considered the performance of, and contribution made, by each of the Directors standing for re-election the Board remains satisfied that the performance of each of the relevant Directors continues to be effective and to demonstrate commitment to the role and, as such, recommends their re-election.

Reappointment and remuneration of auditors (Resolutions 6 and 7)

Resolutions 6 and 7 propose the reappointment of RSM UK Audit LLP as Auditors of the Company and authorise the Directors to set their remuneration.

Remuneration Policy Report (Resolution 8)

As referred to under Resolution 2 above, two resolutions are required to be put to shareholders on separate sections of the Directors' Remuneration Report. The second of these is a binding resolution, passed by a majority, to approve the Company's Remuneration Policy. Although the policy was approved at the 2017 Annual General Meeting, it has been revised to remove the overarching flexibility and to make minor technical changes to bring it into line with the policies operated by other FTSE SmallCap companies and therefore requires the approval of Shareholders. Once approved, a Remuneration Policy only requires Shareholder approval every three years unless any revisions are required. The policy, which is set out on pages 46 to 51, will apply to all payments made to Directors from the date the policy is approved by shareholders. In the event that this resolution is not passed at the Annual General Meeting, the version of the Remuneration Policy approved by shareholders in 2017 will continue in force.

Directors' authority to allot securities (Resolution 9)

The Company may only allot ordinary shares or grant rights over ordinary shares if authorised to do so by shareholders. This resolution seeks to grant authority to the Directors to allot unissued share capital of the Company and grant rights and will expire at the conclusion of the next Annual General Meeting of the Company in 2019 or, if earlier, on 26 April 2019 (the date which is 15 months after the date of passing of the resolution). There is no present intention of exercising this authority, which would give Directors authority to allot relevant securities up to an aggregate nominal value of £349,174 approximately 33 per cent of the Company's issued ordinary share capital as at 23 November 2017.

Disapplication of pre-emption rights (Resolution 10)

Under Section 561 of the Act, if the Directors wish to allot any of the unissued shares or grant rights over shares or sell treasury shares for cash (other than pursuant to an employee share scheme) they must in the first instance offer them to existing shareholders in proportion to their holdings. There may be occasions, however, when the Directors will need the flexibility to finance business opportunities by the issue of ordinary shares without a pre-emptive offer to existing shareholders. This cannot be done under the Act unless the shareholders have first waived their pre-emption rights.

Resolution 10 asks the shareholders to do this and, apart from rights issues or any other pre-emptive offer concerning equity securities, the authority will be limited to the issue of shares for cash up to a maximum aggregate nominal value of £52,905 (which includes the sale on a non pre-emptive basis of any shares held in treasury), which is equivalent to approximately 5 per cent of the Company's issued ordinary share capital as at 23 November 2017. Shareholders will note that this resolution also relates to treasury shares and will be proposed as a Special Resolution.

This resolution seeks a disapplication of the pre-emption rights on a rights issue so as to allow the Directors to make exclusions or such other arrangements as may be appropriate to resolve legal or practical problems which, for example, might arise with overseas shareholders. If given, the authority will expire at the conclusion of the next Annual General Meeting of the Company in 2019 or, if earlier, 26 April 2019 (the date which is 15 months after the date of passing of the resolution).

The Directors intend to adhere to the provisions in the Pre-emption Group's Statement of Principles and to not allot shares for cash on a non pre-emptive basis pursuant to the authority in Resolution 10 (i) in excess of an amount equal to 5% of the total issued ordinary share capital of the Company; or (ii) in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company within a rolling three-year period, without prior consultation with shareholders.

Authority to purchase own shares (Resolution 11)

In certain circumstances, it may be advantageous for the Company to purchase its own shares and resolution 11 seeks the authority from shareholders to continue to do so. The Directors will continue to exercise this power only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and is in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account when exercising this authority.

Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly, save that the Company may hold in treasury any of its own shares that it purchases pursuant to the Act and the authority conferred by this resolution. This gives the Company the ability to re-issue treasury shares quickly and cost-effectively and provides the Company with greater flexibility in the management of its capital base. It also gives the Company the opportunity to satisfy employee share scheme awards with treasury shares. Once held in treasury, the Company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares. Further, no dividend or other distribution of the Company's assets may be made to the Company in respect of the treasury shares.

The resolution specifies the maximum number of ordinary shares that may be acquired (approximately 10 per cent of the Company's issued ordinary share capital as at 23 November 2017) and the maximum and minimum prices at which they may be bought.

The total number of options to subscribe for ordinary shares that were outstanding at 23 November 2017 (the latest practicable reporting date prior to publication of this document) was 2,055,870. The proportion of issued share capital that they represented at that time was 3.8 per cent and the proportion of issued share capital that they will represent if the full authority to purchase shares (existing and being sought) is used is 4.3 per cent.

Resolution 11 will be proposed as a Special Resolution to provide the Company with the necessary authority. If given, this authority will expire at the conclusion of the next Annual General Meeting of the Company in 2019 or, if earlier, 26 April 2019 (the date which is 15 months after the date of passing of the resolution).

The Directors intend to seek renewal of this power at subsequent Annual General Meetings.

PARENT COMPANY INFORMATION AND ADVISORS

Directors	Tim Jones (Chairman and Non-executive Director) Daemmon Reeve (Chief Executive Officer) Richard Hope (Chief Financial Officer) Anita Haines (Non-executive Director) Jeff Iliffe (Non-executive Director) Richard Illek (Non-executive Director) David Johnston (Senior Independent Non-executive Director)
Secretary	Anita Steer
Registered Office	Northern Way, Bury St. Edmunds, Suffolk, IP32 6NL. Tel: + 44 (0) 1284 702500. Email: cosec@treatt.com. Website: www.treatt.com
Registered Number	01568937
Audit Committee	Jeff Iliffe (Chairman) David Johnston Tim Jones
Remuneration Committee	David Johnston (Chairman) Jeff Iliffe Richard Illek Tim Jones
Nomination Committee	Tim Jones (Chairman) Daemmon Reeve Anita Haines Jeff Iliffe Richard Illek David Johnston
Brokers	Investec Investment Banking, 2 Gresham Street, London, EC2V 7QP.
Auditors	RSM UK Audit LLP, Abbotsgate House, Hollow Road, Bury St. Edmunds, Suffolk, IP32 7FA.
Tax Advisors	KPMG LLP, Botanic House, 98-100 Hills Road, Cambridge, CB2 1JZ. Crowe Howarth LLP, 124 South Florida Avenue, Suite 201, Lakeland, Florida 33801-4629.
Solicitors	Greene and Greene, 80 Guildhall Street, Bury St. Edmunds, Suffolk, IP33 1QB.
Bankers	HSBC Bank plc, 140 Leadenhall Street, London, EC3V 4PS. Lloyds Banking Group, Black Horse House, Castle Park, Cambridge, CB3 0AR. Bank of America, 5th Floor, 101 E. Kennedy Boulevard, Tampa, FL 33602.
Registrars	Link Asset Services (formally Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.
Share Price	Treatt plc's share price is available on www.ft.com . Annual and interim reports are available on the Group's website (www.treatt.com).

FINANCIAL CALENDAR

2016/17

Financial year ended	30 September 2017
Results for year announced	28 November 2017
Annual Report and Financial Statements published	14 December 2017
Annual General Meeting	26 January 2018
Final dividend for 2017 goes 'ex-dividend'	8 February 2018
Record date for 2017 final dividend	9 February 2018
Last day for dividend reinvestment plan election	1 March 2018
Final dividend for 2017 paid	22 March 2018

2017/18

Interim results to 31 March 2018 announced	8 May 2018*
Interim dividend for 2018 goes 'ex-dividend'	5 July 2018*
Record date for 2018 interim dividend	6 July 2018*
Last day for dividend reinvestment plan election	26 July 2018*
Interim dividend for 2018 paid	16 August 2018*
Financial year ended	30 September 2018
Results for year to 30 September 2018 announced	27 November 2018*
Final dividend for 2018 paid	21 March 2019*

*These dates are provisional and may be subject to change

NOTES





+44 (0)1284 702500 enquiries@treatt.com www.treatt.com

Northern Way, Bury St. Edmunds, Suffolk, IP32 6NL, United Kingdom